

De Renzio, Paolo; Mulley, Sarah

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Donor Coordination and Good Governance:

Donor-led and Recipient-led Approaches

Paolo de Renzio,
Research Fellow, Overseas Development Institute

and

Sarah Mulley
Research Associate, Global Economic Governance Programme

March 2006

Managing Aid Dependency Project



Paolo de Renzio

Paolo de Renzio is a Research Fellow with the Centre for Aid and Public Expenditure at ODI. He joined CAPE after six years spent working as an economist and policy advisor in Papua New Guinea and as a public sector specialist, lecturer and independent consultant in Mozambique. His research focuses on the interplay between aid policies and modalities and public finance management systems in developing countries. His current work spans from issues related to aid architecture and mutual accountability, to donor conditionalities and general budget support, to assessing the quality of PFM systems and their reform.

Sarah Mulley

Sarah Mulley worked for the UK Treasury from 2001-2004, working in policy areas including financing for development, the governance of international financial institutions, international migration and public service delivery. She is now undertaking graduate research on the political economy of aid and managing a research project on managing aid dependency with the Global Economic Governance Programme.

Introduction

The past ten years have seen considerable changes in the way the aid system in general, and relationships between donors and recipients in particular, function; and in the mechanisms used to ensure that aid resources are effective in achieving development results. Among donors, the adoption of the Millennium Development Goals (MDGs), the focus on 'partnership' models of development cooperation and the increasing emphasis on donor coordination have influenced the ways in which agencies see themselves and the ways in which they work. Among recipients, there are moves towards more active management of aid, with some countries developing increasingly effective mechanisms to manage their relationship with donors. More coordinated aid practices and good governance in recipient countries have come to be seen as mutually supportive agendas. As a consequence, donor coordination, and its more formal expression in the 'Harmonisation and Alignment' (H&A) agenda, has been the focus of increasing attention in aid debates.

This paper takes a critical look at these recent trends, and assesses two alternative but complementary approaches to donor coordination. The first has mostly been led by donor countries at the international level, and is associated with the work of the Development Assistance Committee (DAC) of the OECD, recently enshrined in the Paris Declaration on Aid Effectiveness, which is the focus of this paper's consideration of the international level. The second is based on country-level coordination initiatives in individual countries, where the role of recipient governments has been more significant. The discussion is based on the experiences of three recipient countries (Tanzania, Mozambique and Afghanistan), which in recent years have tried to shift the terms of the aid relationship by putting in place mechanisms to better manage or regulate aid inflows.

There are several ways in which donor coordination can have positive impacts on governance. Coordination can reduce transaction costs and thus free up political and bureaucratic capacity in the recipient country. When coordination takes the form of alignment to recipient country systems of policy development and administration, it can provide a strong incentive to improve those systems. Coordination can also make donors more effective in promoting good governance directly. All this said, it is important to note that the impact of coordination on governance is not unambiguously positive. If coordination strengthens accountability to donors at the expense of domestic accountability, or significantly reduces the scope of recipient governments to make political decisions over policy, it may have long-term negative impacts on governance. Finally, if donors, acting together, promote policies, which are inappropriate to the country context the cause of good governance may be undermined by poor development results.

Background

The origins of recent debates around donor coordination and aid effectiveness can be traced back to a series of studies carried out in the late 1980s and early 1990s, which questioned the overall effectiveness of aid in contributing to positive development outcomes.¹ The end of the cold war opened a unique political opportunity at the international level to take a fresh look at the nature and functioning of the aid system, and to re-orient it from a system based mostly on geo-strategic interests to one

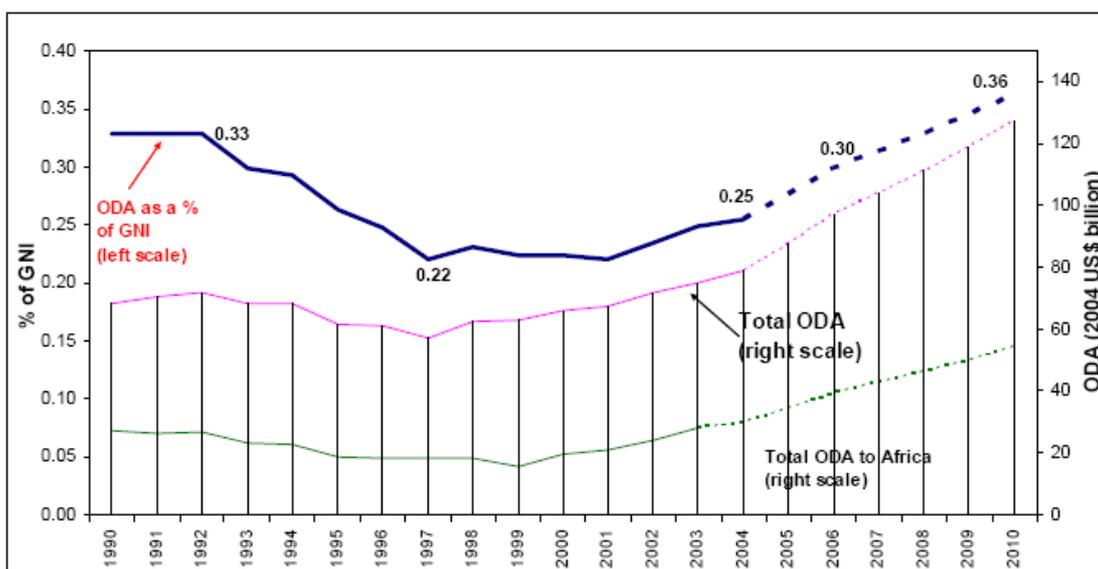
with a greater focus on the reduction of global poverty levels. The persistence of poverty and economic stagnation in some regions, notably Sub-Saharan Africa, also led to a reconsideration of the instruments being used by international agencies to channel aid resources.

The 1980s had been the decade of ‘structural adjustment’ programmes, during which much of the aid system, led by the International Financial Institutions (IFIs), was geared towards lending money to low-income countries that committed to implement a package of structural reforms which included liberalisation of prices and exchange rates, privatisation of publicly owned enterprises, and more generally measures aimed at promoting the shift to a market economy. Such policies (based on the so-called ‘Washington Consensus’ⁱⁱ) were based on the belief that if governments retreated from the economic sphere, and allowed market forces to operate freely, they would spur growth, and in turn reduce poverty. Conditionalities attached to loans provided by the World Bank and the International Monetary Fund, and to related balance-of-payments support by a number of bilateral agencies, were the main instrument used to ‘buy’ the policy reforms that were believed to promote development. Structural adjustment programmes existed alongside a large number of other projects in different sectors, supported by various donor agencies and NGOs with few coordination efforts.

