

TRANSCRIPT OF DEVELOPMENT DRUMS EPISODE 19 – BEYOND PLANNING

Host: Alison Evans Guests: Owen Barder & Roger Riddell

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Owen Barder

Thanks for downloading Development Drums, number 19. My name is Owen Barder in Addis Ababa. Today's episode is unusual because we have a guest interviewer, Alison Evans from the Overseas Development Institute, and I am for this week only one of the interviewees, over to Alison.

Alison Evans

We are here to discuss a very interesting paper by Owen Barder on Beyond Planning: Markets and Networks for Better Aid. My name is Alison Evans and I am the Director of ODI. With me to discuss this I have obviously Owen. He is Director of aidinfo at Development Initiatives; and Roger Riddell with Oxford Policy Management and also the author of two very well-known and important books in the field of thinking about foreign aid, Foreign Aid Reconsidered, a well established classic in the field and a more recent work, Does Foreign Aid Really Work. And I am delighted to have you here, Roger.

And, Owen, this is all about your paper, and I thought I'd start off by saying could you just summarize for us what's the problem you are trying to address in this paper?

Owen Barder

Well, the problem is this that most of us who work in the development industry, think that aid works but could work a lot better. And the challenge is that we seem to understand a lot of things about what needs to happen to make aid work better, we know that we need to reduce proliferation, we need to untie aid, we need to put developing countries in charge of their own development trajectory, and yet we seem to be making very slow progress on actually making that happen. And so the question I was asking is are we going about the right way of actually changing the aid system to deliver those changes that we all think we need.

Alison Evans

Very good. I mean, let me just come back to you on – you've got some quite profound ideas in this paper about how you define the problem. Let me just quote back to you a phrase that you use on a number of occasions in the paper. That is, the need to change the determinants of the equilibrium in the aid system, and that's quite a complex idea. I was wondered if you could give a bit of an elaboration of what you mean by that.

Owen Barder

So the thought here is that the reason the aid system is as it is, is because we are trying to balance various different interests and particularly the interests of donors and of recipients. Donors, although they share a common view that we want to reduce poverty, they have different views about how that should be done. They have different views about what contribution they want to make to it. And of course actually reducing poverty is a whole variety of different things. It isn't just a single measure, it's different people. Sometimes it's helping people immediately, sometimes it's helping them grow in the future, people in different countries.

So donors have a whole variety of objectives which are not the same among donors, and they are also not necessarily the same as the interest of the developing countries themselves and of course as well as trying to reduce poverty, donors are also interested in other perfectly legitimate foreign policy objectives: promoting their own industries, their security interests, their strategic and reputational interests. And so they are trying to balance, they are trying both to reduce poverty and pursue those objectives. And



developing countries also have their objectives and so what we end up with, is an equilibrium of the best way of meeting those different objectives.

And the problem with a lot of the reform agenda at the moment is that we behave as if that wasn't true. As if it's simply a question of deciding that we're going to not proliferate too much and not have so many aid agencies. But if there are deep reasons why we have so many aid agencies operating in so many countries, then we need to start asking ourselves how come we address the reasons why we have this, rather than simply saying well, let's just reduce the number of countries in which each donor works.

Alison Evans

Roger, can I bring you into this point? Is this a problem that you recognize?

Roger Riddell

Yes absolutely. I think the paper articulates well the sorts of problems that face individual donors, donors as a group and recipients as well. I think another important attribute of the paper is that it lays out clearly a whole series of quite well thought out recommendations of how we can move from where we are to a better future, the aim of the paper looking at how to increase aid effectiveness.

Alison Evans

Very good. Owen, but I'm going to press you a little bit before we move on to some of your recommendations about the way forward. This idea that the current equilibrium in the aid system is sort of product of this balance of competing interests and multiple objectives and you refer a lot to the institutional economics literature that tries to understand problems of collective action and incentives and feedback loops. And there's a lot in there. I just want you to sort of push a little bit further and say what is essentially different about the analysis that you are bringing to this problem. Is this one that we kind of know, but what if anything is different do you think about the way you've packaged this analysis together?

