Final Synthesis Report

Good governance, aid modalities and poverty reduction

*From better theory to better practice*

February 2008
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<tr>
<th>Acronym</th>
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<tr>
<td>ABIA</td>
<td>Advisory Board for Irish Aid</td>
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<td>AIDS</td>
<td>Acute Immune Deficiency Syndrome</td>
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<td>APRM</td>
<td>African Peer Review Mechanism</td>
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<td>BWI</td>
<td>Bretton Woods Institution (IMF, World Bank)</td>
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<td>CGA</td>
<td>Country Governance Analysis (UK)</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<td>CPI</td>
<td>Corruption Perceptions Index (Transparency International)</td>
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<td>CPIA</td>
<td>Country Policy and Institutional Assessment (World Bank)</td>
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<td>CSO</td>
<td>Civil-society organisation</td>
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<td>Department for International Development (UK)</td>
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<td>EC</td>
<td>European Commission</td>
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<td>EU</td>
<td>European Union</td>
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<td>GBS</td>
<td>General Budget Support</td>
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<td>HLF</td>
<td>High-Level Forum</td>
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<td>IDA</td>
<td>International Development Association (World Bank)</td>
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<td>IDEA</td>
<td>Institute for Democracy and Electoral Assistance</td>
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<td>Independent Evaluation Group (World Bank)</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>Millennium Development Goal</td>
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<td>New Partnership for African Development</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>PBA</td>
<td>Programme-Based Approach</td>
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<td>Public Expenditure and Financial Accountability</td>
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<td>Public financial management</td>
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<td>PRGF</td>
<td>Poverty Reduction and Growth Facility (IMF)</td>
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<td>SBS</td>
<td>Sector Budget Support</td>
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<td>SPA</td>
<td>Strategic Partnership with Africa</td>
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<td>SWAp</td>
<td>Sector-Wide Approach programme</td>
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<td>World Governance Indicators (World Bank Institute)</td>
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Executive summary

Leaders of the world community have committed themselves to providing development assistance on a scale and in a form that enables developing countries to achieve the Millennium Development Goals. In 2008, the international community will come together twice, in Accra in September and Doha in November, to assess the progress made in implementing these commitments. This report synthesises the findings of a two-year research project commissioned by the Advisory Board for Irish Aid which speaks directly to the agenda of these high-level reviews.

The work was undertaken by staff and associates of the Overseas Development Institute, London; the Chr Michelsen Institute, Bergen; the Economic and Social Research Foundation, Dar es Salaam; and the Center for Democratic Development, Accra. It addressed the theme of “Good Governance, Aid Modalities and Poverty Reduction” through eight workpackages – involving desk studies and/or brief fieldwork – on particular topics together with a synthesis study drawing on this and other research.

The report deals with the challenges implicit in the commitment of leading donor agencies, including Irish Aid, to deliver aid for development in ways that help poor countries to “own” their development efforts, by using and helping to strengthen their policy-making capacities and management systems. This is the rationale of General Budget Support and other new aid modalities linked to so-called Programme-Based Approaches. It is also at the centre of the vision of the 2005 Paris Declaration on Aid Effectiveness. This approach is strongly grounded in experience and theory, but the practice has proven problematic in a number of respects, raising a series of questions for researchers and development agencies alike. These are addressed in first half of the report (Part 1). If countries are to assume ownership of their development processes, changes in the way they are governed are also required. What this implies donor policies and programming is explored in Part 2.

Main findings of the research

- The implementation of the thinking on new aid modalities has been too cautious and qualified. Even the more progressive donors are tending to adopt half-measures that cannot be expected to yield the desired results.
- Changes in aid practices must be matched by changes on the recipient country side. Donors have a duty to help in this regard too. But this means engaging in new – better-informed, intellectually more modest and sometimes more pro-active – ways in the improvement of governance systems.
- In each of these respects, securing changes in incentives and institutions is more important (relative to merely providing funding) than donor agencies and public opinion in Northern countries have been prepared recognise.
Part 1: New aid modalities – towards a more coherent practice

Current theory on new aid modalities rests on a substantial body of negative experience concerning the institutional effects of previously dominant modalities. It is not comprehensive, but it does tell us how and under what conditions we might expect better results from channelling financial aid through country policy-making, management and budgetary systems.

This can be contrasted with actual practice, as captured particularly by recent evaluations of General Budget Support (GBS) programmes. Two important requirements for success are generally missing: 1) a decisive move towards the adoption of this modality, so that the incentives for ministries, departments and agencies shift in a substantial way; and 2) political pressure from within the country towards the strengthening of the intra-governmental reporting lines and accountabilities that GBS is supposed to strengthen. Two questions follow: why in so few countries has budget support come close to becoming the dominant modality? (addressed in Part 1) and what is to be done if governance conditions are unfavourable to countries’ taking charge of their development? (addressed in Part 2).

Why has the move to budget support not been stronger? Research for the project investigated the popularity of sector common funds as a modality of donor support to service delivery, looking in detail at sector programmes in Mozambique, Tanzania and Uganda. Can the use of common funds instead of General or Sector Budget Support be justified as a sensible transitional measure or as providing building-blocks for the construction of more effective aid? Close inspection of the activities undertaken by the donor advisers and government staff involved in the selected programmes suggests otherwise. That is, the setting up of the arrangements for the common fund absorbs major energies and draws attention away from the strengthening of the sector’s mainstream systems. The effect is that common funds appear less like building-blocks and more like road blocks on the route towards greater use of country systems. Earlier adoption of budget support modalities is recommended.

The other workpackage for Part 1 explored the new thinking on the use of conditionality in budget support programmes, examining evidence on current practices, particularly in Ghana and Tanzania. It found that, contrary to common assumptions, the IMF and the World Bank have amended their conditionality practice in important ways, both streamlining their conditions and making fewer attempts to compel governments to do things they do not want to do. In contrast, bilaterals and the European Commission participating in budget support programmes appear to have moved backwards in their conditionality practices. They are increasingly involved in micro-management of country policies and attempts to use disbursement decisions as levers to obtain policy changes. This is ill-advised, especially when, as is sometimes the case, it is badly informed. There are alternative ways of contributing to policy development that have not been sufficiently used. Donors are also not yet very good at responding in a coherent way to unexpected breaches of the “fundamental conditions” usually included in budget support agreements, such as those relating to observance of human rights.
Donor practices in these areas, as well as in the broader field of aid reform covered by the Paris Declaration, are not hard to explain in terms of the incentives official aid agencies face. These encourage risk avoidance and the retention of mechanisms that provide an appearance of control, both of which work against their doing what theory and experience indicates as the right thing. These perverse incentives affecting donor decision-making help to explain what happens. But they do not seem to provide an adequate justification. As self-conscious learning organisations, donor agencies should be capable of analysing and acting upon the pressures that frame their decisions. This could include educating their parliaments and publics in a more deliberate way about how development happens and how it is that development assistance works best.

Part 2: Improving governance for development – how to engage?

The effectiveness of aid depends heavily on conditions in the recipient country, and fundamentally on its governance and politics. Thus, the question of whether the domestic conditions can be improved, and whether donors can play a part in that, is essential to supporting poverty reduction with new aid modalities – not an optional extra.

The argument of Part 1, and indeed the broader Paris Declaration commitments on building “country ownership”, might suggest that it would be inappropriate for donors to become actively engaged in country governance. However, that would misunderstand our argument and interpret the Paris commitments an unduly mechanical way. Anyway, a completely hands-off attitude would be inconsistent with the fact that the aid business is deeply complicit in the political set-up in most aid-dependent poor countries.

What donors do need to back off from is the kind of involvement in country governance that stem from conditionality, selectivity or the search for stronger fiduciary guarantees. Like the policy dialogue around budget support, donor work on governance should be liberated from close linkages with the disbursement of aid funds, so that it becomes a useful contribution to the intellectual and ideological life of the partner country. Research for the project investigated how well-placed donors are to rise to this challenge, beginning with desk studies of governance assessment, democracy support and anti-corruption interventions.

The recent proliferation of donor efforts to assess governance and especially corruption levels within and across countries is unfortunately not free of old-fashioned motivations and the search for guarantees. This is a pity because in some respects it reverses the earlier trend towards in-depth understanding of country political systems for the purpose of improving country programming.

One aspect of the recent trend is increased use by donors of a range of cross-country quantitative governance indicators. These serve some useful purposes, but are methodologically slippery and present various dangers as guides to donor practice. More fundamentally, the research literature does not tell us exactly how,
why and when different dimensions of good governance are important to economic growth and poverty reduction. Therefore, **donors need to be circumspect about making judgements on the basis of existing indicators as well as about advocating specific governance reforms in partner countries.**

More intelligent engagement means paying closer attention to the lessons of experience. In the two key areas of democracy support and anti-corruption efforts, our knowledge of what works and what does not work is patchy. This is partly because **systematic evaluations are rare.** On the basis of what we do know, two things to be avoided are blueprints which take insufficient account of country context and the naïve assumption that “all good things go together” and there are no trade-offs between different reform objectives.

The argument of Part 2 is that what progressive aid thinking requires is not less donor engagement on governance but more intelligent engagement, rooted in better understanding. Short field-based studies for the project developed this argument by exploring three particular themes of special relevance in low-income Africa.

The first is the importance of **understanding the type of political system characterised by political scientists as “neopatrimonial”,** and the way its particular logic affects choice of policies and the implementation of reforms. A comparative study of recent developments in democratic decentralisation in Malawi and Uganda looked at why the patterns of change in these two countries are apparently so different. In Malawi, the required local elections have been chronically stalled, while in Uganda districts governed by elected councils are being multiplied incessantly, apparently in response to bottom-up pressures. Close analysis points to the importance of appreciating case-by-case how the logic of neopatrimonial politics interacts with other features of the political context at a given moment in time.

The second topic is the desirability and feasibility of an approach to the politics of governance improvement which draws strength from having African roots. A workpackage was undertaken as part of a larger assessment of the African Peer Review Mechanism (APRM) which included fieldwork in Ghana. The findings confirm that a mechanism that is perceived as constructed by Africans and has some features of a “club”, with associated incentives for members and non-members, does have the potential to work better than donor-promoted governance reform. However, the progress reported suggests that the incentives conveyed, even by the most effective element of the APRM – continental-level reviews by national leaders behind closed doors – **are not very strong.** This is reflected, for example, in the slow implementation of the review recommendations in Ghana, the front-runner in most respects.

There may, on the other hand, be a role for research in discovering ways in which the good governance agenda might be adjusted to the specific needs of African development. This would involve drawing in a realistic but imaginative way on the historical experience and institutional heritage of the region. It might include **helping to identify novel institutional solutions,** and ways of getting past
typical collective-action problems, that would be attractive to future generations of political leaders.

The final topic is the related one of whether donors could usefully become more involved in coalitions at sector level which proactively determine their approach to sector reforms, drawing on political-economy analysis. This was explored through the literature on health reform processes in Asia and Latin America, and by means of brief fieldwork in Tanzania and Uganda. The general feasibility of the idea was assessed positively. However, it emerged that the relative weight of international as opposed to country stakeholders and interests would make it a different type of challenge than in Asia or Latin America. It would also be necessary to overcome a rather mechanical reading of the Paris Declaration commitments on aid alignment, which makes donor advisers less inclined to be pro-active than would be justified.

