

Peter Murrell on Paul Collier's "Making aid smarter"

The discussant recognized that a persuasive analysis was made in the paper on how to make aid smarter and acknowledged the validity of the following 3 key points in the paper:

- a) putting aid money where policies and institutions will make it more effective;
- b) relying on the strengthening of society rather than conditionality to make reforms work; and
- c) spending aid assistance on the basic services for the neediest.

However the discussant suggested that from an NIE standpoint, the analysis of the paper concentrates too much on the recipient side of the equation. For instance, the paper talks about the basic productiveness of the *recipient* countries in using aid, talks about avoiding the government in delivering basic services in a hostile environment in the *recipient* country, and about the characteristics of *recipient* countries that have been subject to shocks or conflicts. Furthermore, in cases where conditionality did not work, the paper pins the failure on *recipient* countries not owning the reforms and on their incentives to drive up the price of reform.

The paper, in the discussant's view, does not pay as much attention to the supply side of the equation, namely the role of the donors. Perhaps, it is necessary to deliberate further on a) why projects and policy conditionality, both of which are heavily criticized in the paper, have been mainstays of development aid and b) why donors have for so long given out aid in terrible environments. Moreover, the paper does not reflect on the capacities of the donors to implement the new policies that are suggested in the paper. Indeed, there is a hint of problems in the very last paragraph of the paper, where the author recognizes the difficulties of implementing some of his suggested policies.

This general comment led the discussant to focus on three specific applications of the NIE in analyzing the paper: imperfect information, the reason for the long-standing use of projects and of conditionality, and remediableness. The first area centers on the role of imperfect information. The paper claims that it is possible to double the

effectiveness of aid by targeting it to countries with the most severe poverty and those having reasonable policies. But this leaves open the question of what constitutes “reasonable” policies and downplays the difficulties in making such judgments. The paper proposes basing the judgment on statistical analyzes and makes its predictions of doubling the effectiveness of aid based on within-sample predictions. However, such within-sample predictions always overstate the effectiveness of policies based on them.

Moreover, there is the issue that the statistical analysis uses ex post "levels" measures of policy rather than forward-looking changes in policies. In the discussant’s view, such a focus might cause a lot of effective aid to be overlooked. Judgments have to be based on what policies will potentially be like in the next few years, especially for countries that are in the midst of reversing inherited bad policies. The most critical use of aid is to help such countries overcome the first few years once the difficult changes in policy and reforms are undertaken. The discussant stated that conditionality still has a role to play for it is a forward-looking tool specifying what a reasonable policy might be. If aid were solely based on backward looking measures of levels of policies, then China would have never qualified for aid in 1979 and Eastern Europe would not have qualified for aid in 1990. These two examples show clearly that there has to be some forward-looking analysis of prospective changes in policy in order for aid to be used where it can be most productive.

The second specific area of the discussant's comments related to conditionality, in particular the question of why it is that projects and conditionality have been practiced for so long, if they were so patently bad. The discussant hypothesized that this persistence is a reflection of the organization of aid on the donor side. There is a need for aid agencies to break aid output into discrete pieces that can be monitored, even “advertised”, and evaluated in order to reward or punish implementers. These needs imply that practices akin to conditionality and projects will surely continue as important elements in the design and implementation of projects.

The final area of comments concerns Williamson’s “remediableness” criterion, which requires demonstrating the feasibility and superiority in practice of a possible

alternative. The discussant recognized the good ideas put forward in the paper but stresses that these good ideas have to be evaluated in the context of the needs of a bureaucracy, part of which require the making of rules to elicit the right incentives on the part of key decision makers in the process of aid delivery. The paper's proposals, although persuasive in their own terms, do not confront the difficulties of implementation of the proposals that the NIE would suggest is a crucial issue.