Owen Barder

Well I am certainly drawing on a huge amount of literature, including actually Roger's work on what characterizes the aid industry and as you say there is a literature on new institutional economics for which Elinor Ostrom and Oliver Williamson just got the Nobel Prize. So it's really a question of how that analysis applies to this industry. And there are some peculiarities about the aid system that make it a – if not a special case, then one at the end of the spectrum for questions of public economics.

And particular problems are for example imperfect information. And now in any public service there is imperfect information about exactly what service is being provided and the question of how we ensure that that we act collectively. But those problems are made much harder in the aid system where the intended beneficiaries of what we are doing are so far away from the people who are really making the decisions. It's very difficult, prohibitively difficult actually to really know whether the things we want to do are having the impact on the people who we are trying to help. And that is a strong case of what happens in a variety of other public services.

And then another big problem is that this is a case where we're dealing with multiple sovereign governments. None of whom is in a position to tell other sovereign governments what to do, or to enforce an agreement on anybody else. Now, that's quite an unusual circumstance compared to some of the domestic public policy challenges.

So this is really taking the standard analysis of new institutional economics and applying it to a specific case of the aid industry where these problems are really writ large.

Alison Evans

Okay good. Roger, within the analysis of the problem facing the aid industry, Owen makes quite a strong critique of a planning solution. Do you agree with that?



Roger Riddell

In part, yes. I think to some extent he caricatures the planning problem, and when I was reading it, I was thinking of the case of Botswana. Botswana has produced a succession of development plans. I think they're on their eighth or ninth at the moment. And in Botswana's case, the plan provides a framework around which the market is meant to operate and function and provide signals for donors if they want to engage in Botswana's development or not. One of the requirements of an aid donor coming into Botswana is that they have to have consistency in what they are proposing with the development plan. Now it seems to me that that sort of planning, providing an overall structure within which the market can operate, fits comfortably within your framework but I think many would say that that is a planning framework but it's not an extreme central planning approach which is what you rightly criticize in your paper.

Alison Evans

Owen, there caricaturing the planning solution?

Owen Barder

No, I think that's fair. I think to some extent the kind of extreme version of this is that the aid industry has designed a system that requires each country to have the kind of a Gosplan where the party apparatchiks decide what their priorities are and then donors in the best case are invited to pick items on that like a wedding list, the thing – these are the things that we are going to buy for this country. And in the more extreme cases are actually – we have production committees where we sit down and the donors agree who's going to produce which widgets towards the grand plan. And that's only part of the caricature.

The reality increasingly for people in developing countries delivering aid programs is they are spending more and more of their time in these committees trying to agree with each other who is doing what and the problem that they face is that unlike the Soviet Union Gosplan, there isn't anybody in charge, there isn't anybody who can say you, you, this factory, must produce these widgets and you're going to produce something else. So these discussions are interminable and largely inconclusive. And of course, we are increasing – other aspects of the old Stalinist regime are beginning to emerge; Potemkin villages. Jeff Sachs is going around building villages to show what could happen to bring important visitors to see what could happen.

So some of the – yes, it's a caricature but the truth is that a lot of the mindset about how we solve the problem is because we need to coordinate amongst ourselves, probably the best way to do that is to sit down together and agree who is going to do what. But whenever you take the language of the aid harmonization agenda and you substitute in any other aspect of our normal lives, it sounds a bit strange. If the manager of Starbucks was to announce that we were going to try and harmonize the coffee bar industry, you would think that was a strange thing to try to do, that doesn't seem like the best way of solving the challenge of how many coffee bars we want.

And so the question is why in the aid industry we reach so naturally to an idea that we're going to sit down together and agree who does what. And we don't look to the other mechanisms that particularly markets that are used in almost every other aspect of our life and indeed which have been a big part of the solution to the new public management agenda in other public services, we have moved away from that kind of planning framework and committee framework in the delivery of domestic public services and the aid industry has been largely untouched by that.