These suggestions for donor governance work in Africa will call for a close collaboration between practitioners and researchers. It will require more governance work that is fully informed about the detail of how country politics works and not shackled to narrow corporate concerns, such as the minimisation of risks. For this reason, it will require of development agencies the self-awareness and willingness to address their own incentive environment that we called for in concluding our discussion of aid modality choices in Part 1.

Both in seeking to become more coherent in their own practice, and in addressing the critical barriers to improved governance in recipient countries, donors need to recognise more explicitly that they are in a “relationship business”. The outcomes that matter – signalled by the Millennium Development Goals – will not be achieved in low-income Africa without addressing the key institutional barriers that exist on both sides of the aid relationship. The vision of aid helping countries to own their development will not be realised by agencies that disburse larger volumes of aid but no longer have sufficient capacity, in the form of adequate numbers of professional staff, to address these crucial issues.

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<th>Main implications for donor agencies</th>
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<td>Adopt budget-support modalities, not common funds, as the default option in service-delivery sector programmes.</td>
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<td>Explore alternatives to budget-support conditionality and micro-management as ways of contributing to country policy development.</td>
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<td>Focus governance analysis on understanding, not measuring and monitoring on the basis of inadequate knowledge.</td>
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<td>Do much more evaluation of governance interventions to establish “what works”.</td>
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<td>Always consider in the full formal and informal political ramifications of public-sector reforms</td>
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<td>Learn from research about possible alternative avenues for governance improvement in Africa.</td>
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<tr>
<td>Do not misread the Paris Declaration as ruling out intelligent, pro-active reformism in the social sectors.</td>
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Give due recognition to the importance of institutions and relationships in development, and commit to educating Northern parliaments and publics that these matter as much as money.
Introduction

International development assistance cannot make development happen. At best, it can powerfully reinforce the efforts of countries that are mobilising their own human and material resources to raise incomes and improve the quality of people’s lives. At worst, it can mask and even contribute to the weakness of self-directed development efforts. Which of these things happens in the world’s poorest countries is one of the fundamental questions facing the world as the first decade of the 21st century draws to a close.

In broad terms, this view of the role of aid in development and poverty reduction has been the subject of a consensus in the international community for some years. It was implicit in the agreement around the Millennium Development Goals (MDGs) in 2000, which came close on the heels of significant changes in the lending approaches of the World Bank and International Monetary Fund in recognition of the importance of “country ownership” of development efforts. In 2002, the Consensus of Monterrey on Financing for Development was explicit in linking increased international commitments in support of the MDGs to better policies and greater domestic resource mobilisation within the developing countries. In 2005 the Paris Declaration on Aid Effectiveness (HLF, 2005) formalised the growing acceptance that effective aid is aid that is aligned with countries’ own policies and systems. It also gave prominence to the proposition that good policies are those that are both technically sound, in the sense of being oriented towards development outcomes, and country-owned.

There is a consensus on this, but it does not run deep. Several of the recurrent themes of recent international discussion – country ownership in particular – are efficient instruments for signalling a problem and articulating a shared sense that it needs to be addressed. But they do a poor job of making clear the real nature of the challenge and what actions would be necessary to address it in a serious way. The action commitments agreed in Paris are susceptible to a variety of interpretations, and it is not clear that they get to the heart of the problem. In these senses, we are further from agreement on the basics than may appear. In 2008, the Accra meeting to review the Paris Declaration commitments and the Doha follow-up to Monterrey will provide policy makers with an opportunity to recognise this and move forward. This report may help to suggest how.

0.1 The problem

Alignment of aid with country-owned efforts is a powerful but deceptively simple idea. As an argument about more and less preferable ways (“modalities”) of delivering aid, it is reasonably straightforward and well supported with evidence. In this form it says that, as a minimum, aid should be delivered in ways that do not harm countries’ ability to mobilise and deploy their own human, organisational and financial resources. Wherever possible, aid modalities should be used that contribute to the strengthening of the recipient country’s policy-making capacities and management systems at the same time as they help to finance investments and services that
benefit poor people. This is not just desirable but essential if aid is to play a part in the large-scale reduction in human poverty that is called for by the MDGs.

This proposition is well grounded in research findings, programme evaluation and hands-on experience. However, converting the sound aspirations it expresses into a practical approach to aid programming has not proven straightforward. There are two main areas of difficulty.

One concerns the modalities or instruments – direct budget support, funding for Sector-Wide Approach programmes (SWAps), global initiatives and the drive to align all aid projects with country policies and systems. Which of these are capable of genuinely enhancing country capacities for self-directed development, given the political and institutional constraints under which they operate on both the donor and recipient sides of the aid relationship? What are the errors to be avoided and what should be done about the unavoidable risks? Is current practice good enough, and what else needs to change?

The second area of difficulty is the problematic character of the domestic drive for development itself. The thinking behind new aid modalities is that countries' ownership of their development efforts is not an optional extra but an essential condition for successful outcomes. What happens, then, if the institutional set-up in an aid-recipient country is profoundly unfavourable to providing honest and effective leadership of development efforts? Arguably, this is actually the case in the majority of the very poor countries that now receive the bulk of development assistance. It raises the question: is this something that – to comply with the Paris principles themselves or for reasons of national sovereignty – poor developing countries have to be left to sort out on their own? Or can donors take a hand in it, and if so how?

0.2 The research

These are the central questions addressed by the research project commissioned by the Advisory Board for Irish Aid of which this is the final synthesis report. The project aimed to shed light on these issues by means of a combination of surveys of existing literature and targeted field investigations in selected countries of sub-Saharan Africa. It was carried out during 2006 and 2007 by staff members of the Overseas Development Institute (UK), Chr Michelsen Institute (Norway), Economic and Social Research Foundation (Tanzania) and Center for Democratic Development (Ghana) working with individual researchers in Germany, Malawi, Mozambique and Uganda.

The work was divided into eight “workpackages”, each of which generated a report on a particular issue within the scope of Good Governance, Aid Modalities and Poverty Reduction. Working Papers and Briefings based on the workpackages are available on the project’s public website (see reference list for details). This synthesis report captures the main findings from the workpackages and reflects additional work by the whole research team to address the project’s central concerns.

The report distinguishes settled matters, remaining questions and what the evidence seems to say about the latter. It has two main parts.
The first takes a critical look at current thinking and practice relating to the use of new – poverty-oriented but ownership-sensitive – aid modalities. It argues that the thinking is basically sound and capable of handling most of the standard objections offered by critics. However, it is not currently being practised in a coherent way. Even those agencies that are strongly committed to the new aid modalities, and are thus in the vanguard of implementing the Paris commitments, are “playing safe” in ways that weaken the potentially positive impacts on the systems and institutional arrangements of the partner country. As a consequence, they are in some respects continuing to undermine and not strengthen country ownership of development efforts. Ways of overcoming these limitations can be recommended, but they involve donor agencies in addressing some basic features of the incentive environment in which they operate.

The second part focuses on the no less troublesome issue of development leadership and governance within aid-recipient countries. It questions the way this challenge has been addressed in donor “governance work” during the past decade or two. As in some of the practice on new aid modalities, the donor approach has been linked too much to fiduciary concerns (“how do we protect our money?”) and not enough to ensuring that the impact of aid on country institutions is on balance positive. It argues for further steps to de-link the governance agenda from funding decisions. It makes a plea for a more active, but intellectually less arrogant and ideologically less narrow, engagement in finding solutions to the institutional problems that poor countries face. Again, the incentive problems that official development agencies face in going down the suggested road do not seem to provide sufficient excuses.

There is a unifying theme linking the two parts of the report, which is developed in the conclusion. This is that international development assistance is to a commonly underestimated extent a “relationship business”. The debate about poverty reduction and the MDGs has been dominated for too long by concerns about whether the available financial resources are sufficient. Relatively speaking, too little attention has been given to the inter-linked institutional problems that limit the effectiveness of existing efforts. More or less challenging incentive and collective-action problems exist on both the recipient and the donor side of the aid relationship. We argue that an intelligent aid policy is one that is fully attuned to these realities and takes their effective management as a central responsibility.
Part 1: New aid modalities: towards a more coherent practice

The new aid modalities – direct budget support and the financing of Programme-Based Approaches” (PBAs) such as “Sector-Wide Approach programmes” (SWAps) – are well-supported in theory. The practice has proven more complicated. An obvious source of problems is that the theory about how the new modalities contribute to the desired results (country “ownership”, improved country systems, etc.) makes assumptions about the real world that are typically not fully satisfied. Therefore, there is felt to be a need for adjustments, compromises and transitional arrangements. As a result, the actual practice involved in deploying the new instruments is more messy and less obviously coherent than the theory.

Although a series of joint evaluations of budget support programmes has been completed, many questions remain about how exactly these are working. Even less well understood are the effects of some of the compromises that have been adopted in implementing the new vision using instruments other than budget support, notably various “common basket” arrangements supporting particular sectors or policy areas. Underlying these questions is the deeper issue of whether donors are really capable of using these instruments in ways that have the desired effects, given the real-world constraints and incentives they operate under. The fact that the donors signed up en masse to the partnership commitments of the Paris Declaration unfortunately does not dispel the doubts surrounding these issues. It rather gives them some additional sharpness.

This first part of the report summarises what evaluation and research have to say about these issues. It draws upon a synthesis of arguments and findings from recent literature, and upon the project’s two “workpackages” based on case studies of aid practice in African countries. One is concerned with the causes and effects of the widespread adoption of compromise modalities involving some form of donor common basket in preference to direct budget support. The case studies are of sector support in Mozambique, Tanzania and Uganda. The other workpackage focuses on the use of conditionality within general budget support arrangements, drawing on field experience in Ghana and Tanzania.

Part 1 has three sections. An overview of theories and issues based on existing literature is followed by a summary of the workpackage findings and then by a discussion of the implications for the assessment and management of aid efforts in the future.

1.1 What the theory says

The modern aid-modalities argument says that, as a general rule, it is better for countries’ development in the medium and long run to channel assistance through their official budgetary and accounting systems. While there is a superficially attractive case for by-passing country systems with a view to assisting poor people directly, the general experience is that this is hard to do effectively outside the most immediate emergency relief situations and on more than a small scale. Meanwhile,
by-passing official country systems does institutional damage. Over the decades of the 1980s and 1990s, the adoption of this kind of approach by a growing band of official donors helped to make countries like Tanzania and Malawi progressively less capable of managing their own development. Recognition of these facts has grown steadily in the international community, reaching a formal culmination in the signature of the Paris Declaration in 2005. However, it is only in the last few years that serious efforts have been undertaken to undo the damage previously done.

The institutional effects of different aid modalities

There are several mechanisms by which aid can and does do damage, some quite crude, others more subtle. Most obviously, project management units that are set up in parallel with government departments and agencies pull talent and energy out of the civil service by offering better salaries and working environments. This is not by any means the only factor harming the quality of mainstream public services. Indeed, the bypassing civil service departments is in part a response to justified doubts about their implementation capacity and/or about the orientation or seriousness of the prevailing policies. Nonetheless, bypassing certainly makes the situation worse, progressively reducing feasibility of improvement in the official system. It is part of a vicious circle (Figure 1.1).