By the mid-90s, the effectiveness of structural adjustment programmes was being questioned for a number of reasons (Mosley and Eeckhout 2000). Firstly, many countries had not implemented the required structural reforms, or had reversed them after having adopted them. This was interpreted as a consequence of the fact that such reforms did not have strong support in recipient countries, and that aid was rarely withdrawn from countries that did not comply with the conditionalities (Mosley et al. 1995, Killick 1998). Secondly, the effectiveness of the reforms was being questioned: in some of the countries that did implement them, the results in terms of economic performance were often less than satisfactory. Finally, the *social cost* of adjustment was perceived to be very high, with worsening human development indicators blamed on the rising unemployment and public expenditure cuts, which were often a consequence of the adjustment programmes. Alongside this discussion of the effectiveness of structural adjustment programmes, donor agencies also started to become more aware of the problem of ‘project proliferation’ (Cassen and Associates 1994), which had negative consequences on the recipient government’s human and financial capacities, in terms of counterpart personnel and budget resources, and undermined efforts at comprehensive planning and budgeting through fragmented and un-coordinated interventions.

Another important element shaping the political agenda of donor countries at the international level in the early 1990s was the decline in aid levels (see Figure 1). From 1992 onwards, Official Development Assistance (ODA) declined steadily over a period of 5-6 years, both in terms of overall levels and, more dramatically, in terms of percentage of donor countries’ national income. While this was partly caused by fiscal pressures and tightening budget constraints in OECD countries, there was a perception that a certain level of ‘donor fatigue’ was setting in, and that there was not enough political support for the aid enterprise as a whole, given some of the other factors outlined above in terms of foreign policy agendas and research on aid effectiveness.

Figure 1. Trends in Official Development Assistance from 1990



Source: OECD/DAC

Shaping the 21st Century: Setting the donor-led coordination agenda

The Development Assistance Committee (DAC) of the OECD, set up in 1960 as a forum to promote joint learning and coordination among the aid programmes of all OECD countries, responded to this impasse with the creation of a *Group de Reflection* which drafted a strategy document, ‘*Shaping the 21st Century*’,ⁱⁱⁱ considered by many to be the basis for following developments, including the new approach to aid effectiveness based on the ‘partnership’ model and the Harmonisation and Alignment (H&A) agenda. The main purpose of the document was to re-state the overall case for aid, focusing it on fundamental, shared and easy-to-understand objectives, rather than on the obscure policy reforms attached to structural adjustment loans. A number of specific targets, borrowed from the ones identified by the UN Conferences of the early nineties,^{iv} were selected and put forward, forming the basis for what would become the Millennium Development Goals (MDGs) adopted in the UN Millennium Declaration in 2000. ‘Effective international support’, argued the DAC, ‘can make a real difference in achieving these goals.’^v The key to ‘making a difference’ was identified as the establishment of development partnerships between donor and recipient governments, where a commitment to development and accountable governance by a poor country would be matched by donor commitments to:

- a) Provide adequate resources;
- b) Improve the coordination of assistance in support of locally-owned development strategies; and
- c) Achieve coherence between aid policies and other policies which impact on developing countries (e.g. trade).

The new approach was meant to address a number of problems. One of its most important objectives was reversing the decline in aid flows, by focusing on the fundamental contribution of development assistance to key objectives of human

development and poverty reduction. Another one was recognising that ‘the linkages between industrialised and developing countries extend far beyond development assistance’, and that the fiscal, environmental, defence, trade and immigration policies of rich countries all impact on poor countries’ development opportunities in complex ways. This is what would become MDG8, focused on ‘developing a global partnership for development’ that would include issues related to trade, debt, the role of the private sector and technology.

But perhaps the most important aspect of the new approach, which gave rise to the so-called H&A agenda, was its focus on tackling some of the existing critiques and contradictions of aid relationships and aid delivery mechanisms. These can be summarised as follows:

- a) High transactions costs from the multiplicity of different reporting and accounting requirements, including tied aid;
- b) Inefficient spending dictated by donor priorities and procurement arrangements;
- c) Extremely unpredictable funding levels;
- d) Undermining of state systems through the special staffing arrangements and parallel structures;
- e) Corrosion of democratic accountability as mechanisms are designed to satisfy donor rather than domestic constituencies;
- f) Hard to sustain positive impact beyond the short term, with high level of reliance on donor funding undermining sustainability;
- g) Corruption, fraud and rent-seeking were also a feature of the management of projects and not overcome by their independence from government.^{vi}

Shaping the 21st Century outlined a clear shift in the aid paradigm, based on a change in the conception and the language of aid (see Table 1). In order to enhance the role and effectiveness of development assistance, it was necessary to focus on building more effective partnerships between donors and recipients, with joint responsibilities and mutual commitments. In particular, donors should focus their efforts on low-income countries, rely on locally-owned development strategies and support government programmes as much as possible, avoiding project proliferation and shifting to programme-based approaches.^{vii} Recipient governments, on their side, should create effective coordination mechanisms for managing development assistance, and improve their systems for managing public resources and monitoring development outcomes.

Table 1. Paradigm Shifts through the Aid ‘Jargon’

<p>Recipient countries Donor-led strategies Conditionality Project Aid Fragmentation ‘Upward’ Accountability</p>	<p>⇒</p>	<p>Partner countries Partner-led strategies Selectivity/Ownership Programme Assistance Coordination ‘Downward’ Accountability</p>
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A Brief History of the Donor-led Coordination Agenda

The publication of the *Shaping the 21st Century* report marked the starting point for a series of subsequent initiatives and events, stemming from the increasingly

widespread recognition of the new model of development assistance, and with the DAC as one of the main players and forums where discussions were held and decisions were taken. In 1997, the first Development Partnership Forum was organised in the Hague, in an attempt to systematically involve Least Developed Countries (LDCs) in international events where issues related to development assistance and its effectiveness could be discussed. In a paper prepared for a DAC high-level meeting in 1998, the creation of a Task Force on Donor Practices was proposed, in order to promote consensus on the changes needed in the systems and procedures utilised by DAC donors, and look into ways to facilitate the necessary policy shifts that would enhance donor coordination and country ownership.

The Task Force was established as an ad-hoc, time-bound body with an expected lifespan of two years. It included participation from a number of multilateral organisations and from a panel of sixteen developing countries, representing different geographical areas and at different levels of development.^{viii} The Task Force had three working groups, focusing on issues related to financial management and accountability, reporting and monitoring, and to the pre-implementation phase of the project cycle, including country analytic work. Their main scope was to compile good practice papers that would identify and document donor practices that could cost-effectively reduce the burden on the capacities of recipient countries to manage aid and lower the transactions costs involved. Through this, they would contribute to strengthening ownership, crystallising the basic principles of a new way of working for donor agencies and recipient governments alike.

