



Global Economic Governance Programme



DRAFT WORKING PAPER OUTLINE

Toward a Political Economy of Donor Coordination

(DRAFT OUTLINE ONLY)

By

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CAVEAT

This preliminary note outlines an approach international aid from a political economy perspective. As such, it emphasizes thinking about who are the key actors, what are their goals, what are their interactions, and what are institutional or potential institutional arrangements that connect them. As may become painfully obvious to the reader, they are written by an outsider who has never worked on international aid issues. Perhaps the compensating advantage of this ignorance is that the analysis will not get trapped by conventional wisdoms of the field. My goal is not to provide answers but to lay out some of the elements, and perhaps a few challenges, for what answers should look like.

Introduction

It has been fashionable to speak about the need to coordinate donor aid to the developing world since the very inception of foreign aid. But why would we expect donor states that have failed to coordinate for a half-century suddenly to begin coordination now? The longevity of the problem suggests that development aid is *not* a simple coordination problem (such as what side of the road to drive on) where if everyone simply understood the problem it would be quickly resolved. A better working hypothesis is that noncoordination persists not because it is contrary to everyone's interest but because it serves their interests (in a certain sense). Thus to understand how coordination can be achieved, we first need to understand why states, their aid agencies and international organizations (IOs) don't coordinate despite their professed recognition of the benefits of coordination.

Is coordination necessarily desirable? Domestically, the state puts enormous effort into arranging coordination among actors through the market, through regulation and through law. But the state also put enormous effort into stopping coordination among thieves, oligopolists and terrorists. Often states limit the ability of some actors to coordinate in order to benefit others. (Competition rules are a good example). So in seeking to the coordinate development aid we should not assume that the goal is to maximize coordination. Instead, the goal is to distribute coordination effectively – recognizing that the ultimate distribution of coordination will be contested since the goals we are seeking are contested.

Finally, it is crucial that any coordination of development aid be compatible with the interests and values of all key actors on the donor side.² The goal of aid harmonization is appropriately organized around reducing inefficiency and waste in promoting development in the third world. While this goal is laudable and many of the proposals sensible, an important consideration is that delivery systems be “incentive-compatible” with the key actors from the donor side. Simply put, donor actors must have incentives to carry through on their coordinated plans. Conversely, the past record and failure of donor

² Throughout this paper I treat actors as if they were individuals but, of course, many of the key actors are composites such as states or agencies. Their “preferences” reflect a complex aggregation of their participants as well as “organizational goals” that pertain to the collectivity.

aid coordination should not be viewed as historical accident or misunderstanding (although it may be those in part) but as a result of the plans and intentions of the donor actors. Understanding how we got where we are, and how to get somewhere else, depends crucially on understanding the goals of the actors on the donor side.

This paper takes a step in that direction. It begins by laying out a political economy approach which has the virtue of focusing attention on actors' incentives. But political economy is often (and incorrectly) construed narrowly as focusing on materialist and self-interested actors. Because development aid engages actors that are much richer than that, I broaden out the approach to incorporate a wider array of underlying motivations that includes "values" as well as "interests." I also broaden the political economy approach to emphasize the role of institutions. Institutions are often taken as background conditions but they must be moved to the foreground if we want to ask how to alter the incentive structure for donor actors.

The next part of the paper looks at "what" needs to be coordinated. A political economy does a good job of explaining the insufficient "quantity" of aid in terms of the public aspects of aid. We know less about what causes the insufficient "quality" of donor aid. Here I canvass some of the considerations that impede coordination among donors.

The final section of the paper (for now) looks at "who" needs to be coordinated. I focus on states (including domestic constituencies), national aid agencies and international organizations as the key donor actors. By understanding their interests, I hope to improve our understanding of why coordination is so difficult. This is where the paper peters out partly due to time constraints and partly because of my own ignorance of some of these actors.

At the conference, I will say a few things about where I plan to take the paper. My argument is that the emphasis on coordinating donor aid policies is misguided insofar as it fails to engage coordination at a deeper level in terms of the institutional arrangements for aid within and between states. Noncoordination is not an accident that can be readily corrected by good intentions. Instead it is a deep-seated feature of the aid system and a consequence of the (largely good) intentions of the key donor actors. Any solution to the coordination problem depends on developing institutional arrangements to restructure actors' incentives in a way that enhances the quantity and quality of development aid. Since I know less about the practical side of these things than other participants at the conference, I will be eager to learn from you.