Figure 1.1: The vicious circle of traditional aid delivery

State of the sector
- Absent/weak policies
- Fragmented budgets
- Weak sector organisations and capacity
- Service delivery systems inefficient or broken
- Weak domestic accountability
- Patronage and corruption

Effects of aid and donors
- No attention given to improving country policy or systems
- Projects take best staff from government
- Sector is accountable to multiple donors not to government
- Government’s ability to perform core functions is weakened

Donor response
- Project aid preferred over programmatic aid
- Multiple projects that avoid government systems and are not aligned with policies
- Act bilaterally
- Build Project Implementation Units outside government structures


More subtly and perhaps more importantly, when donors offer government departments or agencies the possibility of funding outside the country’s formal budget and public-expenditure management system, they provide a powerful disincentive to their participation in policy discussion and acceptance of accountability for development results through the regular channels. The regular channels may anyway be weak, with budget formulation and execution processes that are technically unsuitable and regularly undermined by unaccountable
politicians; but a free-for-all approach to the allocation of donor projects virtually ensures that they will never improve. Again, there is a vicious circle.

Not all development interventions that are classed as “projects” involve a high degree of bypassing. Indeed, in many developed and developing countries projects are well established as a mainstream instrument of public policy, particularly for managing major investments and the provision of technical assistance. Nonetheless, projectisation has been widely used in poor developing countries primarily for the purpose of minimising contact with government systems. In this sense, the vicious circles of traditional aid delivery are bound up with the prevalence of the project modality.

An important feature of the vicious circle of traditional aid is that it is underpinned by quite powerful incentives on both the donor and the recipient side. Without an appreciation of these incentives, and the way they interlock, it is hard to explain why the traditional pattern of projectised aid is so persistent (Box 1.1).

Box 1.1: Interlocking incentives in traditional aid

Incentives are to be found within both donor agencies and recipient governments that help to maintain and reproduce the vicious circles associated with limited country ownership of development efforts. Case studies of sectors in Mozambique, Tanzania and Uganda suggest the importance of the following:

- Within recipient governments, project modalities with parallel funding and management mechanisms generate multiple material and non-material benefits for the ministers and civil servants in whose sectors they are located, including salary top-ups, allowances, vehicles, training and travel opportunities, and prestige. Ministers, parliamentarians and local authorities are interested in the political credit they get for attracting a stand-alone project to a specific sector or area. The resource flows from a free-standing project are visible, reliable and relatively simple to control. The government officials at the sector or local-government prefer to avoid the unpredictability, rigidities and reporting requirements associated with funding through the national budget, and the reduced control this implies. In addition, dealing with a single donor is simpler than dealing with several through a pooled-funding or budget-support arrangement, where donors tend to “gang up” on the ministry in way that reduce its discretion.

- Donor agencies, on the other hand, benefit from the visibility associated with separately managed and “branded” projects. They assist in defending the aid budget to their own parliamentary committees and audit authorities, and in defending the departmental budget within the agencies. In some agencies, it is still the case that staff promotion prospects are enhanced when a particular large project can be presented as the work of an individual or small team. In contrast, where more programmatic, multi-donor ventures are introduced, visibility is lost and the attribution of development results to the particular donor’s support becomes problematic. This concern is especially pronounced when donor agencies are heavily concentrated in a particular field or when a donor is small relative to others in a field. Donor risk-aversion also favours free-standing projects. A standard assumption, which is not always borne out in practice, is that projects can be tightly managed, whereas using government systems to manage projects or programme calls for a “leap of faith”.


1 Other aspects are well treated by Buse and Walt (2000), Gibson et al. (2005: Ch 6) and van de Walle (2005).
Understanding these incentive structures – in other words, the political economy of the aid relationship – is helpful in two further ways. First, it makes clear that more than good intentions and fine policy statements about country ownership are necessary to break out of the vicious circle. Something needs to happen to incentives on both sides of the relationship. Second, if there is more than just inertia behind the persistence of the vicious circle, it is realistic to expect that the same dynamics will tend to reproduce themselves within attempts to reform the method of aid delivery unless deliberate steps are taken to avoid this.

This point of view on the drawbacks of traditional projectised aid is most fully recognised by a group of mainly European official donors which in recent years have taken the view that, other things being equal, the preferable aid modality is General Budget Support (GBS). This involves the direct transfer of financial resources to the Treasury of the country, to supplement local revenues in meeting objectives that are decided through the annual and medium-term budget planning processes of the country. The donors engage in the country debate about how best to structure this joint effort, and they provide technical assistance to give it a solid basis, but they do not distort it by earmarking their funds for specific purposes.

The purpose of GBS is not limited to enabling a particular set of macroeconomic adjustments to be made, as was the case with the earlier generation of unearmarked assistance known generically as programme aid. It is usually presented as support to the implementation of a poverty reduction strategy or plan. In the theory of this modality, the donors establish quite rigorous preconditions for embarking on the support in the first place. They monitor both whether these are respected and what the development results are. But – according to the theory – they do not micro-manage. Instead, they do what they can to assist the country’s authorities to make the national budget the centrepiece of a results-oriented national policy system, and to enforce the associated disciplines, with line ministries, local governments and semi-autonomous public agencies becoming progressively more accountable through the upward chain of responsibility to the cabinet and parliament.

The above is not a consensus view, either among donors or among aid-recipient countries. Despite the infectious initial enthusiasm for the idea, few donors, if any, are fully in the pro-GBS camp. No bilateral agency puts more than half of its total budget into GBS, even in the set of low-income African countries for which the new modality was primarily designed (SPA, 2007). To the extent that there is a consensus view, it is the looser and more encompassing commitment to improving “aid effectiveness” summed up in the Paris Declaration. This involves a strong recognition that country ownership, aid alignment and harmonisation, results orientation and mutual accountability are desirable medium-term goals. There are targets for increasing use of government systems, phasing out parallel Project Implementation Units and adopting common procedures within joint programmes, some of these subject to progress on the government side. However, the choice of modalities is left open to a considerable degree.

Thus, there is space within the “Paris consensus” for project modalities which can be shown to be working towards greater integration with government policies and systems. There is also encouragement for donors to work with a spectrum of so-called Programme-Based Approaches (PBAs) which involve different degrees of
acceptance of country policy frameworks and use of country systems. Ways of supporting PBAs, as currently defined, range from GBS at one extreme, through Sector Budget Support (SBS) – where the funds are not earmarked but the policy dialogue is focused on a particular sector – to a variety of other forms of participation in “Sector-Wide Approach programmes” (SWAps). The latter can be more or less rigorous in suppressing the separate identities of previously projectised activities and more or less advanced in adopting common procedures based on those of the country.

A typical feature of a SWAp is a common bank account or funding “basket” within which various donors pool their funds but keep them separate from the ordinary workings of the government budget. SWAps are distinguished by the fact that they are set up to support the implementation of a sector policy or strategy agreed by the government. Pooled, ring-fenced support for SWAps has, therefore, been widely viewed as a transitional aid modality, to be adopted with the long-term objective of enhancing country policy ownership and management systems wherever the conditions for fully fledged sector or general budget support are judged to be missing.

A common view among both donors and recipient governments is that there is virtue in using a diversity of modalities as a means of spreading risk. Many agencies which accept the argument about the superiority of GBS in principle prefer for this reason to put at least a share of their resources into common baskets, as well as some into projects.

The new modalities: mechanisms and preconditions

The movement in official donor thinking expressed in different ways in the concept of GBS and in the broader Paris commitments has been driven to a large extent by negative experience. What has settled the matter is the known effects of weak country ownership and badly aligned, unharmonised aid. The positive case in favour of the new modalities has been and remains more weakly developed, partly because there is not the same body of experience and evidence to draw upon. Within this picture, the theory and evaluation of general budget support is perhaps the least underdeveloped. We therefore draw quite heavily on this body of work here, using it to frame the wider discussion of settled and unsettled questions about new aid modalities.

The vision of the way GBS is expected to “work” is set out in its pure form in an evaluation framework prepared for a joint donor group in 2003 (Lawson and Booth, 2004). The framework sets out the implied chains of cause and effect linking this donor approach to improvements in the institutional rules and organisational systems of the recipient country, and thereby to the more effective use of both country revenues and aid resources for poverty reduction and economic growth. Provision of donor funds exclusively or largely through the budget forces ministries, departments and agencies to participate actively in the budget process. It thereby focuses the attention of various actors on turning the budget into an effective instrument for mobilising, allocating and monitoring the use of public resources. This, in turn, reinforces whatever potential the government system has for implementing and following-up policy decisions and achieving positive development results.
As well as specifying the expected effects, the framework identifies the conditions that have to be assumed for it to be plausible that the indicated causes will lead to the indicated effects. In other words, it pinpoints the risks that the outcomes will be different than expected. Importantly, the theoretical model does not assume a high degree of “good governance” in the country. The case for GBS rests on a realistic view of how governments in poor countries currently operate, and is focused on the question of how best to move forward from the current position. The point is that realism is required both about the deficiencies of the existing arrangements and about the difficulties that will be faced in improving governance if aid flows to the government sector continue to bypass, and thus undermine, the established mechanisms of formal decision making and accountability. In this sense, the direct efforts to address weaknesses in governance that are discussed in Part 2 of this report are complements of and not alternatives to the considerations here about aid modalities.

In particular, it is not the case that aid recipient countries fall into two categories, those that are “ready” for the use of Programme-Based modalities and/or budget support, and those where the governance preconditions need to be built up first with projectised aid. Rather, the case for moving away from traditional projectised aid applies everywhere, and in some respects more in cases where patronage and corruption are most strongly embedded. And the need for complementary actions to help improve the institutions and organisations of governance is universal, including in countries currently regarded by most donors as “good performers”.

This caveat having been entered, the conditions under which GBS is expected to work well as a contribution to both institutional strengthening and development outcomes (poverty reduction, the Millennium Development Goals, etc.) are quite specific. They include that:

1) the shift of aid flows into the GBS channel is sufficiently decisive to achieve a noticeable restructuring of the incentives facing government ministries, departments and agencies;
2) the management of the GBS programme by the participating donors remains consistent with the objective of using and thereby strengthening the country’s policy and budget systems;
3) the minimum conditions under which support for GBS in the donor capitals can be maintained (e.g. absence of human rights’ violations) continue to be satisfied in the recipient country; and
4) to at least some degree there are pressures from within the government system towards a strengthening of reporting lines and accountability for performance through the regular, mainstream channels (ibid.: 45-48).

The donor-side preconditions (1 and 2) imply the proposition or hypothesis that a decisive turn is needed; otherwise, the effects will not be achieved. As in various sporting or athletic contexts, timidity is a recipe for failure. To improve my golf swing, I need to break completely with my previous style and attempt to emulate that of Tiger Woods. I may still fail, because I lack other necessary conditions. However, with half measures, I will certainly not succeed and my performance may even deteriorate. As in other institutional reform contexts, the full range of necessary
conditions for success needs to be contemplated but a “big bang” approach may still be required. Otherwise, incentives may not shift sufficiently and change will not be sustained.

In its original or a more elaborated form, this “theory” of GBS has been tested against actual experience in one large, multi-country evaluation exercise and several single-country exercises undertaken for joint government-donor groups. Members of the research team for this project contributed to these exercises in Ghana, Tanzania and Uganda (IDD and Associates, 2006; Lawson et al., 2005; Killick and Lawson, 2007).