Alison Evans

Interesting point. So if not planning, then what? In the world of – and an industry of asymmetric information of multiple actors with conflicting interests and objectives over long delivery chain of the kind of challenges of building an effective accountability feedback loop, if not planning, then what? What's the solution?

Owen Barder

Well, I think the answer to that – I think there isn't a single solution. The question is are there things that we can do that tackle these underlying problems of political economy. And I am not just as I don't believe that planning is the answer to it, I also don't believe that markets are the answer to this. And some people



who perhaps have an ideological preference for markets have said that what we need is markets that we take away the government function. Markets will solve this problem. Markets won't solve this problem. And there are at least two important reasons for that. One is that we don't have a price mechanism in this market and markets don't operate well without prices. And the other reason is that the intended beneficiaries, the people who are supposed to benefit from these activities have no power in this relationship. They are not the people who get to decide what happens. And if you have a market where the people making the decisions are not the people who are affected by those decisions, then the market won't work.

And the other reason why markets won't work, and we are speaking now of the time of the – in the middle of the financial crisis, is that markets in general need to be within a framework of social norms, of regulations, of information, and so in general I don't buy the idea that markets are the solution to all our problems. But just as markets won't solve everything and nor will planning solve everything, what we need also is a much more information-rich environment. And my argument is that a combination of collective regulation plus market-like mechanisms to make choices about who does what and an information-rich environment that solves some of these problems about not having a price and not knowing how this is impacting on the beneficiaries, that that combination of things can gradually change the incentives for people making decisions in aid.

Alison Evans

So actually you make quite a strong appeal for a hybrid almost, you call it a collaborative market in the paper, a combination of market-based mechanisms and networks and this point you make about populating the environment with much more information with much more information and transparency. Do you find that a compelling vision, Roger?

Roger Riddell

Yes, I do find it a compelling vision, and I think it's a very important contribution that is made. But my question is what makes you think that we have any chance of moving in that direction? It seems to me that the question that is left lingering in your paper, is whether and how the recommendations you make will be implemented. Let me take one example of that. As I read it, one of the key recommendations you make upon which a number of others flow is in relation to tied aid and you say and I quote, "a proposal is as an immediate first step aid should be completely untied".

Now aid remains for many donors, in different ways, tied. I think my analysis of the OECD figures suggest that only 30%, of aid is completely untied in spite of all the commitments that people have made. That's your proposal, now my question to you is how are you going to move from the present position of continuing untying. The Paris Direction speaks eloquently about untying but how is your proposal going to be implemented, it's the how that I have concerns about.

Owen Barder

No I think that's absolutely the right challenge. And a part of the answer to this is an evasive one which is that however hard it is to agree better rules of the game that must be easier than not having effective rules of the game and trying to agree every single decision among a whole series of group – of donors with different objectives whereas it might be possible to get the donors to coordinate to change the system together. The idea that if we're unable to do that that we can nonetheless as people who are implementing a project to find a way to solve these problems that an individual level seems to be impossible. So I agree with you that this is hard but that seems to me in order of magnitude less hard that what we're currently trying to do.

But more positively it seems to me that this is a bit like asking a question why would anybody agree to make their central bank independent. Now we all know the governments want to retain control over monetary policy, because they want to be able to insure that times are good in the run up to election, for example. But they also know that it's in their long-term interest to give up that, right and hand it over to an independent central bank, because that secures their long term interest. And in a way what I'm saying what saying is that we need a kind of institutional commitment to do things which are in our long term interest, which tie the hands of individual decision makers in the short term to get long term benefit.



And many of the things that we need to do to tie the hand are things that could be individually particularly popular. So for example high levels of transparency is something that governments on the one hand feel a bit – particularly the bureaucracies feel a bit nervous about because they're not entirely sure that they want to subject themselves to that scrutiny. But they know actually that they can get a lot of public support for the idea that they're going to make aid more transparent. And so they might be willing to take that political trick, tell their bureaucracies that they have to accept the discomfort and so if the individual components are politically plausible then you might be able to get the aid donors to bind themselves to a set of institutional arrangements that in the end then help you to get to a better aid system.