The Political Economy Approach

The political economy approach explains behavior in terms of goal-seeking actors, interactions among them and the role of institutional and other constraints in shaping those interactions. Collective failures such as those we see in the international aid system are explained not as the result of actors failing to pursue their goals but as the result of the pursuit of individual goals leading to actions that "aggregate" into collectively bad outcomes. Conversely, the solution of such problems is seen in designing structures of interaction among actors – institutions – to better channel this pursuit of individual goals towards achieving collective goals.

Political economy often construes the interests that actors seek in terms of narrow self-interest and material goals, but that is not a necessary feature of the approach. Moreover, such a perspective is especially misleading for topics like development aid where actors' motives are often other-regarding and altruistic in important ways. This is apparent in the progression of development aid policy beyond material economic development to address a much broader array of social and political development goals.

Indeed, the only way to comprehend development aid is as a complex mixture of interests and value motivations. On the one hand, most development aid cannot be justified in terms of direct benefits to the donor without also considering benefits to the recipient. On the other hand, the choice of when to give and to whom is influenced significantly by expected returns to the donors. The Marshall Plan was generous in historically unprecedented ways, but it was not innocent of considerations of countering the slide of Western Europe towards Communism. Nor are current allocations of aid devoid of considerations of the contribution of global economic and democratic development for creating stability that benefits the first world.

This mix of values and interests occurs both within individual actors and across them. In addition to those who are sincerely committed to improving the lot of the less developed world, others who see aid primarily as an opportunity to improve their own situation whether through increased sales, strengthening an agency's organizational mission, political benefits or even prospects of graft and corruption. In between, lie the vast majority of actors who have some concern for doing good and some concern for doing well for themselves in various respects.

Since aid is motivated by these different considerations, both values and interests need to be addressed in explaining and motivating development aid. A simple example is tax deductibility for charitable donations – the donation remains costly in interest terms but the tax incentive augments the value motive for the donation (and may increase its size). Similarly, if better donor aid coordination improves aid effectiveness it may thereby induce states to provide more aid. Not only can the values and interests channels of influence be used in tandem, they may be mutually reinforcing over time. Successful aid programs not only provide immediate benefits, they strengthen the agencies that can claim responsibility for its success and strengthen attitudes that aid giving is an appropriate responsibility of donor countries.

Although political economy can embrace value motivations alongside interest ones much of its bite derives from its basic cynicism. Actors often claim "good" motivations that are little more than cover for selfish ones.³ Moreover, the pursuit of laudable goals does not mean they are achievable. Therefore the political economy impetus is to remain

³ Political economy thus has an overly pessimistic view of human behavior and is therefore weaker on alternative strategies of inducing good outcomes through persuasion and transformation of actor's goals. A proper middle ground recognizes the importance of these channels but doesn't rely on them to always trump the pursuit of immediate interests and values.

steadfastly skeptical about motives while asking how those motives (good or bad) can be channeled towards appropriate social ends through effective institutions.

Institutions

Institutions are central factors in channeling and coordinating actor's motivations. The most famous political economy example is the market with its surprising conclusion that greedy individual motivations leads to general well-being. Of course, this conclusion depends on particular institutional circumstances, especially good property rights and information. At the political level, we know that majoritarian institutions have important desirable attributes but we also know that they are subject to significant limitations.

Institutions have to create incentives to ensure actors act the "right" way. Sometimes they do so coercively by restraining or punishing actors. But often they do so by coordinating actors through information so that they find it in their interest to behave the right way *given* how other actors behave. The comparison is between the traffic cop who regulates traffic through his power to ticket violators versus the traffic light that can only signal but not enforce correct behavior but which drivers obey as the only prudent course of action when other drivers obey. While coercive institutions play an important (though usually exaggerated role) at the domestic level, only noncoercive institutional arrangements are typically available at the international level. Most importantly, actors must be willing to accept the role of the institutions and so must find value in the very institutions that in some sense constrain their actions. In economic jargon, institutions must be "incentive compatible" all the way down so that actors behave the right way and "all the way up" so that actors abide by the institutions that constrain them.

Even if we can imagine an improved institutional arrangement, it may be hard to establish it. Actors are usually heavily invested and organized around prevailing arrangements, and change always involves some losers who will therefore oppose it. Even those who desire a change to new ways (either because of their direct interests or because of their values), may be unwilling to change their practices given the uncertainty as to whether others will change their practices in the corresponding ways. Without assurance as to others' behavior, those who attempt unilateral reform may be punished for its failure through no fault of their own. Institutions play a role in such situations by providing assurance to actors that all are committed to and implementing the necessary changes.