The years between 1998 and 2002 saw a number of related initiatives take place, as other actors in the international aid system attempted to address the same problems as the DAC, and adapt to the new consensus on the 'partnership' model of development assistance. In January 1999, after extensive consultations, the World Bank launched the Comprehensive Development Framework (World Bank 1999), a new model of partnership-based collaboration with its client countries which was aimed at recognising the central role of recipient governments in setting development strategies and policies, and at capturing the contribution of different actors, including donors, the private sector and civil society. Recipient countries were asked to fill in a matrix that, for each main sector of the economy, would specify the key policies and actors. The United Nations also tried to respond to the changing environment by introducing new instruments that were supposed to improve coordination of the activities of different UN agencies and other donors at country level, while at the same time promoting their alignment to country policies and priorities. The Common Country Assessment (CCA) and the United Nations Development Assistance Framework (UNDAF) were also launched in 1999, in the hope that they would place the UN at the centre of efforts to make aid more effective.

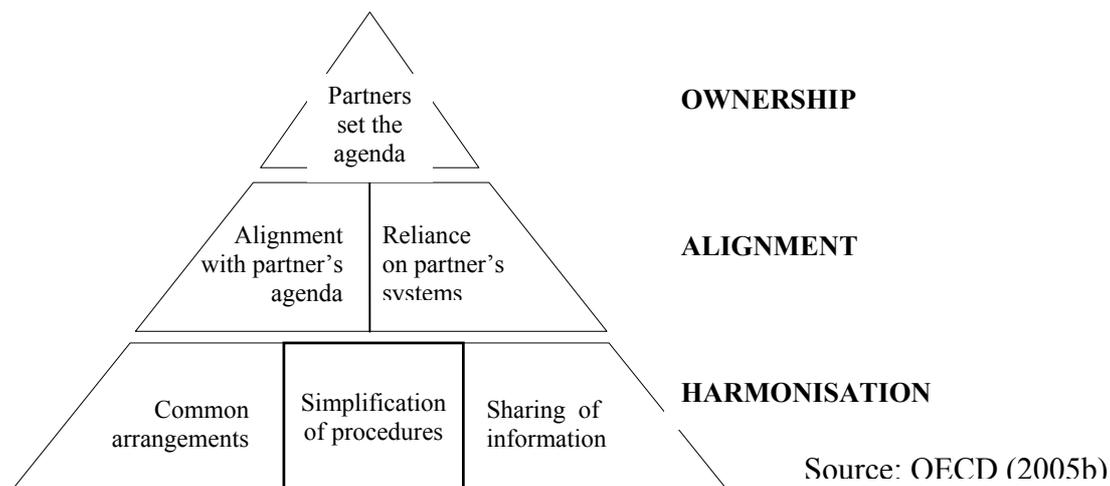
It is another initiative, however, that has come to embody the international community's efforts to promote a different approach to development cooperation (Christiansen 2003). In late 1999, the Boards of the World Bank and the IMF endorsed a proposal that required Highly-Indebted Poor Countries (HIPCs) willing to qualify for debt relief to draft Poverty Reduction Strategy Papers (PRSPs). These would link the additional resources made available through debt relief to specific poverty reduction efforts. PRSPs quickly became a useful avenue to operationalise some of the basic principles underpinning the new model of development cooperation promoted by the

DAC and embodied in the CDF and CCA/UNDAF initiatives. The fact that they were a requirement for accessing debt relief also provided a clear incentive for countries to engage in the process of drafting one. According to the five core principles that underlie PRSP development and implementation (IMF/World Bank 1999), PRSPs must be: (i) *country-driven*; (ii) *results-oriented*; (iii) *comprehensive*; (iv) *partnership-oriented*, involving coordinated participation of development partners; and (v) based on a *long-term* perspective for poverty reduction.

While PRSPs emerged as the main operational instrument at country-level to enhance local ownership and donor coordination, the DAC working groups under the Task Force on Donor Practices continued collecting available evidence and best practices, in order to provide more concrete examples and general guidelines on what donors needed to do to transform the PRSP principles into practice, and therefore move towards the new model of development cooperation. The good practice papers were finally published in 2003 in a DAC document called *Harmonising Donor Practices for Effective Delivery* (OECD 2003), after two significant international events that gave great impulse to the partnership model and to the H&A agenda. The Monterrey Conference on Financing for Development, held in Mexico in 2002, reinforced the emerging consensus by putting a lot of emphasis on the importance of effective partnerships for aid effectiveness, and calling for donors ‘to harmonize their operational procedures at the highest standard so as to reduce transaction costs and make ODA disbursement and delivery more flexible, taking into account national development needs and objectives under the ownership of the recipient country’. The following year, the Rome Declaration on Harmonisation built on that general statement and set out a number of ambitious commitments, including:

- a) to ensure that harmonization efforts are adapted to the country context, and that donor assistance is aligned with the development recipient's priorities;
- b) to expand country-led efforts to streamline donor procedures and practices;
- c) to review and identify ways to adapt institutions' and countries' policies, procedures, and practices to facilitate harmonization;
- d) to implement the good practices principles and standards formulated by the development community as the foundation for harmonization.

Figure 2. A Graphical Sketch of the H&A Agenda: The DAC ‘Pyramid’



In addition, in May 2003 the DAC created the Working Party on Aid Effectiveness to promote, support, and monitor progress on harmonisation and alignment, with input from several partner countries. The Working Party, which is still in existence, has a broader multilateral participation than its predecessor (the Task Force on Donor Practices), and a wider mandate, which covers public financial management, procurement, and managing for results as well. Since 2003, the Working Party has been very active promoting a range of activities: from a survey on progress achieved to date in implementing the commitments included in the Rome Declaration (summarised below), and the development of a Country Implementation Tracking Tool to provide information on country-level activities through a web-based system;^{ix} to further work on good practice areas and the preparation of the second High-Level Forum, held in Paris in March 2005.

Its work has allowed a clearer definition of the three principal dimensions of the Rome commitments (ownership, alignment and harmonisation) (see Figure 2), and has facilitated the agreement of the crucial set of indicators and benchmarks that form the core of the Paris Declaration on Aid Effectiveness and that will allow for a much more significant monitoring of progress both at global and at country-level (see Table 3). These indicators and more specific targets associated with each one of them have been endorsed by the United Nations, during the Millennium Review Summit which took place in September 2005. At the moment, the DAC is designing a monitoring process that will ensure the collection of relevant data at country level, in order to track progress in meeting the targets. A follow-up High-Level Forum to review the status of implementation is scheduled to take place in Ghana in 2008.