Roger Riddell

No, I agree, I think your recommendations on information sharing and transparency are very, very positive. You also have a section that is headed why might donors agree to these reforms, and you've put forward a number of ideas and it seems to me that they are logically consistent and powerful. However to come back to the question a different way your focus as I read it in the paper was on what happens internally within aid agencies. And I wonder whether for a number of key issues and decisions, the locus needs to be wider than that the terrain of political economy and I think another powerful positive about the paper is that it talks explicitly about political economy. It seems to me that that's where aid should be discussed.

But it seems to me that a number of crucial problems with aid lie outside the institution of the aid agency and within the wider political framework within which aid operates. Let me give you an example you quite rightly speak about the problems of the lack of predictability about aid and the volatility of aid and you quote a paper, which I hadn't seen, but I think it's very interesting that this study showed that maybe the effectiveness of aid could be reduced by about 30%. Because of the results of volatility and lack of predictability.

But aid as we know is determined by many bilateral agencies, by short term political considerations. Five or six years ago, Iraq, Afghanistan and Pakistan were not in the top ten list of the 22 OECD donors. Now there are only three countries Ireland, Belgium and Denmark that do not have those three countries in their top ten recipients of their aid. So it seems me that to address that particular cluster of problem which you quite rightly identify as really important, you've got to look outside the institution of the aid agencies to where those decisions are made.

Owen Barder

Yeah that's absolutely right. And there are some challenges within the internal incentives – within aid agencies. But as you say many of these are challenges to do with the politics that drives aid agencies rather than the politics within them. But if you take the example of predictability, this is a good example where the industry has said, we have a problem with predictability, let's agree to be more predictable.

And actually I think the industry should be saying we have a problem with predictability, why is that, and you've just given a good example of one reason why that is and is there something we could do that would create incentives not to behave that way. Now one thing is the transparency agenda. If we had a clearer idea of how much is this costing and what are the damages to the outputs they we are producing, we could have a choice. You can have more predictable aid and produce bigger outputs but forego some other kinds of benefits or you can retain the flexibility to change your aid budget from one year to another, and then you'll produce for fewer outputs.

Because this is an industry in which we never measure our outputs and we never link our inputs, to our outputs we're unable to make that trade-off and offer that trade-off to our politicians. And so the politics are that it's always more attractive to retain flexibility to move the aid budget from one place to another. But another way in which we could tackle the politics of predictability is by linking – when we think of what happens in another industries. People have contracts and the question is why those contracts wouldn't make sense – precisely to avoid this problem. And it's not just within the private sector but within other parts of the public sector we enter into long-term commitments. What is it about the aid industry that makes us uncomfortable about having those kinds of contracts and it's thinking through how we could change the



incentives for the decision makers so that those problems like predictability, they feel politically able to do the things that we all know need to be done.

Alison Evans

Owen, can I pick you up actually, you mentioned, it's a nice segue you mentioned the issue of contracting, would it be fair to say, you're pretty keen on competition in the context of offering some ideas about how to move the aid industry forward. There's quite a lot in there about encouraging variation and selection as opposed to the current discourse around, harmonization and alignments. I mean would it be fair to say that those are rather different ideas about actually we could benefit from much stronger doses of competitiveness and a tendency more to difference rather than similarity?

But how well evident do you think the argument is that market-based mechanisms really can work in this environment? Give us a little illustration of where you see it working now and why we should build on that.

Owen Barder

There's a lot to unpack in there. As an economist certainly in my bloodstream, I think that competitiveness is a good thing or at least contestability is a good thing. Now it doesn't necessarily mean there have to be multiple suppliers but there has – every supplier that's in the market has to feel the hot breath of a possible alternative on the back of their neck if they are going to keep focused on the job.