One of the key features of institutions is that they bridge relations among actors and across time. Actors often have individual incentives to behave in ways that harm others but are willing to curtail those motivations if other actors reciprocate (as famously portrayed in the Prisoners' Dilemma problem). Interactions over time are one of the key elements that make such arrangements possible. Such considerations are particularly important in areas like development aid where the goals are long-term. Cooperation is hard to achieve on such problems because costs are up front whereas benefits are relatively far in the future and highly uncertain.

Finally, in a political economy approach, goals and institutions are never evaluated in isolation but always in terms of their consequences (including nonmaterial ones). For example, striving for superiority or individual gain is not good or bad in itself but depends on the consequences. Thus competition in arms races (even if motivated only by security concerns) is bad because it leads to bad results; competition in perfect markets (even if motivated by greed) is good at least insofar as it contributes to the general good.

Similarly, institutional arrangements like property rights and democracy are compelling not simply because of their intrinsic desirability but because (in some circumstances), they deliver good results. Thus property rights work well where individual motivations can be harnessed in market settings but regulatory solutions may be preferred where transactions costs are high and information poor. Similarly, democracy is a good way to organize much of society but firms and the military each work better in a decidedly undemocratic and hierarchical mode.

What needs Coordination?

There is longstanding and widespread agreement (at least among the development aid community) about the insufficient level of international development aid. More recently, attention has shifted from the quantity of aid to the quality of aid. These questions are tightly linked since the effectiveness of aid is (or should be) an important determinant of the appropriate quantity of aid.

Coordinating the Quantity of Aid

The political economy perspective offers a straightforward explanation of the underprovision of development aid. International aid is a public good insofar as all donor countries value the development created by the aid contributions of any one of them.⁴ In such circumstances, we expect underprovision because each provider captures only its “own” benefits from provision and, in deciding that level, does not take into account the broader benefits to the international community (interests and values of other donors). This underprovision would be predicted regardless of whether individual contributions are based on interest or value considerations.⁵

Indeed, the greater puzzle for political economy is why so much international aid is provided. From a narrow self-interest perspective, some aid can be explained in terms of the proximate interests of states in promoting development and stability in certain regions. International aid is also supported by pressure from domestic interests that benefit from contracts and sales associated with foreign aid. Such self-interest motivations probably provide some purchase on the distribution of aid that we do observe. Aid disbursements are tied to recipients with whom the donor state shares

4 From the recipient side it may look more like a common pool resource since they have individual incentives to compete for aid and then divert it to their own goals (which may not match those of the donors) where diversion may diminish the quality of aid as perceived by donors and thus diminish future contributions.

5 Assessments of “underprovision” are implicitly relative to the level of “optimal provision” which is hard to determine given the measurement problems for both interests and values at stake.

special connections, whose development success provides some benefit to the donor or in ways that provide benefits to interests inside the donor state (e.g., agricultural producers, contractors). It should be noted that these “selective incentives” to the donor state are not in themselves bad. Not only do they provide benefits to some parties, they increase incentives to give aid in the first place. Selective incentives are often good and only become bad insofar as they are wasteful or distort aid in some ways.

Probably a more important determinant of aid lies in the basic values of many citizens and states that international aid is a good thing in and of itself. While value considerations themselves are longstanding in most donor states, the volatility of these considerations weakens their importance for development aid. The short attention span of publics, and even of governments, makes it easier to mobilize these sentiments for short run and highly visible disaster relief but makes it much harder to mobilize them on an on-going basis for longer term and often less visible projects. Finally, even when actors are primarily motivated by values, interest considerations provide useful complements. The popularity of the U.S. Peace Corps and the recently proposed Canada Corps are surely related to the opportunities they offer domestic youth to participate in meaningful projects. Similarly, international aid is a source of standing in the international community and is an issue on which smaller countries can show leadership that is not always available to them on other issues.