Table 2. Commitments and Indicators in the Paris Declaration

COMMITMENT	INDICATOR
<i>Ownership</i>	
Partners have operational development strategies	<i>Number of countries with national development strategies (including PRSs) that have clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets</i>
<i>Alignment</i>	
Reliable country systems	<i>Number of countries that have procurement and public financial management systems that either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these</i>
Aid flows are aligned on country priorities	<i>Percent of aid flows to the government sector that is reported on partners' national budget</i>
Strengthen capacity by coordinated support	<i>Percent of donor capacity development support provided through coordinated programmes consistent with partners' national development strategies</i>
Use of country systems	<i>Percent of donors and of aid flows that use partner country procurement and/or public financial management systems in partner countries, which either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve this</i>
Strengthen capacity by	<i>Number of parallel project implementation units (PIUs)</i>

avoiding parallel implementation structures	<i>per country</i>
Aid is more predictable	<i>Percent of aid disbursements released according to agreed schedules in annual or multi-year framework</i>
Aid is untied	<i>Percent of bilateral aid that is untied</i>
<i>Harmonisation</i>	
Use of common arrangements and procedures	<i>Percent of aid provided as programme-based approaches</i>
Encourage shared analysis	<i>Percent of (a) field missions and/or (b) country analytic work, including diagnostic reviews that are joint</i>
<i>Managing for Results</i>	
Results-oriented frameworks	<i>Number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategies and (b) sector programmes</i>
<i>Mutual Accountability</i>	
Mutual accountability	<i>Number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in this Declaration</i>

Source: OECD/DAC

Have aspirations been met? A critical look at the donor-led coordination agenda

Any attempt at measuring the impact of the H&A agenda since its inception a decade ago is likely to run into a number of problems. While its final objective is clearly linked to development outcomes, much of its focus is on changing approaches and behaviours that may bring about results only over a much longer time horizon. It can be argued that the policy shifts advocated by the ‘partnership’ model of development cooperation, while based on a clear perception of the problems they want to address, constitute an ‘act of faith’ when compared to the scant evidence on their actual impact. PRSPs and their associated processes have been under increasing scrutiny in recent years. A series of studies and reports^x have noticed how in many cases the rhetoric behind the core principles of the PRSP has not been born out in practice, with donors undermining local ownership, failing to streamline conditionalities and shift substantial resources to programme modalities, and multiplying review processes and frameworks which continue to strain local policy-making and implementation capacities.

General Budget Support, the preferred aid modality for improving ownership, alignment and harmonisation alike, is currently being evaluated in seven countries (Lawson and Booth 2004). A first case study of Tanzania (Lawson et al. 2005) highlighted a number of positive outcomes in relation to macroeconomic management, quality of public financial management and increases in key areas of public spending. It also pointed to a number of problems which donors are still responsible for, such as keeping high levels of fragmented project funding and structuring policy dialogue in a way that prevents genuine country policy ownership.

In 2004, the DAC also carried out a survey on harmonisation and alignment in fourteen countries (OECD 2004), gauging both donors' and recipients' views on progress with the H&A agenda. The survey identified a number of shortcomings in donors' efforts to effectively implement the commitments contained in the Rome Declaration. In particular, the survey indicated that 'alignment will remain an unfulfilled promise if donors do not take steps to clarify how they should adapt their country programmes to reflect poverty-reduction strategies, and if they do not rely on country systems to deliver aid' (p.9). It also stated that 'there is not enough evidence that harmonisation initiatives have helped curb transaction costs. Indeed, over the short term at least, they may have actually increased these costs' (ibid.).

Despite some of this controversial evidence, dismissing the H&A agenda as an impossible or an unreasonable one would be a mistake. Although slow to produce results on the ground, the drawn-out process through which DAC donors, multilateral agencies and participating recipient countries have been negotiating the content of a different model for structuring aid relationships has been very important in creating a shift in the predominant consensus on aid effectiveness. The conceptualisation work, which underpins the definitions of the commitments and indicators in the Paris Declaration is in and of itself a very important achievement, especially in light of the consensual nature of the process involved. The DAC is a body, which relies on the development of a shared language and of common understanding among its members, and inevitably runs the risk of watering down its positions to reach a lowest common denominator, which keeps everybody engaged.

It would be short-sighted not to recognise the different pressures faced by the various donor agencies, and the incentives created by their existing structures in terms of promoting or hindering H&A-related efforts.^{xi} A study of incentives for harmonisation and alignment in six aid agencies carried out last year for the DAC (de Renzio et al. 2005) helped shed some light on the reasons why the H&A rhetoric is often not matched by concrete changes in donor behaviour on the ground. Domestic political pressures for visibility, rigidity and resistance to change in policies and procedures, and lack of individual incentives for staff to engage in harmonisation activities are some of the factors that shape an agency's capacity to deliver on the H&A commitments that it signs up to in international forums. While some agencies are able to tackle these different aspects all at once, others struggle. While some have taken the lead in pushing for a further deepening of the H&A agenda, others are clearly lagging behind, still unconvinced of its premises and usefulness.

The issue of monitoring and reporting on progress against the indicators and targets included in the Paris Declaration, especially at the country-level, is going to be key in the near future to make sure that the hard-won agreement does not remain unfulfilled. Work carried out since March 2005 highlighted the lack of a clear baseline for many of the indicators that need to be monitored. The establishment of a clear methodology for collecting and analysing information, which involves donors as well as recipients, and which is open for external and independent scrutiny is likely to determine the future significance of the H&A agenda. As highlighted above, the DAC is currently working on the design of a monitoring process to ensure a proper tracking of indicators and targets at country level.

Another fundamental issue is that of widening and deepening recipient-country involvement in the whole process. Only a very small sub-set of developing countries took part in the DAC process since the late 90s, and the actual content of their concrete contributions is questionable. Many more signed the Paris Declaration, and will be included in the monitoring process. In order to avoid the risk that a donor-led process limits the scope and extent of recipient country leadership, clear mechanisms for mutual accountability need to be put in place, allowing aid-receiving countries to gain a higher degree of control over the ways in which aid flows are channelled, distributed and managed.

Reframing the Coordination Debate: Recipient-led coordination approaches at the country level

The coordination of aid is often analysed from the donor perspective, and the discussion above demonstrates the value of critically analysing donor-led coordination efforts at the international level. However, if ownership is to be taken seriously, coordination on the ground must be led by recipients. In aid dependent countries, aid is at the centre of political and economic systems. Aid flows, and associated conditions, dominate the work of many recipient country institutions. If recipient countries are to develop domestically-owned policies and systems, and promote good governance, their role in the aid relationship needs to change. If the coordination agenda is pushed forward solely by donors, an opportunity to develop recipient country ownership and governance will be missed, and long-term progress in these areas may be undermined.

