

BEYOND PLANNING

Markets and networks in **X** public services

Owen Barder – January 2010

www.owen.org

“We will always have Paris”

St. Vincent – an island state with a population of 117,000 – was asked to monitor 191 indicators on HIV/AIDS, while Guyana was asked to report on 169 indicators

Ethiopia had 221 donor missions in 2007

80% of the 80,000 aid projects under way at any one time are for less than \$1m

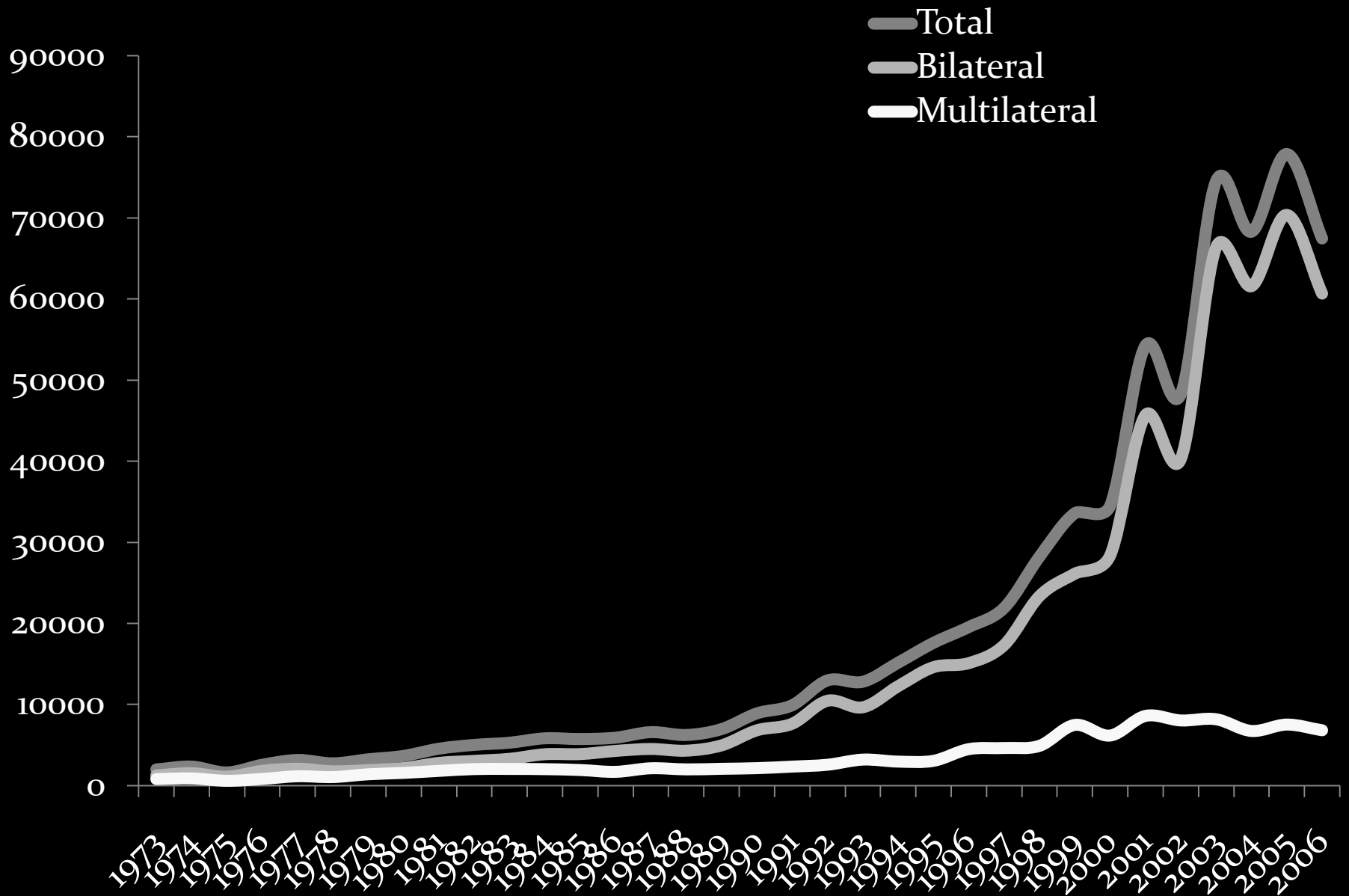
There were 15,229 donor missions to 54 countries in 2007 - an average of 282 missions per country per year.

Senegal has 82 individual aid co-ordination forums

There were 22 medical NGOs working in the health sector in one part of the west coast of Aceh in December 2005 and more than 60 agencies claimed to be working in Aceh's education sector in December 2005.