Finally, there has been some success at the international level in encouraging states to view aid as a core responsibility and in helping them partially overcome their collective action problem in provision. Aid levels probably are higher because giving aid is seen as a community responsibility and as a necessary aspect of being an upstanding developed country member of the international community. Nevertheless the long-standing tradition of calls for increased levels of development aids seems to have been matched by an equally long-standing tradition of missing those objectives,

Coordinating the Quality of Aid

More recently, attention has shifted to the quality of aid in terms of the lack of coordination or harmonization among aid programs and with other donor policies that affect recipient states. The first category is bureaucratic and administrative failures. Problems include duplication of tasks across different agencies as well as the imposition of overly high and conflicting administrative requirements on recipient states that exceed their often modest capabilities. Equally serious is the failure to share experiences and learning – especially about failures since success is more likely to be reported. These sorts of failures would seem straightforward to remedy – although whether it is in the agencies’ individual and collective interests to remedy them is a separate question.

A second problem arises with the multiplicity of different development goals. While traditional ODA is addressed to “economic” development, more recent development approaches are much more broad-gauged including issues as wide-ranging as the environment, democratization, human rights, governance and various social policies. While each of these goals are laudable on their own, efforts to address them all simultaneously leads to a lack of focus and a lack of prioritizing that may be

dysfunctional. While policies can be criticized for not coordinating on these different effects, they can also be criticized for trying to do too much.

A third problem arises from the interaction of aid policy with other international policies whose primary purpose is not development assistance per se but which nevertheless has significant consequences on development. It is a commonplace but nevertheless crucial observation that the good efforts of donor countries in promoting development through aid may be undone by their inadequate and even contrary efforts in safeguarding fisheries or liberalizing trade in agricultural commodities and textiles.

An opposing view suggests the problem may be too much coordination of the wrong type rather than too little of the right type. In a scathing critique, Easterly (2002) argues that coordination may be organized to maintain what he labels a “cartel of good intentions” that is ineffective in terms of aid but quite effective in terms of aiding bureaucratic agencies. Whether or not he is correct, his analysis offers a salutary warning against complacent views that the problem is a simple one of noncoordination of policies. It also reminds us that coordination among the donors is not necessarily good – they may collude for more aid without more effectiveness. Therefore the goal is not coordination per se but the right level and combinations of coordination – which may involve some noncoordination (e.g., across different functional areas, between actors competing etc.). Finally, since we are focusing here on coordination of official development aid (ODA)—while keeping in mind the important issues of coordination with other types of aid and other international policies — it is worth emphasizing two properties of ODA that make coordinating it (and evaluation of that coordination) exceedingly difficult.

First, most ODA is long-term and its full impact will not be realized until years or even decades later. This delay in payoff significantly reduces actors’ current incentives to make such investments. This problem is compounded by the fact that the actors themselves change (e.g., new governments, new agency heads, new personnel) and new incumbents may prefer to initiate their own new programs (for which they derive their own benefits including credit) rather than stay the course with existing ones.

Second, the impact of development programs is not readily observable which reinforces the uncertainty about its impact and makes it hard to evaluate. Many benefits of ODA are diffuse and indirect so it is hard to measure their impact. Moreover, policies involve long chains of action from donors through national agencies and international agencies, contractors and subcontractors to the ultimate recipients. And, of course, the fact that programs change means that we don’t see them play out sufficiently to allow a full evaluation. In short, ODA is hard to evaluate because its impact is hard to see.

Regardless of what undermines the quality of international aid, effective and efficient aid coordination can (and should) provide an impetus for increased levels of aid provision (and vice versa). Thus some form of coordination is essential to increase both the quality and quantity of international development aid.

Who Needs to Be Coordinated (and do they want to be coordinated)?

As on the recipient side, there are surely problems among donors that are driven primarily by anti-social preferences of some actors. But most coordination problems are driven by actors that are interested in aid for development reasons but have other purposes or goals (possibly laudable) in mind as well. Firms that want to promote their own exports, states that want to use aid for political leverage, agencies or NGOs that want to expand their organization mission are all examples.

Indeed even an actor that cares deeply about doing good must pay attention to doing well. An NGO has to devote resources to enhancing its organizational strengths even at the cost of the immediate problem. A government that wants to promote development elsewhere must also attend to its own electoral considerations if it wants to be around long enough to make a real difference. Conversely, efforts to coordinate aid that lose sight of these considerations are doomed to failure.

The Actors on the Donor Side

To simplify the analysis of donor coordination, it is useful to focus on the three main actors involved on the supply side of international development aid: states (including their domestic constituencies), national aid agencies and international organizations. Doing so leaves out other actors, notably NGOs and recipient states, who play important roles in the aid process. I bring those in later in addressing the importance of the feedback they can provide on donor coordination.