So, re-framing the coordination debate to focus on recipient country leadership is not about removing responsibilities from donors, but rather about: (a) exploring the scope to build on recipients' interests in coordination in order to ensure that aid is appropriately coordinated even where donors are unable/unwilling to do this; and (b) ensuring that coordination does not come at the expense of recipient country ownership and governance capacity, but rather enhances it.

There are relatively few examples of recipients taking the lead in their aid relationship (for example by setting the terms under which they are prepared to accept aid), an observation which is perhaps unsurprising given the asymmetries of resources, power and capabilities, which characterise most relationships between donors and recipients. For most aid recipients, the perceived risk of losing aid is enough to prevent much assertiveness. That said, some interesting exceptions to this are emerging. It is worth studying these cases – they demonstrate a range of approaches, which can help recipients establish leadership in their aid relationships and thus improve donor coordination.

Some recipient countries have set hard conditions for the acceptance of aid, backed by the government's intention to reject aid which fails to meet these conditions, and sometimes supported by legislation. Other recipients have sought to use information and transparency to change donor behaviour, through independent monitoring. This provides data which can be used by both donors and recipients, and can put pressure on both sides to improve their performance. Often based on independent monitoring, some countries have developed more formal mutual accountability systems where donors and recipients are held accountable to targets or performance standards. Finally, almost all examples of recipient leadership are

premised on the establishment of clear policies and systems by the recipient government which encourage alignment by donors.

Most notable current examples of recipient leadership employ a combination of these strategies. It is perhaps unsurprising that countries such as India, which are not aid dependent, have been able to set the terms under which they are prepared to accept aid (India now refuses any government-to-government aid less than \$25m). More interestingly, some highly aid-dependent governments have been able to change donor behaviour in their countries and improve coordination. The discussion below will focus on three cases: Tanzania, Mozambique and Afghanistan – all of which are heavily reliant on aid to fund their government expenditures, and yet all of which have been able to exercise some degree of leadership in the aid relationship to improve coordination.

Tanzania

Over the last ten years, the Government of Tanzania (GoT) has taken steps to improve the quality of the aid it receives, based on a model which combines independent monitoring and elements of mutual accountability to promote Tanzanian leadership in the aid relationship. This process has been facilitated by the fact that the GoT has clearly stated preferences and strategies, as expressed in its Poverty Reduction Strategy (which is relatively long-standing – the first PRSP having been agreed in 2000). The Government's priorities are focused in three areas: reducing income poverty, developing human capabilities and well-being, and containing extreme vulnerability.

In 1994, in response to a breakdown of relationships with donors and declining aid volumes, the GoT (with financial support from the Government of Denmark) commissioned an independent group of advisers to investigate the problems with the aid relationship and propose solutions. The subsequent report^{xii} facilitated the formulation by 1997 of so-called 'Agreed Notes' between the GoT and its donors, setting out the terms of the aid relationship and defining specific commitments on both sides to improve aid outcomes. Progress against these commitments was initially assessed in regular reports from the Chair of the original Group of Independent Advisers, and since 2000 has been monitored through a formally constituted Independent Monitoring Group (IMG).

In 2002 the GoT's strategy for managing its aid was formalised in the form of the Tanzania Assistance Strategy (TAS). The TAS "is a Government initiative aimed at restoring local ownership and leadership by promoting partnership in the design and execution of development programmes"^{xiii} and outlines the undertakings of the GoT (e.g. improved financial management, anti-corruption measures, domestic resource mobilisation) and its donors (e.g. harmonisation, aid untying, use of central budgeting tools). The TAS Action Plan outlines specific actions to be taken on both sides, focused on four priority areas: improving predictability, integrating aid into the Budget, rationalising and harmonising processes and capacity building for aid management. The TAS system is essentially a mutual accountability framework, with both sides being held to account through the work of the IMG.

Thus far the GoT has generally avoided rejecting aid which does not meet TAS standards, but Tanzania's next move seems to be towards more hard conditions for the acceptance of aid. The 2003 Government Loans, Guarantees and Grants Act enshrines a minimum grant element of 50% for new borrowing in law and the GoT has rejected loans which don't meet this standard. The latest report from the IMG also recommends that future project aid be subject to more firm conditions.

The TAS is now being used as the basis for the development of a Joint Assistance Strategy (JAS), initiated by the GoT, DfID and the World Bank. This aims to further improve donor coordination, including through the identification of donors' comparative advantages and the introduction of a single review cycle, and will replace the individual assistance strategies of the participating donors. The JAS may also confirm the move towards more hard conditions on the acceptance of aid, with the aim being to create: "a binding agreement between the Government of Tanzania and Development Partners for the duration of a JAS cycle."^{xiv}

The JAS represents an ambitious coordination strategy. The GoT will commit to creating appropriately integrated structures to act as the basis of coordination (e.g. PRS and Budget, performance assessment frameworks) and donors will accordingly commit to alignment, as well as harmonization measures including the identification of lead and delegating donors in each sector and increased use of budget support.

Mozambique

The Government of Mozambique (GoM) has developed its role in the aid relationship, and improved donor coordination, through a model based on mutual accountability. As in Tanzania, the coordination of donors in Mozambique has been based around the GoM's PRS (the "Plano de Acção para a Redução da Pobreza Absoluta" (PARPA)). The PRS aims to reduce absolute poverty from 70% in 1999, to less than 60% by 2005 and less than 50% by 2010, and the second phase PRSP is currently being developed. However, it should be noted from the outset that leadership from the government in Mozambique has been less significant than in the Tanzanian case – donors have played a more significant role in defining the process.

A group of 'like-minded' donors had been relatively effective at coordinating their activities in Mozambique through multi-donor budget support since the mid-1990s. Donor concerns have been significant in defining their relationship with the GoM. For example, in 2000, concerns about banking crises and fraud (which led to a suspension of budget support) led donors to re-assess their conditionality and focus on 'second generation' reforms to governance structures etc. This change in the substance of donor conditionality was one factor in the emergence of new structures for donor-GoM relations.

In 2000, budget support donors in Mozambique formalised their coordination efforts in the Joint Donor Programme for Macro-Financial Support, superseded in 2004 by a Memorandum of Understanding (MoU) between the GoM and its programme donors, outlining commitments on both sides to improve the quality and effectiveness of programme aid. Eighteen donor agencies providing budget support or other programme aid (the so-called G-18^{xv}) have now signed up to the MoU. The MoU is based on donor commitments in six key areas: alignment to GoM policies and systems, increased

predictability of aid flows, elimination of bilateral conditionality, reducing transaction costs, transparency of aid flows and conditions and enhanced GoM capacity and leadership. The GoM has signed up to a Performance Assessment Framework (PAF), which now provides the basis for an annual joint review process whereby donors assess GoM progress and make aid commitments for the following year in a coordinated way.