So yes my instincts tell me that within reason you need contestability and competitiveness. And that said when you look at the most successful development experiences on the whole they haven't been ones with multiple aid agencies, they've been ones with a single supplier of aid. Botswana, Korea, Taiwan, when you look at these, actually the most successful examples on aid-driven development haven't had the multiplicity of aid agencies behaving in quite the way that they are behaving now. So I think we have to be thoughtful about that.

For me the competition really needs to come in the competition of ideas. So let me give you an example, we – I am a big believer in budget support. I think budget supports are a jolly effective by getting aid. I'm conscious that the way that has come about to the extent it has within the aid industry has been through bureaucratic warfare. People who believed in this won the argument within some aid agencies to make it happen and I'm proud to be one of the people who made that argument and make it happen.

But actually that shouldn't be in the way we make decisions. The competition should be that – the people who want to suggest budget support articulate what the benefits are, how we will know whether we're achieving them and are then held to account for having delivered them. And that they up against the people who have alternative model, who say that we should be giving Aid through civil society organizations or through running our own projects, who should also be invited to explain what the benefits are and how they will demonstrate whether they have been achieved. And then let's have a competition among those and perhaps some variation across the beginning to see which ones are working better.

And I think what I am arguing for is – is not so much a question of markets versus planning but evolution versus design. What we lack ultimately is a mechanism that ensures that we have a way of having a series of different ideas, testing them and then selecting in the good ones from selecting out, the bad ones and this is Charles Darwin not me. To do that you need two things, variation and selection. And so it seems to me that when we think about how we change the Aid system, we shouldn't be saying – at the outset, I think budget support is the best way to go, or I think that some other mechanism is the best way to go. We should be saying what are the ways we can build in to our system those components of variation and selection that will give us results in the end.

Alison Evans

That vision is sort of predicated around which seems very compelling in many respects, it's predicated around assumption that one can regulate this thing. Roger are we convinced that you can do that?



Roger Riddell

Well the – one of the seems to me lessons of the financial crisis is that you need some sort of adjudicator or adjudication system or regulator or regulatory framework to enable the market to operate as perfect competition suggests it should. I think that your arguments for bringing the market in are very, very persuasive if you have a situation where two or three donors are offering a recipient country models of social sector engagement that are different and the recipient can't look at them and compare them and challenge the donors in relation to their efficiency and effectiveness, then that's obviously suboptimal.

But I think that the way that I would think through how to achieve what you are looking at is to ask whether the recipient ought to be playing a more proactive and powerful role in terms of challenging the donors to provide something that's more efficient and effective. One of the key aspects of the Paris Declaration is building up the capacity so that recipient countries can build their own plans – we've spoken a little about plans, park that to one side – build their own plans and that the recipient country is the organ that is going to coordinate the aid, not the aid donors.

Now, let me just ask you, your paper is replete with recommendations to donors, but it is silent on how to increase the capacity of the recipient to use more power to run with and in fact to champion some of the recommendations you made.

Owen Barder

Right, and I think this is an absolutely critical question about where the competitive pressure comes from in this framework and like you I would like to believe that the beneficiaries, intended beneficiaries of aid are the drivers of the competitive pressure that drive our performance and I think one challenge for people who have thought about how markets and competition might work in aid is that it's extremely difficult to see how that's going to happen. And the reason it's extremely difficult I think is that much as we would like it to be true, it turns out to be the wrong conceptual starting point because the people who are the intended beneficiaries of aid are not the people who have the money and make the decisions at the outset.

Now in your book Foreign Aid Reconsidered you made an excellent elegant suggestion for the idea that donors should put money into a single global pot and then developing countries would know how much aid they were going to get and then they would be in a position to choose who was going to supply that aid and in what form. And that way you disentangle the question of how much aid am I going to get from the question of who is going to do it and what are they going to do and that puts them in much stronger position.