States

States give development aid for a variety of reasons. Much of their giving is surely value driven by a genuine concern for promoting development in less developed states. Even here, different states may have different values and so promote policies with somewhat varying emphasis on such goals as anti-terrorism, human rights, democracy, economic development or the environment. On a few issues, notably reproductive rights and AIDs, value conflicts among donors can spill over in ways that impair overall aid delivery on related issues where there is agreement on goals.

Development aid is also driven by state interests. Some of these interests are fairly diffuse such as the hope that general development will create new markets and investment opportunities for donor country firms as well as produce democracy and stability that will ease international political problems. While such considerations play an important role in promoting development aid, both diffuse interest and diffuse value considerations are very vulnerable to the public goods problem mentioned earlier which undercuts individual state incentives to provide aid.

But some aid is driven by more specific interests in promoting particular policies and relations with recipient states. European development assistance to Eastern Europe has had much of this character in the post-1989 period. A more vulgar recent example was the American distribution of aid grants to purchase votes regarding the Iraq crisis from

non-permanent Security Council members. An economist has estimated the market price of a UNSC vote at twenty-three million dollars of increased American aid (Werker 2004).

Coordination of aid efforts may not be desirable in all respects. Cold War competition among the Superpowers was reflected partly in their aid allocation strategy as they tried to shore up and develop allies in the third world. Not all of this was beneficial since, for example, American aid was often directed towards reliable allies regardless of whether they used the support to promote appropriate development ends.

State decisions to give aid ultimately need to be understood in terms of their domestic constituencies. Again, some concerns are relatively diffuse such as accountability to taxpayers for monies spent and concern over electoral and other political considerations. Even insofar as development aid is a popular issue with some, moreover, it is a secondary issue for the general population. Mass support for aid is at best latent and information is poor. Large high-profile disasters or conflicts can mobilize a transient domestic constituency for aid but it's much harder to sustain the same over time. Again, the problem is compounded by the difficulty of demonstrating the effectiveness of aid.

The other domestic constituency is the aid community, including activist who promote aid and suppliers and contractors for aid programs. The influence of commercial domestic beneficiaries has been viewed as pernicious because of aid being tied to purchases from the donor country. While tying is undesirable because it forces the recipient state into an inefficient use of resources by restricting its purchases, untying aid has the unfortunate consequence of undermining one of the relatively few domestic constituencies pressing for aid. A better alternative would seem to be tying aid to a broader donor pool so that recipients must buy from firms from member countries (and also any less developed countries). By limiting membership in the pool to states exceeding some agreed upon overall aid quota, firms have an incentive to press their government to maintain a qualifying development assistance budget. It also mitigates the public goods free rider problem among donors by increasing their incentives to contribute even as it reduces inefficiency by tying aid to the broader set of donors. Over time, the pool provides a collective means to ratchet up the aid quotas for states which have an incentive to comply in order to keep their firms eligible.

Aid Agencies and International Organizations

Questions about the incentives of agencies and their personnel:

- What are the incentives of aid agencies and their personnel?
- Do agencies have clear goals or has the proliferation of objectives muddied the waters?
- To what extent do aid agencies resist coordination because it lessens their control over their operations, and may force them to pursue activities that they do not "own" and that are not part of their organizational mission?

-Does poor international coordination implicitly take pressure off agencies to exert their best efforts since that by itself is not sufficient to overcome the inefficiency? Is coordination a way to avoid responsibility?

-How does the difficulty of evaluating the effectiveness of aid affect agency incentives?

-The Principal-Agent literature (Tirole 1994) suggests that when some outputs are invisible (and we could add long-term), then agencies will concentrate on visible outputs. This might translate into an emphasis on budgets and disbursements with insufficient attention to consequences and effectiveness. Similarly, coordination with other agencies might stress conferences, pamphlets and new programs that provide visible activities (as well as some selective incentives) rather than less visible and possibly more effective coordination of programs themselves. Are the incentives greater for new programs and new investment rather than maintenance of existing programs and or operating funds?

-In an area where we really don't know what works, do agencies have the right incentives to take risks to discover what works? Or do they have incentive to avoid errors for which they can be blamed?

-What is the relation of national agencies to international organizations? Do IOs provide a source of autonomy and support for national agencies? Do IOs provide an effective source of outside scrutiny for agency performance?

-What are the career incentives of personnel in aid agencies? To what extent do career paths of national civil servants cross over into international organizations to increase the incentives for coordination?

What's Missing?

Feedback and discussion.

To be continued . . .