The Government of Mozambique has over 1000 bank accounts due to donor requirements

Project proliferation




The EU code of conduct (2007)


*“EU donors will focus their activities on **two focal sectors** on the basis of their respective **comparative advantages**. ... EU donors should ensure that at least one EU donor is actively involved in each **strategic sector** considered relevant for poverty reduction. ... EU donors will furthermore **seek to limit** the number of active donors to a maximum of 3 per sector by 2010.”*

Planning and the “division of labour”

“Comparative Advantage” According to Donors in Ethiopia

	Agri	Child	Educ	Env	Gender	Gov	Health	HIV	Infra	Mining	Past	Popul	Regio	Tour	Trade	Urban	Youth	TOTAL
ADB																		5
Austria																		2
CIDA																		4
DFID	FS																	5
EC																		4
Finland																		2
France																		3
Germany																		5
Ireland																		4
Italy																		4
JICA																		4
Netherlands																		6
Norway																		1
Spain																		4
Sweden																		4
UNDP																		3
USAID	FS		P															4
WB																		3
TOTAL	15	0	10	4	4	9	8	4	7	0	1	2	1	0	5	2	0	FALSE
	Agri	Child	Educ	Env	Gender	Gov	Health	HIV	Infra	Mining	Past	Popul	Regio	Tour	Trade	Urban	Youth	

 = Donor claims comparative advantage in sector

 = More than 5 donors claim CA in sector /

Why is it hard to control proliferation?

- Imperfect, asymmetric information
who is doing a good job? What is the cost?
- Diverse multiple objectives
donors, recipients and implementers
- Principal-agent problems
hard to measure outputs; incentives
- Collective action problems
with no way to impose optimal outcome

The political economy of aid

Political economy

Resulting problems

Imperfect information
& absence of feedback

No pressure to improve
Poor choice of activities
High transaction costs

Diverse objectives

Negative impact on accountability
Proliferation
Short term goals

Principal Agent Problems

Focus on inputs not results
Proliferation
Innovation not delivery

Collective action problems

Negative spillovers (e.g. missions)
Lost synergies
Coordination costs

Planning

Good for

Coordination of multiple players
Shared objectives
Tackling spillovers

Bad when ...

Nobody in charge
Imperfect information
Many actors
Principal agent problems
No evolution



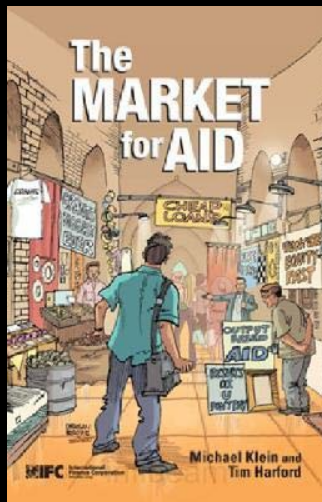
Markets

Good for

Decentralised decision making
Exposing costs and benefits
Incentives for agents
Evolution

Bad when ...

Purchaser is not consumer
No price signal
Externalities



THE WHITE MAN'S BURDEN



WHY THE WEST'S EFFORTS TO AID
THE REST HAVE DONE SO
MUCH ILL AND SO LITTLE GOOD

WILLIAM EASTERLY

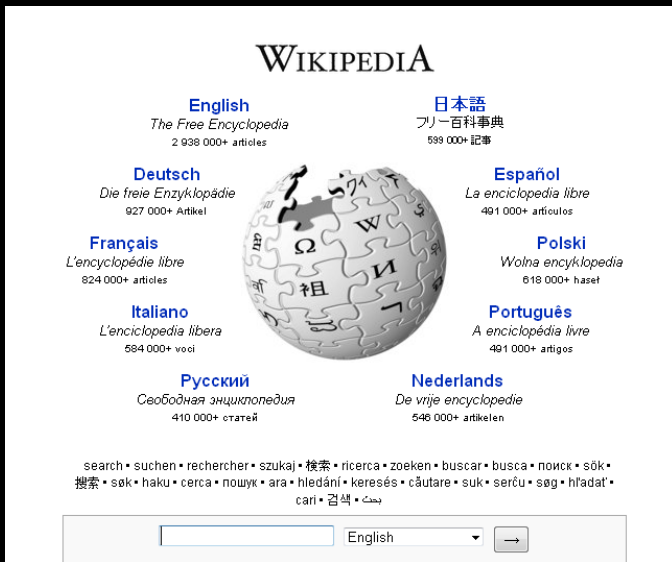
Networks

Good for

Decentralised decisions
Information sharing
Non-pecuniary motives

Bad when ...

Objectives conflict
There are big spillovers



Change the political economy

Political economy	Addressed by
Imperfect information & absence of feedback	Explicit contracts and prices Radical transparency Feedback from beneficiaries Vouchers, Cash on Delivery etc
Diverse objectives	Link funding to results Feedback from beneficiaries Decentralized decision-making
Principal Agent Problems	Explicit contracts Performance incentives Stronger feedback
Collective action problems	Tax externalities Subsidise public goods Information sharing

In aid this might mean

Markets	Unbundling funding from delivery Online procurement Performance funding Challenge funds for innovation
Regulation	Tax negative externalities (eg entry fees) Subsidize positives (eg evaluation) Aid ombudsman
Networks	Information sharing Standards Feedback mechanisms Independent evaluation North-South linkages

Conclusions

- Services are in political equilibrium
- Reformers have to change the equilibrium, not move away from it.
- More plans won't change the world.
- Use markets, networks & regulation to shift the equilibrium
- Design systems to evolve, not to be redesigned.