The findings from the GBS evaluations have not been entirely conclusive about the main issues, for understandable reasons. The evaluations have occurred, in most cases, within a few years of the effective start of the country’s experiences with GBS. And even in the best of circumstances, it would have been hard to demonstrate conclusively some of the expected linkages (e.g. from donor inputs to improved poverty incidence or infant mortality). It is also arguable that all of the evaluations to date have ended up spending too much time engaging with the donor group in the country on important but quite circumscribed issues of programme management. As a consequence, they have not been able to give sufficient attention to assessing the the plausibility of the central claims made by the evaluation framework – the correctness or otherwise of what evaluators call the “programme theory”.

Two things have emerged clearly enough, however. One is that the institutional effects of delivering aid as budget support are positive but not particularly strong. Thus, accountability of line ministries to the budget authorities increases, but the budget process remains rather unchallenging, in the sense that the usefulness and efficiency of what ministries do with their allocation of funds is still not probed in a telling and effective way. Secondly, this appears to be the case especially if the preconditions itemised above are not met. Thus, the effects are weaker if:

- GBS is not exclusive but is being delivered alongside several other forms of aid;
- the management of the GBS programme by the donors is not consistent with the model;
- for one reason or another, maintenance of the minimum country conditions becomes problematic; and
- the other domestic preconditions (pressures to mainstream accountability) are only weakly fulfilled.

All of these factors have been important in different degrees in GBS recipient countries. Most notably perhaps, GBS has failed to become an exclusive or dominant modality. It appears that even when the technical and political conditions for a shift towards GBS as an exclusive approach are objectively quite favourable (as in Tanzania under President Mkapa, 1995-2005, for example), other modalities tend to expand at least as fast or faster. They include various forms of project or programme support delivered directly to particular government organisations, and other heavily earmarked contributions arising from “global initiatives”, notably those concerned with AIDS, vaccinations and other health interventions. In the best of cases, obtaining resources through the budget has remained only one of the options
that line ministries and their officials can resort to, because various types of flows are available which are to a greater or lesser extent “off-budget”.

Secondly, in various ways actual GBS programmes do not practice what their advocates preach. Notably in respect of willingness to desist from micro-management and abandon previous approaches to disbursement conditionality, the GBS practice is often out of line with the theory. Thus in two senses the donors as a collectivity have failed to abandon in a confident and wholehearted way the “golf swing” that produced mediocre performance in the past.

Thirdly, in a number of countries (e.g. Ethiopia and Uganda in 2005, and Nicaragua in 2007) the maintenance of country minimum conditions has proven problematic. So far, ways have not been found to prevent this severely damaging the emerging circles of benign institutional change in the affected countries.

Finally, and importantly, it has remained rare for the political leadership to provide strong reinforcement to the changes in behaviour by ministers and senior officials that are “expected” within the GBS model. While several governments have declared GBS to be their preferred aid modality, in no recipient country that we know well is this accompanied by a forceful insistence on the primacy of accountability through the mainstream government system.

We would argue that the combined effect of these factors has prevented actually existing GBS programmes from producing a powerful change in the incentive structure facing actors in recipient-country systems. That in turn helps to account for the lack of compelling evidence that the increasing adoption of GBS during the early 2000s has made aid more effective in contributing to development outcomes and the attainment of the MDGs. However, that conclusion, based largely on existing studies and evaluation reports, begs several further questions. It is upon these further questions that the field research and detailed case studies for the present project particularly focused.

Three questions arise and are addressed in a summary way in the next section, drawing on two of the project workpackages:

- If the positive impact of GBS programmes has been significantly blunted by the simultaneous adoption of other instruments such as sector common funds, is this to be regarded as a temporary set-back or a major defeat for the project of breaking into the vicious circles of traditional aid and replacing it with something better? The answer we give depends on how we assess the claim, noted earlier, that common funds are a transitional modality. We know that the common fund an option that is attractive to donors who wish to avoid putting all of their eggs in the single basket of GBS. But is it also a helpful mechanism for building the preconditions for an eventual adoption of more advanced modalities, including GBS?

- If the management of GBS programmes and the use of conditionality within them are still inconsistent with the requirements of the model, who or what is to blame for this, and what needs to be done? In particular, is it the case – as many would expect intuitively – that it is the Bretton Woods institutions (the
IMF and the World Bank) that are dragging their feet on the reform of conditionality, holding back the more progressive bilateral donors and other major players such as the European Commission?

If the GBS project has been seriously damaged by disagreements between donors and governments over “minimum conditions”, how might this be avoided or the damage reduced?

We address these questions and then turn to the other domestic governance conditions in Part 2.

1.2 What the experience shows

*Half measures don’t work: the case of sector common funds*

The concept that common donor funds in support of SWAps are transitional has been widespread and quite authoritatively endorsed for some time. Foster (Foster and Leavy, 2001) treated them as such in his early work on the choice of financial aid instruments. Ring-fenced common funds dedicated to supporting a sector-wide plan or policy framework were particularly to be preferred where country policies and systems at the sector level were reckoned more robust and reliable than those at the centre (i.e. the national development strategy and budget process), but always as a first step rather than a permanent option. More recently, a case has been made that SWAps plus common basket funds can provide a flexibility in ways of working collaboratively at the sector level which is ideal from the point of view of mutual learning-by-doing over a period of years (van Donge, 2007). Last but not least, the Paris Declaration encourages the notion that any of a range of Programme-Based Approaches, including SWAps, are valid contexts for donor support to country-owned development, regardless of the form of support. However, the findings of the workpackage led by Williamson and Kizilbash Agha (2008) place a question mark over these propositions.

Their study examined the use of common funds within programmes in the health sector of Mozambique, Tanzania’s education sector and the water and sanitation sector in Uganda. They were particularly interested in whether the common-fund mechanism was contributing to the strengthening of government systems and incentives for their use, in such a way as to prepare the conditions for an eventual transition to a modality making full use of the country’s budget system. Across the three sectors, they found that it was not.²

The common funds tended to attract donor and government attention towards their own considerable design and management challenges, and away from strategic sector policy improvement and the strengthening of the remainder of the country system. In practice, they facilitate a form of learning and progression that is self-

² Their conclusions apply specifically to the use of common funds in service-delivery sectors. Common funds for technical assistance or institutional capacity building may have some of the same effects but are unlikely to be as damaging to activities in the same field funded through the budget.
contained and self-absorbed. Since the necessary energies and capacities are in finite supply, this can easily and often does make further transitions harder than they would otherwise be. Thus, rather than constituting building blocks in a process of moving to more advanced forms of country-led development cooperation, the common funds appear more like road blocks, serving to institutionalise arrangements that put up barriers to further advance (Box 1.2).

**Box 1.2: Building blocks or stumbling blocks? Common funds for service delivery**

Common, basket or pooled funds are widely viewed as essential tools in improving aid effectiveness. They are meant to reduce transaction costs for recipients by harmonising the delivery of aid which would otherwise be delivered through a number of separate projects; and they promote alignment of aid in support of country policies and plans, usually with reference to an overarching sector strategy. Common funds stop short of providing aid resources directly into government budgets, and are kept separate from other (government) resources intended for the same purpose. The common justification for this used by donors is that government systems and processes are too weak to provide fiduciary assurance and ensure that aid is effective. Common funds are often thought of as “transitional modalities” towards supporting systems via budget support.

Our research on the use of different aid modalities at the sector level, suggests that common funds have serious disadvantages. They can actually undermine domestic delivery systems, institutional incentives and accountability. Due to their scale, and the involvement of multiple donors, these negative effects can actually be worse than those of stand-alone projects.

Common funds focus several donors and the lead sector organisation’s time and effort on dialogue over the management of the specific aid modality and away from overall strategic sector policy issues and domestic systems. Since they establish parallel processes, they tend to draw donor and government attention towards the modality itself rather than the systems that it is intended to strengthen. This is particularly pronounced where common funds are used to support service delivery in particular sub-sectors, such as primary education.

The root problem is that to develop systems around common funds to support service delivery nationally, requires efforts similar to what would be needed to build and strengthen domestic systems proper. As a result, they face the same capacity constraints and weaknesses as the mainstream government systems without providing much greater fiduciary assurance. Moreover, once common funds are created, *de facto* they dwarf or replace any domestic delivery systems that existed. It subsequently becomes difficult to take apart systems created around common funds and transit towards full use of domestic systems. Common funds also generate clear incentives for recipient country and donor agency staff to maintain them. For these reasons, the vision of common funds as a “transition mechanism” cannot be supported.

A preferable alternative in most cases will be some form of Sector Budget Support (SBS) – direct budget support where the policy dialogue is focused at the sector level – or budget support where the funds are “notionally” earmarked to a particular programme; that is, in a way that does not create parallel management systems. In our view, the fiduciary concerns which lead to the creation of common funds are misconceived. There is no clear evidence regarding service-delivery sectors in our study countries that aid that makes full use of country budget systems is more subject to misappropriation or corruption than aid which does not (although, as noted in Part 2, there is a severe shortage of empirical studies of corruption across the range sectors and aid delivery modalities). SBS has all the potential benefits of common funds with respect to harmonisation and policy alignment, and in addition it helps to strengthen domestic delivery systems. It is also more plausible as a transition mechanism. It is a far shorter step to remove the notional earmarking of resources or refocus the associated policy dialogue, than it is to dismantle the type of parallel systems created by common funds.

To the extent that the impact of the new aid-modality thinking has been blunted by the popularity of common funds, therefore, this has to be presented as a major and likely permanent, not minor and temporary, setback. Donor practice is inconsistent and does not correspond to the theory that purportedly informs it. Unless the causes of this situation are identified and dealt with, the gains from the progressive thinking of the last decade are likely to be dissipated.

**Conditionality: new thinking and old practices**

Unfortunately, the charge of inconsistency in donor practice is not restricted to the particular group of donors that prefer to work with common funds. The research undertaken for the project by Kizilbash Agha and Lawson (2007) on conditionality within budget support programmes points in a similar direction.

In principle, the new thinking around GBS rests in part on the accumulated evidence that *ex-ante* conditionality (we will disburse funds if ...) is a blunt instrument for achieving development objectives. In particular, it is recognised that this approach is not effective in bringing about sustained policy change and effecting complex reforms that change institutions. In theory, most budget support donors now believe that what may still work is a limited, selective use of what has been termed *ex-post* conditionality.

This is most clearly articulated in the World Bank’s philosophy around its budget support instrument, the Poverty Reduction Support Credit (PRSC). Assuming as a framework condition a properly constituted Poverty Reduction Strategy or national development plan, PRSCs are agreed on an annual basis in the light of performance in the previous year. This is assessed using a prioritised set of indicators set out in a monitoring matrix. These mostly refer to public policy actions that the government has previously recognised as desirable and feasible during bilateral or multilateral talks. The idea here is that the conditionality focuses on things that the government (or an important interest group within it) is thought to want to do. It is not expected to leverage it into doing things it does not want to do or considers infeasible (World Bank, 2005).

