

Third AFD/EUDN Conference

**Financing Development:
What Are the Challenges in Expanding Aid Flows?**

Paris, December 14th, 2005

Venue: Ministry of Economy, Finance and Industry
Centre de conférences Pierre Mendès-France
139 Rue de Bercy, 75012 Paris

9:00 Introduction: **Pierre Jacquet** (Chief Economist, AFD)
Jean-Philippe Platteau (President, EUDN)

9:10 **William Easterly** (New York University): *How to Assess the Needs for Aid?*

Much of the current popular debate about foreign aid is based on the assumption that the poorest countries are in a poverty trap. Do the poorest countries stagnate at zero per capita growth? Do poor countries, in fact, grow more slowly than rich countries, and if so why? The usual mechanisms suggested to explain the poverty trap are inadequate saving and increasing returns to investment, and foreign aid is offered as a way to escape poverty traps. How do these explanations for low growth of the poorest countries fare against alternative explanations, such as bad government and institutions? Preliminary results indicate that the poorest countries grow more slowly than the rest only during some time periods (especially recent ones), but not others. Bad government is the main explanation of the slower growth in these periods rather than the conventional mechanisms for the poverty trap, which in turn would suggest a different role for foreign aid.

Chair: Alain Henry (AFD)

Discussants: Giovanni Andrea Cornia (University of Florence), John Burton (DFID)

10:55 Coffee break

11:10 **Jakob Svensson** (Stockholm University): *Absorption Capacity and Disbursement Constraints*

Incentive constraints within donor agencies can explain a significant part of donor behavior. Some of these incentive constraints, such as multiple objectives, difficulties in measuring output or outcomes, and weak performance incentives are problems most public agencies face, although they are often more pronounced in donor agencies. In addition, there are features that are unique to the foreign aid sector, including multiple donors and a weak or broken information/accountability feedback loop between beneficiaries (in the recipient country) and politicians (in the donor country). The donor agencies' incentives also influence the recipients' behavior, and their ability to use aid productively. This paper will discuss the incentive problems in disbursing and absorbing aid and how they interact in determining the efficiency of foreign aid.

Chair: Patrick Guillaumont (CERDI – University of Auvergne)

Discussants: Chris Adam (CSAE – University of Oxford), Ali Gamatié (BCEAO)

13:00 Lunch

14:30 Arne Bigsten (Göteborg University): *Donors Coordination and the Uses of Aid*

The character, content, and intensity of aid coordination have changed over time as the emphasis has shifted from project aid to high-conditionality programme aid, then to sector-wide approaches, debt cancellations (HIPC initiative) and poverty reduction strategies (PRSPs). The paper explores how the forms of coordination relate to the use of aid, for example whether it is used to increase investment or consumption. The question is particularly relevant as budgetary aid has taken on more importance, while fungibility remains an essential characteristic of aid flows. The implication of coordination for national ownership of development policy and programmes is explored.

Chair: Bernard Petit (DG Dev. - European Commission)

Discussants: Jean-Pierre Cling (DIAL), Michael Clemens (Center for Global Development)

16:10 Coffee break

16:20 Daniel Cohen (Ecole Normale Supérieure) and **Pierre Jacquet** (AFD): *Loans versus Grants*

The paper reviews the literature on loans versus grants in development finance, and assesses the economic costs and benefits of both instruments – particularly in terms of different incentive structures – from the donor's and beneficiary's points of view. It argues that the debate is cast in overly general and simplistic terms and suggests ways to build on the complementarity between the two instruments. At a broader level, the paper suggests that a key question to ask is what use should be made of subsidies (i.e. taxpayers' money) in development finance. It calls for new forms of development finance in which bilateral and multilateral agencies actively mix public subsidies with all kinds of market instruments in order to propose innovative financial packages suited to the diversity of partners, situations and objectives in any given development project or programme.

Chair: Louka Katseli (OECD Development Centre)

Discussants: Marc Raffinot (University of Paris Dauphine), Paul Reding (University of Namur)

18:00 Round Table

Participants:

François Bourguignon, (Chief Economist, The World Bank)

Tony Venables (Chief Economist, DFID)

Jean-Pierre Landau (Financial Advisor, French Embassy in London)

Bernard Petit (Director, Development Policy, European Commission)

Jean-Philippe Platteau (President, EUDN)

Jean-Michel Severino (CEO, AFD)

19:00 Departure to AFD headquarters

Venue: Agence Française de Développement
5, rue Roland Barthes
75012 Paris

19:30 Cocktail at AFD
