

III ANCORAGE-NET MEETING

Protecting Aid Funds in Unstable Governance Environments Towards an Integrated Strategy

Organization:



**ICS-UL, Lisbon
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**ENDEMIC CORRUPTION, STATE FAILURES
AND UNDERDEVELOPMENT IN SUB-SAHARAN
AFRICA:**

**CAN WESTERN DONOR AGENCIES FIND
ALLIES IN UNSTABLE GOVERNANCE
ENVIRONMENTS?**

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From a theoretical microeconomic point of view, protecting fund that a principal (the donor) lent to an agent (the recipient) for an investment is a simple agency model problem. The asymmetry of information give a discretionary power to the agent, and it is very costly to monitor and to sanction the agent behaviours. The more complex and large is the investment (money to strengthening a multidimensional governance agenda, like in Kaufmann) the more the control and the evaluation of it effects will be difficult. By the way, the money you spent in the monitoring process will reduce the amount of the investment and you will find the classical rule of the regulation process: marginal cost must equal the marginal benefit. So prevention and repression must be economically efficient. From a theoretical macroeconomic point of view the fund is a debt coming from the international saving and the output of the investment must be sufficient to reimburse the loan and the interest.

The theoretical approach is not so useful for practical advises on conditionality and the subject remained a very controversial agenda. The failures of conditionality during the adjustment program explain the governance agenda with a new focus on institutions and political economy. But the very weak or fragile output of this new governance agenda (MDG, poverty reduction priorities, nation building,) and the huge discussion about the causalities between growth and governance (with weak macro econometrics evidence) explain the success of the criticism of IFIs rhetoric, of planning and bureaucratic foreigners planners, of top down process, of western conditionality,... and the success of a new approach (by example Easterly, Kremer, Duflo). This new approach can be call a new empiricism (Banerjee, Bardhan, Basu, Kambur, Mookherjee, 2005): bottom up, pragmatic, evolutionistic, ground on small and simple project (mosquito-net) with easy evaluation (randomisation).

The contribution will start by a criticism of the new empiricism (absence of theories of politics and political process) and will propose from a political economy point of view an analytical framework of the relation between aid funds, public goods supply and demand, weakening of clientelism, rents, rule of law versus law and order.