This *ex-post* conditionality influences the practices of bilateral donors providing budget support to a greater or lesser extent. Most now base their within-year disbursement decisions on fixed “fundamental understandings” or framework conditions, with a view to making their support as predictable as possible on a quarterly timetable (SPA, 2007). Yearly renewal of funding is generally based on an overall assessment of previous performance in respect of a matrix of progress indicators, including some policy actions and some outcome measures. Usually, this is the same as, or a version of, the matrix negotiated by the World Bank. In principle it excludes any policy measures (reforms) that the government is known not to be keen on, or is judged not to be able to deliver politically. There are signs that used in this way conditionality works as a means of bolstering policy changes, signalling particularly important reforms and stiffening the resolve of reformers when they have real but not overwhelming influence (Booth et al., 2006a).
The major exception to the adoption of the *ex post* principle is the use of “variable tranches” based on within-year performance in terms of policy or results indicators. These have been extensively used by the European Commission in several countries and by groups of bilaterals in a few countries (e.g. Ghana). In principle, predictability is ensured within this approach by providing the bulk of the funding in a fixed tranche and only a smaller amount on performance-based terms. The focus on results rather than specific policy actions is held to encourage the development of local policy solutions. Unfortunately, however, the evidence that results-based conditionality actually does incentivise policy innovations geared to improving results is rather weak (ibid.).

The above is the theory. In practice, selective *ex-post* conditionality often looks not so very different from the old, *ex-ante* kind in two respects. First, since governments know in advance what the conditions are under which programmes will be renewed, they undoubtedly factor this into their thinking in a way that does not differ greatly from that of the past. Second, the donors do not apply the principles consistently. Not only do they have a tendency to pad out the monitoring matrices in a way that makes them unwieldy and ineffective, but they have real difficulty in breaking cleanly with the notion that reforms can be “bought” with conditional finance.

The GBS evaluation in Tanzania (Lawson et al., 2005) drew attention to the former problem. A more recent evaluation in Ghana (Killick and Lawson, 2007) focused on the latter. Far-reaching and quite complicated reforms were made a condition of a variable tranche on the basis of rather limited evidence that the reforms were technically feasible and the government had the capacity to implement them. The budget-support donors appear to have slipped into something close to the traditional concept of buying reforms, rather than engaging constructively in the resolution of the technical and capacity problems. This failed for very traditional reasons. Thus, the new aid thinking recognises there are things that donors cannot influence with conditionality, but tends to act as if this were not the case.

Taking these observations as a starting point, Kizilbash Agha and Lawson (2007) took a closer look at the range of conditionality practices adopted by different categories of donors in Ghana and Tanzania. They were interested in the similarities and differences in the approaches of the Bretton Woods institutions on the one hand and the bilaterals and the European Commission on the other. The research aimed to generate recommendations leading to a greater coherence between the theoretical underpinnings of GBS and donor practices.

A particularly interesting finding from this work is that the IMF and World Bank have done much more than the other donors to change their practices in respect of conditionality. It is not the Bretton Woods institutions but the other agencies that need to put their house in order in this regard (Box 1.3).

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3 Shifting the focus of conditionality to results is supported by several writers who share many of our concerns, including Lockwood (2005) and Birdsall (Woods, 2007). However, they do not make clear how this would gets around the difficulty that “results” matter to politicians who have results-oriented programmes and not to those that (as discussed in Part 2) choose policies in response to the requirements of maintaining a client base.

4 In reality, the important difference may be between conditionality which reflects some degree of real consensus and that which is “forced”, rather than the *ex ante/ex post* distinction as such.
One of the reasons donors fall back into traditional conditionality thinking is that it appears “safe”. Even if it does not work, it provides an apparent defence against the accusation, by ministers, parliaments or the public back home that money is being poured down the drain. But this defence is a shallow one which possibly does not convince even those who use it. A more plausible argument is that there is no other option. Selective ex-post conditionality can only be applied to the extent domestic support for reform has already materialised. This may not happen, and it may
depend on domestic political factors which are largely outside donors’ field of influence. Even that, however, should not be taken for granted.

Box 1.4 addresses the argument that there is no alternative, and sets out a line of approach that could be more widely accepted and would be coherent with the thinking behind new aid modalities. It calls for donors to make a sharper distinction between their preconditions for embarking responsibly on a budget support programme and the ways they contribute to policy improvement once the programme has started.

Box 1.4: The return to conditionality: what are the alternatives?

For the most part the return to conditionality exhibited by the European Commission and the bilateral agencies providing budget support is motivated by a concern to minimise fiduciary risks and maximise development returns. Domestic parliaments and audit offices have been in the vanguard of this move, often supported, as in Ireland, by development NGOs. The motivations are laudable but our research suggests that the outcomes are not always the desired ones.

Introducing extra conditions for budget support disbursement is unlikely to strengthen fiduciary safeguards or reinforce the recipient’s commitment to development objectives. Overwhelming evidence suggests that such conditions have no influence in the absence of a domestic political commitment. But a complicated conditionality framework can generate high transaction costs and undermine the quality of dialogue. What then should be done differently?

If domestic pressures have compelled development agencies to be more rigorous in their policies towards budget support, this can only be a good thing. Many agencies have been reviewed GBS procedures and strengthened their approach to the assessment of PFM systems. The first step is to go further down this road, ensuring that all budget support arrangements are subject to a thorough risk assessment before their initiation. Where arrangements are considered significantly risky, contingency plans should be devised in advance, so that an exit is feasible and not unduly costly.

Secondly, it is important to distinguish between the “make or break” conditions, those considered so fundamental to the aid partnership that any infringement will necessarily lead to a suspension of budget support (e.g., abuses of human rights), and indicators signalling areas where progress would be desirable (and would increase the effectiveness of budget support) but where a lack of progress need not represent grounds for suspension. Current arrangements often blur this distinction, leading to unnecessary tensions and confrontations in dialogue.

A small number of reform targets need to be agreed with the government through the GBS Performance Assessment Framework for those areas where change is strongly desirable. Here, it is essential that discussions over progress should be public and transparent, so that domestic stakeholders also receive access to the information. Where governments know that their progress is under public scrutiny, their commitment to reform is likely to be more sustained. Yet, these targets should not be seen as disbursement conditions. There will often be good reasons why reforms do not progress: the GBS arrangements should aim to diagnose and overcome the constraints to progress, not to penalise.

Finally, it should be recognised that budget support is a blunt instrument. It needs to be complemented by efforts to maximise transparency and involve domestic actors, and by well-targeted technical assistance. This should aim to build capability both within and outside of government.

Source: Kizilbash Agha and Lawson (2007).
The promotion of policy changes (e.g. public service reforms in Ghana) should be delinked from disbursement decisions, based on good information (including about the likely implementation difficulties) and carried out publicly. In this way, it can contribute to the formation of public opinion (by no means a minor factor in the Ghana case) as well as to the government’s accountability for its actions to citizens of the country. It should not be concluded that there is no alternative until this option has been at least put to the test.

Can we manage the political fragility of budget support?

If the argument above is right, there are alternatives, both to the excessive use of common funds and to the return to conditionality, leaving us to question why these are not adopted. It is less easy to be firm about the way donors should handle the final issue to be considered in Part 1, namely what happens when, in the middle of an agreement, the government does something that seems to infringe the underlying or “fundamental” conditions for the provision of aid. Scenarios of this kind materialised in close succession in Ethiopia and Uganda in 2005, and again in Nicaragua in 2007.

Fundamental conditions are normally specified in fairly broad terms in a Memorandum of Understanding or protocol signed by the government and the various contributing donors when a GBS programme is being set up. These kinds of conditions are not normally considered sufficiently specifiable for inclusion in the programme’s monitoring matrix or Performance Assessment Framework. They are usually focused on respect for human rights and democratic principles, but may also touch upon the government’s basic policy stance in regard to macroeconomic stability and poverty reduction (SPA, 2008). Donors tend to think that the relevant events are easy to identify when they happen, but governments typically maintain that such judgements are bound to be arbitrary.

Decisions to withdraw budget support or redirect it at fairly short notice can and do occur when fundamental conditions are deemed to have been infringed, even in countries where donors have turned in a major way to this modality and have been making fairly firm multi-year commitments. This happens because of local political dynamics over which donors have little apparent influence. Withdrawal has major costs in terms of exactly the institution-building contributions on the basis of which programmes are partly justified.

Typically, the decision involves major ructions within the agency making it, for the good reason that both of the possible options have strong arguments in their favour and against the alternative. Curtailing the programme is said to be essential because voters in the donor country will not stand for direct support to a government that is, for example, shooting protesters or illegally harassing the leader of the opposition. Maintaining the programme despite these short-term events might detract from observance of the fundamental principles in the future. On the other hand, it might not. Governments come and go, and their actions in the political sphere show no regular relationship with donor threats or sanctions. Furthermore, maintaining the programme, while expressing an appropriate level of disapproval, is the only path consistent with the purpose of giving budget support, namely to provide funding.
consistently, predictably and in a way that makes a long-term contribution to building systems of a country.

Both of the advocated options have been pursued in different cases, with the corresponding drawbacks. However, some agencies have begun to map out a middle way, in the form of a graduated response that takes the aid relationship through a series of fully reversible steps in the direction of complete withdrawal over a period of time. The aim is to avoid the kind of all-or-nothing response that has proven so damaging to GBS programmes and the reputation of the GBS approach in several countries. The 2006 SPA budget support survey report gives some details on how this was applied in Ethiopia (SPA, 2007, Vol II: 39). On similar lines, the OECD DAC’s “Principles for Good International Engagement in Fragile States and Situations” (2007c) incorporates injunctions against within-year budget cuts in anything but the most serious situations, and calls for a consistent focus on key state-building tasks. Thus, even in circumstances where the state is failing and country systems are no longer usable, donors should avoid ways of delivering support that undermine national institution-building, such as setting up parallel systems that are likely to become permanent.

These efforts to make donor behaviour more consistent with the principles behind

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**Box 1.5: Preparing better for when the politics goes wrong**

GBS is favoured by donors as a modality that helps to strengthen country systems and reinforce country ownership of development efforts. At the same time, however, it provides substantial and flexible support to the incumbent government, and is therefore seen by the international community as providing a strong “political endorsement” to those in power. GBS is valued as a source of long-term, predictable funding for the provision of core public services, as well as an avenue to maintain high-level policy dialogue with government counterparts. Yet it is also the type of aid that is most easy to cancel or reduce at short notice. Given these characteristics, donors face important dilemmas in countries where the political situation deteriorates and agreed governance standards are violated as the regime struggles to survive. When political conditions worsen, reducing or delaying GBS disbursements is the easiest donor response, but one that is sharply inconsistent with long-term purposes of GBS as a modality.

Such knee-jerk responses are also likely to belong to the “too little, too late” category. They do not provide any strong incentive for recipient governments to respect agreed governance standards. They are adopted because the underlying “political” conditions for the provision of GBS are seldom spelt out in specific terms in advance, indicating possible problem areas, intended donor responses in the event of a crisis, and mechanisms for dispute resolution. While this is understandable in view of the sensitive nature of the issues, it has unfortunate effects. It favours an “ostrich” attitude, where both donors and the government deny (at least publicly) the existence of a problem until it is too late to do anything about it.