Since 2003, donors in Mozambique have themselves been assessed under the Programme Aid Partners Performance Assessment Framework (PAP's PAF). A baseline for donor performance was defined in 2003, and an annual reporting process monitors donors' progress on the MoU commitments. Although the PAP's PAF has been criticized for failing to set firm targets in a number of important areas (e.g. alignment of medium term aid commitments with GoM planning horizons) it does provide a degree of mutual accountability in Mozambique which is far ahead of that achieved in most aid-receiving countries.

The MoU and mutual accountability framework's main limitation is that it applies only to programme aid and programme aid donors (although other donors have 'observer status' in the G-18). This leaves much of Mozambique's aid outside the system. There is some coordination of project aid through SWAps, which are long-established in Mozambique (the Agriculture SWAp was established as early as 1991), but problems are now arising of aligning sectoral initiatives with the MoU process amid concerns that line ministries with responsibility for delivery in key sectors are marginalized in the MoU process.

Afghanistan

The post-conflict aid effort in Afghanistan did not look promising from the perspective of recipient leadership at the outset. The aid architecture established in 2001 was designed when there was no government in Afghanistan, and the initial needs assessment and development framework was negotiated and agreed largely between donors. However, the Afghan Interim Administration was quickly able to gain some control in its relationship with donors through a combination of clear national policies and systems and some hard conditions for the acceptance of aid.

The National Development Framework (NDF) developed by the Afghan Interim Administration in early 2002 provided the basis for donor alignment around Afghan priorities and strategies. The NDF is based around three 'pillars' (Humanitarian Assistance and Human and Social Capital; Physical Reconstruction and Natural Resources; and Private Sector Development) with twelve associated national programmes (e.g. Refugee Return, Education, Transport and Public Administration). In addition, the NDF identified three crosscutting themes (Governance, Financial Management and Administrative Reform; Human Rights, Security and Rule of Law; Gender), which are priorities across sectors. The NDF formed the basis for the National Development Budget, around which donors were expected to align. The NDF also provided the basis for Afghan leadership in the aid relationship – from April 2002, the main donor implementation forum (Afghanistan Reconstruction Implementation Group) was chaired by the Afghan Interim Administration. The new Afghanistan National Development Strategy is currently the subject of consultation, and will be finalized (as Afghanistan's PRSP) next year.

In addition to creating strong policies and systems to which donors could align, the Afghan Interim Administration (and then the Government of Afghanistan (GoA)) sought to actively manage aid from the outset. The Assistance Coordination Authority (now the Development Budget and External Relations Unit) provides a focal point for this. The GoA set some hard conditions for the acceptance of aid, which has forced even normally recalcitrant donors to harmonize their activities to some extent. For example, the Government limited the number of sectors any donor could work in, and required minimum contributions before donors could expand to new sectors. In 2004 the GoA was able to submit its own bid for resources to donors – proactively seeking the resources it needed rather than managing pre-planned donor projects and programmes.

The Afghanistan Reconstruction Trust Fund, set up 2002 and managed by the ADB, IsDB, UNDP and World Bank, is a pooled funding arrangement, which provides coordinated funding for recurrent expenditure, as well as for priority programmes. This has become a key instrument of donor support – with some donors providing a significant proportion of their non-humanitarian assistance through the fund.

Although Afghanistan does not have a formally constituted mutual accountability or independent monitoring system as in Tanzania and Mozambique, transparency and the availability of data about donor behaviour has helped the GoA managed its donors. The Development Assistance Database now records over 90% of the aid coming into Afghanistan, and makes data about donors' pledges and disbursements publicly available.

The case of Afghanistan demonstrates both the promise and potentially the limitations of recipient leadership. Despite early success in establishing clear policies and systems for donors to align to, the GoA's control over aid inflows remains limited by the security situation and the combination of humanitarian, military and development assistance it receives. Although the establishment of hard conditions for the acceptance of aid did have an impact on donor behaviour, this approach may become less tenable if, as seems likely, Afghanistan faces significant shortfalls of resources in coming years.

Pre-conditions and limitations for recipient-led donor coordination

It is important to note that the models of leadership described above do not seem to be freely accessible to all aid recipients. Although the small number of successful cases limits our ability to draw conclusions about any necessary prior conditions, the record to date suggests that certain types of aid relationships help recipient countries exercise leadership. Low levels of dependence on aid clearly give recipient countries more control of their aid, backed ultimately by the ability to reject aid. Even when countries are highly dependent on aid, they may gain 'leverage' if they have access to large volumes of aid from a variety of sources. Finally, recipients who (possibly just for historical reasons) have aid relationships with 'like-minded' donors who are able/willing to align with recipient preferences may be able to take leadership with less fear that donors will reduce their aid.

Interestingly, the political systems and governance institutions of the cases discussed above are relatively varied. It does not seem to be the case that only recipients with well-established institutions and polities can take leadership. Indeed, the

fact that Afghanistan's Interim Administration was able to establish leadership in its aid relationships and improve donor coordination, despite its fragile political position and post-conflict challenges, might suggest that taking a leadership role in aid relationships can facilitate the development of stable political systems and governance institutions rather than being dependent on this.

Having said this, there are clearly some political/governance preconditions – ultimately, the ability of recipients to change donor behaviour rests on the willingness of donors to engage with the recipient government, which clearly requires some level of donor-perceived credibility. This is not to say, however, that recipients need have good relationships with donors in order to change the nature of those relationships. The Tanzanian case demonstrates that recipient leadership can actually improve relationships with donors, even from a low base

Can recipient-led coordination change donor behaviour?

The first measure by which recipient leadership in the aid relationship must be judged is whether it changes donor behaviour in ways which might not otherwise have been expected. Evidence from Tanzania, Mozambique and Afghanistan suggests that recipient leadership can change donor behaviour at least to some extent; with the important caveats that we cannot know how donors would have behaved in different circumstances, and that many recipient-led processes are relatively recent developments – making long-term impacts impossible to judge.