But that if I may say is an example of the kind of wishful thinking that isn't going to happen, because donors want to pursue their interests, and are not going to give up their ability to provide aid by putting it into a single pot and so what I am saying is that where possible we should make the beneficiaries, that we should empower them and there are interesting examples of things like vouchers and actually the best way of empowering intended beneficiaries is to give them cash because then they can go and decide for themselves what they want to buy and that seems to me to be a very good way to do it. But where we can't do that for a variety of reasons and particularly where it comes to the provision of public goods where giving money to individuals isn't going to result in the provision of public goods, then I think we have to accept that the competitive pressure has to come from the donor end. It has to come from the purchasers' choices about where aid will be most effective and what we need to find a way do is make sure that those purchaser decisions are influenced by and aligned with the preferences and interests of the intended beneficiaries. But I think we are kidding ourselves if we think that we can really empower those intended beneficiaries to make the choice, because they don't have the budget, they don't have the money.

Roger Riddell

Yeah, I need to come back to you on your comment on my book, and my comment is this, one person's unrealistic proposal could well be another person's agenda for political action. 15, 20 years ago I attended a launch time seminar at ODI where the issue of the Tobin tax was discussed and the general conclusion for this was hot air and it had no absolutely no political mileage at all. Now the idea is being championed by politicians.



My second example is the April G20 meeting held in London there was a background paper produced for politicians which proposed that to address the problems of the environment a central fund was created to which donors contributed and that allocated on the basis of need funds to particular developing countries very similar to what I was proposing in relation to aid. So what one can at one stage of the political history view as a stupid suggestion at another time become reality. The trick is to see how one can move from one to the other.

Owen Barder

I should say, I don't think it's a stupid suggestion. I just don't think it's going to happen. But I think it would be an attractive way of resolving one of these challenges that the market currently has, which is at the moment that unlike other markets in which once you have one supplier you don't want another supplier to give you the same product. That isn't true by and large in the aid market. Very poor countries are not in a position to be able to turn down a donor who shows up wanting to give them aid. And if your mechanism could be made to work then that would help to address that problem separate out the amount of funding from the nature of the funding. I think that would be terrific.

Alison Evans

Owen, I think the mark of a good paper is always the kind of the scruple factor level and your paper has a very high scruple factor. So I think on that score alone this is a terrific launching-off point for a really good debate, I mean just to finish off and of course there is much more we could talk about but just for now what would you hope some of the next steps to come out of this paper? Where would you like to see this paper contributing to future debate?

Owen Barder

Well I think, I am very clear in the paper that the list of illustrative ideas that might go into building a kind of combination of markets, networks and regulation that I have in mind is just that – it's intended to illustrate and make real the rather conceptual discussion but it's not intended to be either an exhaustive list or indeed a very well evidenced policy agenda. So what I'd be interested in people embracing is the idea that we need to think through what the combination is of markets and regulation and networks that would together create the kinds of incentives within the aid system for reform. So that instead of having a series of somewhat piecemeal and perhaps sometimes contradictory ideas for how we can move forward that we embrace the idea that somehow we need to see how these pieces of jigsaw fit together and the people in the aid industry embrace the idea that if there is something wrong that simply agreeing that that thing is wrong and we're going to stop it, isn't going to be enough. That we have to change the equilibrium and not simply move away from the equilibrium.

So if people embrace that conceptual framework and then can begin to generate, I am sure much better ideas than I have been to come up with and it's not so much that I've come up with the ideas as brought together a lot of the existing ideas and proposals and try to see how they might together in this space. And I think that would be – that could be an interesting conversation, a discussion about aid in a post-bureaucratic age and in some ways there are some parallels between what I am saying and that phrase of aid in the post-bureaucratic age.

Alison Evans

Very good. Well, watch this space. Owen, Roger, thank you very much indeed.

Owen Barder

Thanks, Alison.

Roger Riddell

Thank you.

Owen Barder

You have been listening to Development Drums presented by our guest presenter, Alison Evans of the Overseas Development Institute. Alison was talking to me, Owen Barder and to Roger Riddell of Oxford Policy Management.



You can download more episodes of Development Drums from iTunes free or you can go to developmentdrums.org. In the next edition of Development Drums, I'll be talking to Mushtaq Khan and Daniel Kaufmann about corruption.

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