Fuller negotiations on the political underpinnings of a GBS agreement, with a clearer indication in the resulting Memorandum of Understanding of the criteria for withholding funding, as well as the other possible response mechanisms, would have important benefits. Particularly if the agreement were publicly disseminated, it would force the donors to make a transparent joint assessment of the governance situation which could be more easily defended against accusations of arbitrariness. It would also provide a clearer signal to government of how governance issues will be addressed in the aid relationship. While this cannot be expected to make a major difference to its behaviour (political conditionality is generally ineffective), it could moderate it at the margin in a way that might favour the continuity of funding flows.

the new aid-modality thinking, and to keep it consistent even when things go wrong, have an important place in current policy thinking. However, they clearly do not go far enough. In particular, they rest too exclusively on manipulating volumes and channels of disbursement of funds, and not enough preparatory or preemptive dialogue. Box 1.5 suggests ways in which the risks and damage might be reduced by donors’ involving themselves in early discussions, preferably of a relatively public kind, on the political underpinnings of the budget support agreement.

We leave for consideration in Part 2 what actions donors might take outside the framework of the budget support agreement to reduce the likelihood of political setbacks of this type. Clearly, however, these issues are linked.

1.3 Getting more coherent practice: aid reform as political economy

The issues discussed in the last section represent the leading edge of thinking about aid modalities. The donor agencies that stand accused of inconsistency on common baskets and conditionality are among those which have been most responsive to the critique of traditional aid delivery methods. Another substantial group of donors is involved little or not at all in Programme-Based Approaches in the sense that their delivery modalities follow an agreed set of common procedures with the recipient government providing a lead and some guidelines. That is, they continue to engage primarily through projects and programmes that they manage in parallel with official systems, in practice if not in formal legal terms. Thus, the challenge facing the official aid community is not just to correct the addiction to ineffective half-measures still shown by the more progressive agencies. It is to move forward the whole field of donor practices towards the final goal – reducing to a minimum the institutional harm done by aid.

This is, in a sense, what the Paris Declaration is about. The lagging donors within the OECD DAC group – the Americans, the Japanese and the global initiatives most importantly – are now under some pressure to change their ways of working, since at ministerial level they have committed themselves to the Paris Declaration, which sets targets for reducing parallel Project Management Units, increasing use of country systems and accepting Programme-Based Approaches. The Declaration commits all donors to make positive headway in aligning with country policies and using country systems in all aid to the government sector, regardless of the modality of assistance.

There are many questions about what exactly this means. Doubts remain about the genuineness of the commitment of some of the donor signatories of the Paris Declaration, particularly those that remain hostile to direct budget support. The problem is not just that they may be disinclined to merge their procedures with those of other donors and make greater use of country systems for legal and bureaucratic reasons. It is that the practicalities of doing so with modalities other than budget support are daunting. As already noted, although in principle “projects” can be a

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5 The non-DAC donors including large new players such as China represent an important topic of discussion but not one we can address here (cf. Manning, 2006).
mainstream instrument of public planning, the main raison d'être of the project modality in poor developing countries is avoidance of official systems. It is the established ways of doing things in the government sector in those countries that is the problem. In that type of context, the practical obstacles to providing projectised assistance without hiring non-civil-service managers, setting up separate offices and following donor accounting conventions, are enormous.

There are going to be useful amounts of quantitative and qualitative data with which to reflect on some of these issues during the coming years. The Paris Declaration is being followed up with a biennial monitoring survey as well as a round of country- and agency-focused evaluation exercises. Unfortunately, the Baseline Survey carried out in 2006 on the 2005 state of affairs is inconclusive about several of the 12 monitoring indicators because the survey guidance gave too much freedom to respondents to define their own terms. On the other hand, as the survey report explains (OECD, 2007a), the ways in which respondents used this freedom provides fairly clear evidence on some things. For example, it is clear that the moral climate has moved in favour of country ownership and aid alignment – perhaps too quickly and without a sufficient change in real convictions and organisational incentives. Donor respondents seem often to have been more concerned about portraying their agency’s practices as “politically correct” than about setting an accurate baseline against which to judge future efforts.

The survey report also contains one robust finding which can help to introduce the argument with which we want to end Part 1 of this report. This concerns the relative importance of recipient-side and donor-side obstacles to improvement of the aid relationship. Donors tend to justify their bypassing of country systems of public financial management (PFM) and procurement by pointing to weaknesses in those systems that make them unreliable. This is quite plausible. For this reason, the agreed Paris Declaration targets for utilisation of country PFM and procurement systems are conditional upon the systems’ attaining a certain level of reliability. However, according to the Baseline Survey results, the index of country system usage varies enormously between donors, and is not correlated at all with the best measure we have of the quality of those systems, the World Bank’s CPIA rating for budget and financial management.

We do not underestimate the general importance of recipient-side obstacles to aid reform. In fact, the whole discussion in Part 2 of this report makes the case for giving them greater recognition. However, this finding from the Paris survey is a salutary reminder that donor behaviour is an independent factor in the vicious circles of aid ineffectiveness and not just a response to weaknesses on the recipient side. In turn, this points to the incentive structure on the donor side of the aid relationship as a crucial focus for reform.

**Managing the donor-side political economy of aid**

The need to address the incentives within donor organisations which set up barriers to more aligned and harmonised aid delivery is recognised in a clear but unfortunately rather narrow way by Commitment 36 of the Paris Declaration. This is a joint commitment by both donors and partner countries which calls for the reform of procedures and strengthening of incentives for management and staff – “including
for recruitment, appraisal and training” – to encourage more collaborative behaviour (HLF, 2005: 5). Organisational changes of this sort are certainly worth having. Agencies such as Sida and DFID have taken steps to reform their staffing procedures so that harmonised and collaborative working are better rewarded internally (de Renzio, 2005). However, internal organisational issues are only a part of the donor-side political economy of aid, and possibly only a minor part.

From our own analysis in Part 1, it is clear that several of the more troublesome donor practices – addiction to parallel project management, half-measures in the use of country systems with a view to risk-reduction, and spurious uses of conditionality to maintain control – have a much deeper source than staff incentives. In the case of the bilateral agencies and the EC, they stem from the fact that these are politically led organisations. It is undeniable, and generally recognised within the agencies, that the reason why they cannot always do the right thing is because the Minister could not defend such a position in parliament. National aid agencies in democracies are, in this view, inherently committed to visibility (planting their national flags on projects), risk minimisation (do not do anything that could compromise the reputation of the aid programme) and creating illusions of control (the money is safe because we have specified disbursement conditionalities).

A modest amount of research into donor-side incentives for harmonisation and alignment was commissioned by the DAC Task Force on the subject during the preparation of the Paris Declaration (ibid.). This confirmed the importance of the political level in the hierarchy of relevant incentive issues. However, perhaps for this reason the further work that would have been needed to deal with the issues in greater depth and draw more strategic conclusions has not been commissioned. Only the World Bank (on the initiative of the Operations Policy and Country Services Vice-Presidency) has seen fit to expose itself to further scrutiny of this sort (Coyle and Lawson, 2006). This is regrettable. It reflects the tendency among senior managers in development agencies to accept a role for political-economy analysis so long as it is being applied to someone else, but to draw a line around the political economy of their own decisions.

It does not have to be this way. As agencies are intelligent, learning organisations, they must be capable of self-analysis and of incorporating the management of their own incentive structures into their organisational mandate. To its credit, Sida commissioned an evaluation study a few years ago in which Elinor Ostrom and a team of specialists in the political economy of decisions and collective action placed the spotlight on the incentives surrounding the issue of sustainability in project aid. This study and the subsequent book (Ostrom et al., 2002; Gibson et al., 2005) have shown the potential of this type of analysis to provide understanding that agencies could use to reform themselves and the main factors in their decision making – the preferences of the parliaments and publics to which they are accountable.

As we shall have reason to say again at the end of Part 2, this is the biggest and most important challenge that progressive donors and their political masters face as we move towards the end of the first decade of the 21st century. Do they have the courage to engage in serious self-analysis and follow this up with the necessary action to transform the parameters within which they work?
Part 2: Improving governance for development: how to engage?

Part 1 of this report has focused on choice of aid modalities. We have argued that in several respects – some obvious and some not – aid practice is out of line with the principles that donor agencies have espoused. Even progressive agencies are tending to do the safe thing, rather than the right thing. This indecisiveness is going to damage the ability of some aid-dependent countries to achieve development and the MDGs. However, it has deep roots. It will only change if the agencies are prepared to take greater responsibility for managing, and beginning to change, the incentives and political pressures that constrain their decisions.

Without leaving those concerns behind, we now shift the focus to the other element of the country ownership issue: how to improve governance in aid-recipient countries. New ways of delivering and managing aid can limit the damage done by inappropriate aid. But the prospects of aid being really effective depend on domestic conditions, especially systems of governance. Furthermore, the consistent adoption of progressive thinking on aid modalities would, if it could be achieved, place the spotlight on the political governance of countries in additional ways. It would increase the stakes for both donors and recipients if and when relationships become soured by some high-profile event, as discussed at the end of Section 1.2.

As noted in Part 1, there are two preconditions for general budget support to be optimally effective that are typically missing. One is a sufficiently decisive commitment to new ways of working by the country’s donors. The other is a wholehearted commitment by the authorities to taking charge of the country’s development. That includes not just meeting basic standards on financial accountability and human rights, but also a willingness to impose the disciplines on ministers and senior officials that are needed to bring donor funding fully into the mainstream of policy making and budgeting.

It follows that donors need to be concerned both about reforming their own behaviour and about the ability of countries to assume their part in realising the vision of country-owned development. The next question is what this implies. Can donors play a useful part in improving country governance, and if so how?

We have been arguing that in delivering financial aid, donors need to “back off” in some respects. They should stop trying to get guarantees and maintain control by imposing detailed policy conditionalities and/or attempting to ring-fence their funds. Instead, they should make greater efforts to engage intellectually and inform the climate of public thinking on the issues. We think this applies equally to donor engagement with country governance.

A rather widespread interpretation of the Paris Declaration is that it implies donors’ becoming almost exclusively concerned with disbursing funds for service delivery or infrastructure investments, leaving everything else to the country authorities. This is a false interpretation. Progressive thinking on budget support leaves a large place for active engagement by donors, in the forms of policy dialogue and technical assistance. It merely demands that the engagement is not based on forms of
financial leverage that inhibit the development of country systems and have been shown not to work. With respect to governance and politics, it could be argued that the Declaration does require a fully “hands-off” approach, since it is partner countries, not countries and donors jointly, that make the main commitments on governance, results orientation and development leadership. But that would not be a tenable position or a responsible one. It implies not only that countries are capable of solving all of the institutional problems they face without external stimulus, but also that the aid business has no responsibility for the current state of governance in aid-dependent countries.

We cannot permit ourselves the luxury of asking whether or not donors should be engaged in the political affairs of partner countries. They are engaged already – even, one might say, complicit – as de facto financial underwriters of the political regime of the day. It is irresponsible to overlook this fact, which applies as much to funders of public-sector projects as to budget support donors, it should be noted. The interesting questions, therefore, are about how to engage, how to do it better and what experience tells us about these matters.

Our starting point is that, like policy dialogue around budget support, donor governance work needs to be a) intelligent and informed, b) offered as a contribution to the intellectual or ideological life of the country, and c) delinked from unrealistic attempts to secure fiduciary guarantees or “cover the back” of the agency head. Part 2 as a whole asks the question: are donors well placed to deliver governance work that meets these criteria?