Recipient leadership has, in some cases, been associated with the increased use of programme assistance by donors and budget support in particular. In Tanzania, the level of general budget support has risen from Tshs.274.6bn in 2002/03 to Tshs. 405bn in 2003/04, and is expected to reach Tshs. 434.5bn in 2004/05.^{xvi} Budget support (including debt relief) now accounts for around 50% of Tanzania's aid.^{xvii} Since the development of the PARPA in Mozambique, the number of donors providing budget support (and participating in associated mutual accountability frameworks) has risen from six to sixteen. Seven donors now meet or exceed the GoM's target for more than two thirds of aid to come as programme aid.^{xviii} However, the picture in Afghanistan is less promising on this measure. At least one third of the funds disbursed since 2001 have been for humanitarian projects rather than reconstruction,^{xix} and almost 80% of aid disbursed in 2002-03 was project funding.^{xx}

There is also some evidence that recipient leadership, and the closer relationships with donors which have been associated with this, have helped improve the predictability of disbursements. In Tanzania, around 70% of donors indicated to the Government what their planned aid disbursements were over the following three years in 2003, while budget support disbursements in the first quarter of the financial year have risen from 8% in FY 2002/03 to 80% in 2004/05.^{xxi} In Mozambique, fourteen of sixteen donors participating in the MoU process now have multi-year arrangements in place, and in 2004 twelve of 16 reported that disbursements took place on schedule (compared to six in 2003). Again, Afghanistan provides a less optimistic view. In 2002-03, donors disbursed less than \$1.9bn, despite committing over \$4bn,^{xxii} and future levels of aid are uncertain.

Donors have also been encouraged to make more use of national budgeting tools and systems. In Tanzania, more than 40% of aid is now channelled through the national budget (compared to 30% in 2002) and estimates suggest that more than 75% of project aid is now recorded in the centralised budget system. Alignment of donors' calendars to the Tanzanian budget cycle has also been improved through the PER/MTEF processes. In Mozambique, the number of donors stating that they were fully aligned with Mozambican funding cycles rose from four in 2003 to eight in 2004.^{xxiii} In Afghanistan, the Development Assistance Database now records more than 90% of aid, although only a small proportion of aid actually flows through the government budget.

The evidence above suggests that there have been improvements in donor coordination and alignment around country systems in these cases, but systems alignment remains far from perfect. 1000 projects accounted for only 17% of aid flows in Tanzania in FY 2003. Although Tanzania has reduced the number of reports it has to produce for donors from the much-vaunted level of 1200 per year, it still received over 500 donor missions in 2002/03. There are also concerns that new coordinated arrangements (e.g. SWAps, basket funds) simply add new structures and management requirements to existing ones.^{xxiv} Tanzania's coordination mechanisms may now need coordinating! Similarly, in Mozambique, administration costs remain high (the Government is estimated to have over 1000 bank accounts due to donor requirements, and received 143 donor missions in 2004, excluding World Bank missions) and more than half of aid to the country remains off-budget and outside the mutual accountability arrangement. There are concerns in some quarters that the focus of attention on the budget support element of Mozambique's aid has reduced coordination in the rest of the portfolio. As noted above, Afghanistan continues to receive most of its aid as project funding, and although transparency and data have improved, most aid remains off budget.

The picture with respect to donors' alignment with recipient policies is more complex. Harmonised donor positions on development policies (economic, social or political) is not necessarily desirable from the recipients' perspective if alignment with country priorities and strategies is incomplete – it may increase donor negotiating power at the expense of the recipient government and reduce their scope to make policy independently. This makes 'success' for recipient leadership strategies harder to define. Increased coordination of donor policies, which is relatively easy to observe, may be a good or bad thing; and real alignment of donor policies to country priorities and strategies is hard to discern, given the possibility that recipients 'pre-empt' donor preferences by simply presenting priorities and strategies which they expect donors to approve.

Afghanistan, starting with a 'clean slate' with donors, has made impressive progress in establishing its own development plans and budgets as the central focus of policy. Although it is not clear that donors' priorities would have differed significantly from those set out by the Interim Administration in the National Development Framework, the fact that policies and strategies have been established in clearly government-led processes is significant. Having said all this, it remains to be seen if the GoA can build on this success and establish meaningful leadership of policy in the long term, given the security concerns and other constraints which it faces.

In Tanzania and Mozambique, donors had well established priorities and strategies, which did not historically line up with government policies. There is some evidence that GoT priorities are now influencing conditionality in Tanzania. For example, the GoT's Letter of Intent to the IMF (July 2003) reflected priorities set out in the PRSP progress report of March 2003.^{xxv} Having said this, some have argued that long-term dependence on donors has rendered real policy choice impossible in countries such as Tanzania.^{xxvi} Similarly, there is some evidence of conditionality being streamlined in Mozambique, giving the Government more policy flexibility. The World Bank was persuaded against adding conditions to the established multi-donor agreement, for example. However, more than half of the G16 donors maintain exceptions to the joint PAF and impose bilateral conditions in addition. Some observers have also questioned the nature of the apparent consensus between the Government and donors in Mozambique. Killick et al have raised the possibility that the apparent lack of controversy on policy fundamentals in Mozambique could be a product of extreme dependence and 'resignation' on the part of the Government to the fact that it cannot affect major policy decisions.^{xxvii} It is worth noting again that in the case of Mozambique, donor concerns have actually been a driving force in creating the system, which now exists.

All this raises the question of whether donor coordination and alignment with recipient government systems and policies is simply a slow process, or whether recipient leadership faces fundamental limitations in changing donor behaviour. Experience to date seems to suggest that progress over time is possible, but it is hard to see how recipients will ever be able to overcome the fundamental power imbalances of the aid relationship. In some respects, donors continue to hold all the cards. Recipients, for the most part, lack the means to enforce agreements made by donors. This means that mutual accountability, for example, can only ever be partially 'mutual' in the aid relationship. It also underlines the continued importance of donors' willingness to take harmonization and alignment seriously.

Even where recipients can reject aid and set 'hard' conditions on aid receipts, sanctions on donors remain weak – limited really to reputational and peer pressure impacts. Having said this, in the context of rising aid budgets and donor agencies with incentives to disburse funds, certain recipients at least may be gaining negotiating power. The latest report from the IMG in Tanzania argues that even if the introduction of hard conditions by recipients initially leads to donors withdrawing aid, donors won't be able to credibly withdraw aid in the long term if recipients are merely implementing principles signed up to by donors in Rome and Paris.^{xxviii}

Another fundamental asymmetry emerges when collective action by donors is not met by collective action by recipients. Recipients typically have fewer fora for formulating collective positions, in contrast to the multiplicity of donor fora (OECD, G7, Like Minded Donor Groups etc) and face the same kind of incentive problems as donors when it comes to coordination among themselves. The potential risks of this at country level have been touched on above (e.g. the risk that collective action by donors simply reduces recipient country negotiating power), but there are also more systemic problems. The lack of recipient input into international or headquarters-level donor policy-making is a fundamental limitation on their impact on donor behaviour. Some of the most significant remaining barriers to systemic alignment in the three cases set out above (e.g. tied aid) are often non-negotiable at the country level. The limited role of

recipients at the international level also reduces the spillover effects of existing good practices in countries like Tanzania, Mozambique and Afghanistan.

