

HOW PREDICTABLE IS SWEDISH AID?

A STUDY OF EXCHANGE RATE VOLATILITY

The Expert Group for Aid Studies report **How predictable is Swedish aid? A study of exchange rate volatility** examines the effects of disbursing Swedish bilateral aid in Swedish kronor (SEK), without hedging.

Sweden generally disburses development aid in SEK, while most partner countries, implementation organisations and recipients work in other currencies. According to the Expert Group for Aid Studies report by **Númi Östlund**, exchange rate fluctuations have had a significant impact on the predictability of Sweden's aid commitments.

Predictable aid flows are a key objective of international

agreements on aid effectiveness, such as the Paris Declaration (2005). Unexpected changes in development aid levels (volatility) adversely affect aid effectiveness.

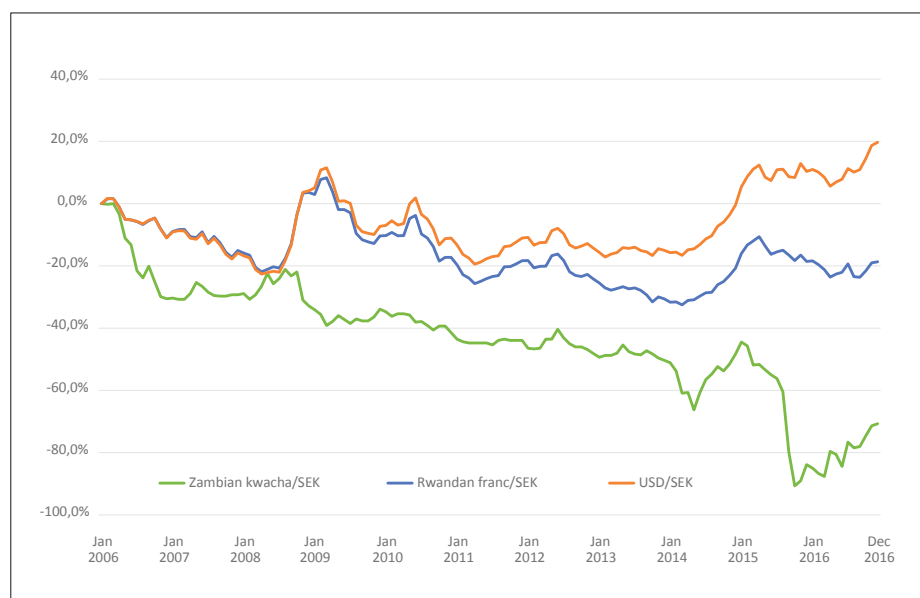
The report shows that the lack of hedging of Swedish development aid leads to considerable uncertainty for recipients, which impacts project effectiveness and, accordingly, outcomes.

THE REPORT INCLUDES THE FOLLOWING RECOMMENDATIONS:

- 1 Provide predictable funding in major currencies. A substantial portion of Swedish aid is implemented in USD or other major currencies. The Swedish International Development Cooperation Agency (Sida) and the Ministry for Foreign Affairs could offer partner organisations fixed rates for commitments in cases where users work in major currencies. Such offers would be backed by forward contracts, managed by the Swedish National Debt Office.
- 2 Explore innovative solutions for development aid implemented in smaller currencies in developing countries. One possibility could be that Sida uses its guarantee instrument to reduce the exchange risk for implementing partners.
- 3 Ensure that partner organisations have incentives to maintain a high level of implementation.



More recommendations and the entire report: <http://eba.se/exchange-rate-volatility/>



The diagram shows the change over time of the Swedish exchange rate against three currencies used in development aid. For example, a three-year aid initiative of the same size calculated in SEK will have a completely different value in the Zambian kwacha depending on whether it was launched in January 2012 or January 2013.

THE AUTHOR



Númi Östlund, political scientist, has been evaluating aid effectiveness for several years, most recently as senior auditor at the National Audit Office. Since 2017, he has been the Director of AidHedge.