Like Part 1, Part 2 draws on syntheses of existing knowledge and smaller amounts of new research. Six workpackages have been completed, covering the new science of governance assessment; donor support to democratisation and anti-corruption efforts; the politics of public-sector reform; the role of the African Peer Review Mechanism; and engagement in the political-economy of reform at sector level. The discussion falls into three sections. In turn, we discuss:

- the growth of donor interest in assessing country governance, and the degree to which this stems from and contributes to intelligent and informed engagement;
- the need for more systematic learning about “what works” when donors support specific governance interventions; and
- the potential of an approach to African governance that involves i) a better understanding of the issues, ii) a stronger regional dimension and ii) more active involvement in enabling specific institutional transformations.

### 2.1 Governance assessment: purposes and pitfalls

*The rise and rationale of donor interest in governance*

Donor interest in governance is not new. However, there is a sense in which much of the investment that donors have made in governance in the past belongs to the prehistory of the matter. It was not meant to address the problem we face today, that of helping to create conditions in which countries can assume leadership or
ownership of their development efforts. Instead, it was either narrowly concerned with strengthening particular institutions, or bound up with aid disbursement or allocation decisions.

Donor country programmes have included institutional strengthening projects in quite large numbers for more than two decades. For some time, the main instruments of governance work were projects and programmes providing technical assistance and funding for the reform of particular organisations or sectors of activity. To a greater or lesser extent, evaluations of these initiatives concluded that they suffered from the limitations associated with projects in general – at best they produced islands of excellence within a sea of mediocrity, and at worst they failed to achieve their objectives because the institutional environment was unfavourable.

On the other hand, towards the end of the 1980s the World Bank and other donors became actively interested in the comprehensive promotion of “good governance”. This was in part a direct response to the realisation that the policy conditionality associated with what was then called Adjustment Lending was ineffective because of systemic features of the governance environment. Although the Bank is restricted by its mandate from direct involvement in politics, a few bilaterals were encouraged to adopt political conditionality, treating the adoption of multi-party systems or the rule of law in the same kind of manner as macro-economic stabilisation or privatisation. In due course, the Bank itself found a way around the problem by beginning to use its country institutional assessment tool, the CPIA, as an input to the allocation formula for its concessional (IDA) funds. In other words, its interest in governance was linked to selectivity rather than conditionality.

In various ways, we suggest, early donor governance work was tainted by its origins and the purposes it was expected to fulfill. As discussed in Part 1, the thinking behind today’s direct budget support programmes is founded on research evidence showing that ex ante policy conditionality is a blunt instrument – quite good for forcing certain basic changes but ineffective in securing complex reforms. This finding applies no less strongly to the subclass of policy conditionality known as political conditionality (we will support you if you democratise, etc.). We do not see any case for reverting to ex ante political conditionality, which is different from whether donors should be permitted set of political “bottom lines” or fundamental conditions of the sort discussed in Section 1.2. Nor do we think an argument has been established for allocating total aid selectively between countries on the basis of the quality of their governance. This conflicts too much with allocation in terms of poverty-reduction needs. For these reasons, one of the things that interest us in Part 2 is the degree to which donor work on governance has moved on from conditionality and selectivity concerns.

Over the past ten years, donor interest in governance has become progressively more intense and focused, with a greater recognition of the importance and difficulty of simply understanding the way political systems work in developing countries. Indicative of this is that from the late 1990s onwards Governance Advisers in agencies like the UK’s DFID were political scientists, not accountants or organisational-change specialists. They developed a work programme that was

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6 One of the few points on which we would differ with Collier (2007).
largely disconnected from disbursement decisions. In this context, country offices were encouraged to undertake special studies, as part of their regular planning cycles, to develop their understanding of the country context, including structures of power and "drivers of change" (COWI and IDS, 2005).

Today, governance is on the agenda of the international aid community as never before. In 2006 and 2007, a number of major donor agencies adopted new governance (or governance and anti-corruption) strategies. Among them were two of the largest donors, the World Bank and the European Commission. Other donors that have recently adopted new strategies or revised existing ones include UNDP, France, the UK and the US. This new level of policy engagement with governance – which includes the concern with (re-)building the political and administrative structures of fragile states (Cammack et al., 2006; François and Sud, 2006) – is reflected in, among other things, an active work programme at the OECD DAC’s Governance Network (Govnet).

In this context, donors are putting increasing emphasis on the development of quantitative and qualitative assessments of the quality of countries’ governance. The European Commission now prepares Governance Profiles for all its main partner countries; the World Bank is piloting a Governance and Anti-Corruption Assessment instrument; DFID is producing Country Governance Analyses (CGAs); the Netherlands are implementing Strategic Governance and Anti-Corruption Assessments, and CIDA is developing its own assessment framework. This may seem all to the good. However, there remain some large uncertainties about whether all of the interest in governance monitoring and assessment is well directed from the point of view that interests this report.

Some of the doubts derive from the fact that the new strategies and tools have arisen in response to particular conjunctural problems which have prompted high-profile concerns within donor countries – corruption scandals in the aid business, and fragile states as a source of global insecurity. Others have to do with the specific mix of motives driving the initiatives and how this influences the character and the usefulness of their products. In particular, there are reasons for thinking that the urge to measure or otherwise assess governance in developing countries has been running ahead of the level of collective understanding of the links between governance variables and effective development.

The new wave of governance assessments

The current generation of donor governance assessment instruments is a rather mixed bag. Quite often the same instrument is expected to serve more than one purpose, and the principal purpose is not entirely clear. Some instruments are concerned with the generation or the use of standardised quantitative measures, while others undertake more qualitative analysis or attempt to combine the two.

In principle, the type of analysis should correspond to the purpose. Ratings of countries have been developed at the World Bank Institute and elsewhere partly for the purposes of cross-country statistical research. Ratings and rankings are also used by some donors in making aid allocation decisions. This is the role of the World
Bank’s CPIA. The US government’s Millennium Challenge Account provides another example. Qualitative assessments, in contrast, are more likely to be useful for informing the design of country-level aid strategies. Arguably, they do this job best when they are free to adopt a non-standardised and more analytical (political economy) approach – as in, for example, DFID’s first generation Drivers of Change studies. However, the recent tendency has been to adopt mixed methods, partly on the grounds that this is less resource-intensive and puts less of a burden on the partner country.

Thus, DFID’s CGA is meant to draw entirely on existing assessments, using a range of specified indices. The EC’s profiles – like the Bank’s CPIA – seek to rate countries based on the assessment of the donor’s country teams. The World Bank now intends to combine a desk-based review of the general governance situation with an inquiry into the political economy of the key sectors in which it operates. The Netherlands are implementing more qualitative, “quick scan” assessments. USAID’s Corruption Assessments are expected to be quite rigorously standardised (USAID, 2006).

In all of these cases, the impulse to get a better understanding of the country’s governance system in order to improve country-level operational work has become mixed up with senior management concerns with justifying aid allocations to ministers and other Northern constituencies, and for covering ministers’ backs when things go wrong. In other words, the new wave of governance assessments are driven by rather old-fashioned donor preoccupations. Some of the growth of interest in understanding governance appears to have been dissipated as a consequence.

The greater use of standard governance indicators also entails risks of its own. If those involved in measuring governance get it wrong – that is, do not measure what they purport to measure, and/or rate a country wrongly against a valid benchmark – they can create quite powerful misperceptions, and even trigger misleading conclusions about wider issues. Governance ratings are still a relatively young “industry” and one that is evolving fast by learning from initial mistakes. Users need to be duly aware of the methodological uncertainties, and interpret ratings and rankings with extreme care. However, that is not always the case. Neither those undertaking the ratings nor those using them to justify decisions have a strong incentive to encourage careful interpretation.

A workpackage of the research project for ABIA (Court et al., 2007) reviewed the most influential of the available governance indices (summarised in Box 2.1), examining some of their strengths and pitfalls.

7 The World Bank Institute publishes one of the most widely used sets of indices – the World Governance Indicators. However, with the production of the data being based in the WBI, there is an arms-length relationship with the policy and operational work of the World Bank. In contrast, the CPIA is generated within the Bank and used to determine aid allocations among low-income (IDA) countries.
A whole literature has emerged criticising the various indicators (Arndt and Oman, 2006; Thomas, 2007). Among the major methodological problems identified, one of the most important is that aggregate governance ratings tend to draw on each other (Knack, 2006). One consequence is that indices may pick up changes only with considerable time lags. Another problem is the “margins of error” that arise in the context of aggregate indicators. Margins of error measure the uncertainty of the ratings and are expressed as a range – thus, a country that is rated 3.5 on Transparency International’s CPI may have a margin of error ranging from 2.3 to 4.1, depending on the number of underlying indices that the aggregate draws on, and the degree to which these give a more uniform or diverse picture. As the number of underlying indices per country grows, this problem diminishes.

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8 Consequently, larger and more open countries, for which many indices are available (e.g. India), tend to have narrower margins than those for which only few indices are available and for which these are more contradictory (e.g. Cuba).
A deeper problem, that has begun to attract more attention, is that the definition of concepts – and hence the validity of indicators – is not always sufficiently clear (Thomas, 2007). For example, the World Bank Institute’s WGI indicator for “voice and accountability” really measures political freedom (or the potential for voice) rather than accountability, in the sense of the degree to which a government is actually accountable to citizens. As Thomas (2007: 10-11) has pointed out, the WGI exercise fails to establish any clear links between its terminology and the conceptual social science literature on important governance aspects such as the rule of law or “voice”. In principle, the designers of such indices should go back to the drawing board and develop conceptually better defined and rooted indices. However, there is a very understandable reluctance to do so, as any major methodological adjustment means that already existing data can no longer be used to track changes over time. Needless to say, admitting the need for such a change would also threaten the validity of existing research about the drivers and effects of governance.

This discussion has focused on the more technical issues that have arisen in the debate about governance measures. There are also deeper and possibly more serious questions about whether the right things are being measured. Running alongside the discussion about the indicators, there is growing debate about a number of surprisingly basic issues concerning the ways in which good governance matters for development.

*In what ways does governance matter?*

First, there is controversy about exactly how good governance matters, or what matters about it at what stage in the development process. We may be committed to democracy as an intrinsic good, or regard it as so closely linked to our concept of human well-being as to be indissoluble from the meaning of development, in the manner of Sen (1999). Specific areas of governance are also the subject of internationally endorsed human-rights standards (e.g., slavery, imprisonment without trial). However, it remains unclear which parts of the good-governance agenda are important for these kinds of reasons and which are important also because they are proven preconditions for economic and social progress.

A growing body of quantitatively based research explores whether governance matters for development (Rodrik, 2004; Khan, 2006; Dervis, 2006). Kaufmann et al. (1999; 2002) find that the six dimensions of governance quality which they have measured are positively associated with per capita incomes and adult literacy and negatively associated with infant mortality. According to Knack and Keefer (1995), better governance is positively associated with improved investment and growth rates. Mauro (1995) finds that the efficiency of the bureaucracy (among other issues) has been associated with better rates of investment and growth, whereas corruption was negatively related to these. Chong and Calderon (2000) conclude that good governance contributes to strong economic performance (and also results from it). As McGillivray et al. (2005) observe, a number of studies find that better governance can help to make aid more effective in promoting development.