Donor Coordination and Good Governance

As noted in the introduction, a key benefit of donor coordination should be improving the quality of institutions and governance standards at country level, especially those related to policymaking and financial management. The long-term impact of donor-led and recipient-led donor coordination initiatives remains to be seen, but there are at least some suggestions that donor coordination and recipient leadership in the aid relationship can form part of a virtuous circle – ownership, alignment and harmonisation as mutually reinforcing factors, as envisaged in the Paris Declaration. If government institutions and systems can be established as the central instrument of policy and decision-making, domestic incentives to hold the recipient government to account are enhanced. This kind of effect is in addition to the direct impact on government capacity of aid management experience. The focus on specific country experiences, in this respect, is very useful, as ultimately the impact of donor coordination on good governance is a country-level issue.

The Tanzanian case, which is the longest-established of the three discussed here, provides some evidence of such virtuous circles. The most recent report from the IMG notes that GoT ownership has been strengthened as the role it plays in the aid relationship has changed. The national policy process has also become more participatory – the second generation PRS has been more consultative and more national in character than the first. The quality of governance has also improved – with greater transparency and increased capacity at both national and local levels of government.^{xxix}

Any judgement of whether changes such as these can be attributed to new models of aid management is beyond the scope of this paper. However, it does seem clear that at the very least, recipient-led harmonisation and alignment initiatives should mitigate the risk that donor activities have negative impacts on ownership and good governance – whether through a lack of coordination (e.g. where administrative burdens overwhelm recipient agencies) or through inappropriate coordination (e.g. where coordinated donor conditionality removes real policy-making power from the recipient government).

The real challenge for even the most proactive recipient government is to successfully move from ‘partnership’ to ‘leadership’ in the aid relationship, and from ‘ownership’ of policies and systems to ‘sovereignty’ over them. The three cases here are at different stages of this process. In Tanzania, the Government is increasingly leading the harmonisation process, even though many initiatives were initiated by donors. The TAS, and the emerging JAS are genuinely innovative structures. In Mozambique, the Government’s role in harmonisation can probably more fairly be described as ‘ownership’ than ‘leadership’. For example, the Government played only a limited role in the design of the PAP’s PAF. In Afghanistan, the Government has clearly played a leadership role in the aid relationship, but it remains to be seen whether this can be capitalised upon given other constraints.

Conclusions

This paper has provided an outline and an assessment of two approaches to donor coordination.

Firstly, the history, aspirations and progress of recent international discussions around donor coordination and the Harmonisation and Alignment agenda, from its inception to the recent Paris Declaration on Aid Effectiveness and its follow-up, were discussed. While progress has been made in creating a shared language and joint commitments on reaching clear targets, this process has been slow in making a difference on the ground, and has suffered from limited participation and leadership from developing countries. The H&A agenda has so far failed to adequately address a number of issues and questions, which are key for the wider objectives that it aims to achieve.^{xxx} These are related to, among other issues, engagement in so-called fragile states, building sustainable capacity to formulate, implement and manage development policies, and the challenges of scaling up aid volumes.

Secondly, however, examples from Tanzania, Mozambique and Afghanistan have shown how, when recipient governments take the lead, donor coordination can be delivered at country level, and can bring about limited but significant improvements in institutions and governance.

The key question for donors is how to support recipient leadership in the aid relationship in a way which genuinely promotes recipient capacity and ownership and which also maximises aid effectiveness. Although benefits can certainly be reaped from donor-led coordination exercises, experience suggests that progress on aid effectiveness made in this way will always be limited, and there is a risk that donor-led coordination may undermine, rather than support, the emergence of good governance and ownership.

Endnotes

ⁱ Among others, see Mosley 1991, Cassen and Associates 1995, World Bank 1998.

ⁱⁱ See Williamson 1994.

ⁱⁱⁱ OECD 1996.

^{iv} These include the ones on education (Jomtien, 1990), children (New York, 1990), the environment (Rio de Janeiro, 1992), human rights (Vienna, 1993), population (Cairo, 1994), social development (Copenhagen, 1995) and women (Beijing, 1995).

^v OECD 1996:2.

^{vi} Adapted from Lawson and Booth (2004).

^{vii} These include Sector-Wide Approaches (SWAPs) and General Budget Support (GBS), and are characterised by four key elements: (i) leadership by recipient government; (ii) a single programme and budget framework; (iii) donor coordination and harmonization of procedures; and (iv) increased use of local procedures with regard to programme design and implementation, financial management, and monitoring and evaluation (CIDA 2004).

^{viii} The countries represented were: Bangladesh, Bolivia, Cambodia, Egypt, Senegal, Guatemala, Kenya, Kyrgyz Republic, Mali, Morocco, Mozambique, Pacific Forum, Romania, Tanzania, Uganda, Vietnam.

^{ix} It can be accessed through the website www.aidharmonisation.org

^x See, for example, Booth (2003), Driscoll et al. (2005), CIDSE (2004), Gould and Ojanen (2003), Craig and Porter (2002)

^{xi} See the chapter by Snidal in this volume.

^{xii} “Report of the Group of Independent Advisers on Development Cooperation Issues between Tanzania and Its Aid Donors”, more commonly referred to as the ‘Helleiner Report’ after the group’s chairman, Gerry Helleiner.

^{xiii} United Republic of Tanzania (2002).

^{xiv} Tanzanian Ministry of Finance (2005).

^{xv} The G-18 are: Belgium, Canada, Denmark, the EC, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the UK, the World Bank and the African Development Bank

^{xvi} Economic and Social Research Foundation (2005)

^{xvii} Balogun (2005)

^{xviii} Killick et al (2005)

^{xix} Rubin et al (2003)

^{xx} Data from Afghan Development Assistance Database

^{xxi} Economic and Social Research Foundation (2005)

^{xxii} Data from Afghan Development Assistance Database

^{xxiii} Killick et al (2005)

^{xxiv} Ronsholt (2002).

^{xxv} Peretz and Wangwe (2004).

^{xxvi} Harrison (2001).

^{xxvii} Killick et al (2005)

^{xxviii} Economic and Social Research Foundation (2005)

^{xxix} Economic and Social Research Foundation (2005)

^{xxx} See Rogerson (2005) and Rogerson and de Renzio (2005)

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The Global Economic Governance Programme
University College, Oxford OX1 4BH

Tel. +44 (0) 1865 276 639 or 279 630

Fax. +44 (0) 1865 276 659

Email: geg@univ.ox.ac.uk

www.globaleconomicgovernance.org