It appears that the majority of quantitative studies looking at possible links between governance and development find that improved governance has a significant and
positive impact. Therefore, the general case that good governance/good institutions are important for development appears rather solid. However, there are two important limitations to this literature. One is that the indicators used for the governance variables are still rather vague, and/or measure only specific dimensions. These nuances are at times lost in the broad claims that are made about the findings. Secondly, the literature has focused on whether some form of measured improvements in governance are associated with stronger growth and/or higher incomes. Such analyses provide few insights into the pathways towards better governance and the payoffs which various kinds of governance improvements may bring at different stages.

The finding that “good governance” or “good institutions” are associated with development success has been taken as a rationale for promoting a wide range of reforms, covering public financial management, property rights, political regimes and institutions, and public administration. However, much of this effort is based on a rather slim evidence base.

There are still many open questions about what types of institutions and institutional change “work” for development and hence should be advocated and supported by donors (Grindle, 2002a, 2007; Khan, 2006; Gray, 2007). The period of liberal-democratic euphoria that followed the end of the Cold War, in which it was easy to assume that democracy and market-based economic progress were inevitable allies, is now over. In this context, there have been efforts to re-situate narrowly ideological policy debates about improving governance within the conceptually more rigorous and more evidence-based framework of academic studies of state formation (Fritz and Rocha Menocal, 2007a).

China and Vietnam have emerged as important examples in this debate. Both have a number of governance dimensions that are widely designated as “bad”: authoritarian political regimes; considerable-to-high levels of corruption; somewhat insecure property rights, and a rather underdeveloped rule of law. Nonetheless, both economies have grown rapidly in recent years, have brought millions of people out of poverty, and have managed to operate education and health-care services for large populations, despite low average per-capita incomes. In addition, Vietnam in particular has become a star of government-led aid coordination (OECD, 2007a).

Based on such evidence, Rodrik (2004) has pointed out that, while we know that institutions matter, we know much less about what types of institutions matter most. Khan (2006) has emphasised that it is necessary to make additional conceptual distinctions, and to differentiate more clearly between very poor and middle-income developing countries. What countries at low levels of development may need are “growth enhancing” institutions, as distinct from “market enhancing” ones. He argues that the complex legal rules and strong enforcement mechanisms needed to implement the full range of market-enhancing institutions (lawyers highly trained in complex economic matters; effective court and penal systems) are too costly for very poor countries. Instead he sees political stability and the capacity of the state to

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9 An aspect of this is a critique of the donors’ “fragile state” concept, one that disentangles the different and not necessarily related dimensions of state weakness and failure, and replaces the special category of state fragility with a more multi-dimensional analysis of state trajectories (Fritz and Rocha Menocal, 2007b).
manage property rights’ re-allocations in ways that assist productivity growth as the critical governance “assets” that enable poor countries to catch up. These are governance capacities typically associated with successful “developmental states” (Fritz and Rocha Menocal 2007).

Ha-Joon Chang has attacked the “good governance” agenda even more forcefully, in his book Kicking away the Ladder (2002) and subsequent work (e.g. 2007). Chang demonstrates that the reforms typically recommended by donors do not allow aid recipients to make use of the economically protectionist and politically authoritarian practices that the donor countries themselves employed at an equivalent stage in their development. They may thus hinder rather than promote development.

Considering again China and Vietnam, some governance factors clearly matter a great deal regardless of context. Successful economies do need a degree of political stability, and a reasonably effective government, as well as – crucially – one that is committed to its country’s development. Effectiveness is not enough, however, as another example from Asia illustrates. North Korea clearly has an effective government in the sense of being able to impose rules on its population. However, in contrast to Vietnam or China, the commitment to use this capacity for economic and social development is apparently absent, with deplorable effects. Moreover, while a number of successful countries have not followed the full “governance textbook” at the beginning, they have certainly adopted selected institutional reforms over time.

The combination of political stability and commitment to development is also evident in Botswana, one of the few established African success stories. Mauritius, the second successful case in the sub-Saharan region, has also been stable as well as democratic since independence. More generally, while some Asian countries had developmental authoritarian regimes for some time, in Africa the developmental track record of authoritarian regimes has been particularly poor. Thus, as discussed further on with reference to democratisation in particular, the relationship between state effectiveness and types of political system is not captured in any simple generalisations.

Given these various uncertainties about what matters as well as about pathways and sequences, donors may want to be considerably more cautious than previously about advocating specific institutional packages. Creating and sustaining institutions is costly, and, especially in very poor countries, trade-offs need to be assessed carefully with a view to getting to the next “platform” of development rather than trying to achieve international best practice in short order. So, what countries need from donors may be restricted to help in figuring out what kinds of governance reforms they need at the particular point they have reached in their development.

This may be quite a tall order, since the evidence reviewed for the project does not confirm that donors are good at learning from their own experience. This is the subject of the next section.
2.2 Supporting governance reform: what works?

As governance is an umbrella term, what are termed “governance projects” can be quite diverse. However, the workpackages commissioned for the present study (Rakner et al., 2007; Kolstad et al., 2008) restricted themselves to just two areas, democracy and anti-corruption. In both cases, the brief was to examine the available published and grey literature, and to establish what the experience of donor support to these areas of governance seems to show about “what works” and what does not. As explained in this section, the findings indicate that, despite the broad range of activities supported over an extended period, we have as yet surprisingly little systematic knowledge about what works either to improve the quality of democracy or to control corruption.

This is not an altogether surprising finding in view of what is generally known about donor policies in the governance area. For example, decentralisation has been promoted for a considerable time without very clear agreement about the conditions under which it is likely – or not – to lead to functioning systems of local and central government, and about whether and how it can contribute to wider goals such as greater accountability, greater responsiveness and better local development (Crook, 2003; Ndegwa and Levy, 2004; Jütting et al., 2004; Olowu, 2003). At a more technical level, different donors and even branches of the same donor agency can be at odds over the type of inter-governmental relations and divisions of responsibilities to be advocated. Thus, while democracy promoters tend to seek greater decentralisation, health or education sector specialists often prefer a more centralised or even “re-centralised” approach to policy making and expenditure management in order to improve sector-wide planning (Wunsch, 2001; Steiner-Khamsi and Stolpe, 2004).

Similar issues arise for other types of public sector interventions. Public financial management reforms have attracted considerable attention in recent years. Donors have promoted them as part of the effort to shift more aid towards budget support. However, relatively little is yet understood about what makes reforms more or less likely to work in different countries, and what determines in which areas progress is made (IDA and IMF, 2005). Civil service reform, in particular, has remained a notoriously difficult area in which to achieve sustained reform (Polidano, 2001). Yet donors have been reluctant to discuss what they have learned from the repeated failures in this area, which has impeded the search for more viable, including politically more “attuned” kinds of reforms (Shepherd, 2004). In short, neither democracy support nor anti-corruption work should be singled out as particularly ignominious examples of failure to learn from experience.

What works in democracy support

Many attempts at democratisation since the 1980s in Africa, Latin America and other areas of the developing world (during the so-called “Third Wave”) have resulted in uncertain democratic regimes. While multi-party elections have become increasingly common, many regimes combine rhetorical acceptance of liberal democracy, the existence of some formal democratic institutions and respect for a limited sphere of civil and political liberties, with illiberal or even authoritarian traits. A large number of poor countries currently have “hybrid” political regimes, rather than fully fledged...
democratic ones (Villalon and von Doepp, 2005). The biggest challenges are around how to make democratic systems work well and to generate real accountability.

An additional problem is that many “hybrid regimes” sit at the heart of weak and ineffective states. In many developing countries, democratic reforms are being pursued alongside broader state-building efforts. This implies some particular challenges that have not always been properly appreciated (Box 2.2). Often, therefore, the central challenge for international democratisation assistance is how to support the stabilisation and deepening of democratic regimes, prevent political meltdowns or authoritarian reversals, and promote greater effectiveness of the state in ways that are compatible with democratic politics.

**Box 2.2: All good things do not necessarily go together**

The relationship between democratisation and improving other aspects of governance can sometimes be complex. The good governance agenda tends to assume that “all good things go together”, yet, to some degree, democratisation and state-building pull in opposite directions. For instance, democratisation often entails establishing checks and balances, and diffusing power more evenly across a greater number of actors both within and outside government. Strengthening state capacity, on the other hand, may call for greater state autonomy and a centralisation of power. In addition, while both stability and change are valid donor objectives, the tensions between these two aims need to be more explicitly recognised within the democracy assistance agenda.

It is also worth noting that current thinking and international discussions on democratisation in the developing world seem to be based on the assumption that today’s emerging democracies are being built on the foundations of coherent, functioning states. In reality, many of the countries stuck in incomplete democratisation processes are not only trying to democratisate but also more fundamentally to build capable states. As Carothers (2002) has argued, to the extent that international democracy assistance has considered the possibility of state-building as part of the democratisation process, it has too easily assumed that the fostering of democracy and state-building are one and the same thing. Many of these states are also not yet “nations” either, so a nation-building agenda may also be needed.

The conflation of these processes can be problematic. Choices have to be made and these often have implications that may not be immediately apparent. One of the central challenges for donors therefore is for them to become more fully aware of the fact that, when they make choices regarding which forms of democracy assistance to support, they also need to take into consideration other aspects of good governance and state-building more broadly which may and may not combine with democratisation efforts in a mutually reinforcing manner.

*Source: Rakner et al. (2007).*

Whether the international community is equipped to embrace these challenges successfully remains an open question. The desk study undertaken by Rakner et al. (2007) revealed that the evidence base on this subject is weak. The grey documents and empirical evaluations that were able to be consulted were of uneven quality. Few had been translated into academic articles and thus subjected to rigorous peer review. The degree of cross-referencing was also high.

On balance, external democracy promotion does not emerge as very successful even in its own terms. Nevertheless, nearly three decades of experience with democracy assistance have yielded many important lessons, offering significant opportunities to improve current practice, as summarised in Box 2.3.
These lessons reflect the range of recurrent problems uncovered by the research. Interventions are typically very fragmented. Donor financing of civil society is fraught with problems. And the focus on elections is still too dominant and too narrow. Unfinished democratisation processes can have negative spill-over effects for other dimensions of governance – especially corruption (via campaign financing and other channels). This has often been ignored by agencies dedicated to democracy promotion (see also Fukuyama 2005). Donor efforts to increase the transparency of policy-making processes or to facilitate the emergence of more programmatically based political parties have often remained rather half-hearted, and may at times miss the real incentives at work, such as maintaining a client base (Carothers, 2006; Randall 2007; Hudson and Wren, 2007). In view of these difficulties, a most significant finding is that evaluations of “what works” either have been missing altogether, or have been very piecemeal, reflecting the highly fragmented field of interventions.
**What works in anti-corruption**

Possibly an even bigger challenge is presented by donor-supported anti-corruption efforts. Corruption has been a central dimension of the recent governance debate and it is attracting increasing public attention. It is therefore, among other things, a crucial issue with regard to public support for the provision of aid and increasing the scale of aid budgets.

Donors have attempted to reduce corruption in their partner countries by supporting institutional reforms that increase accountability and transparency and reduce monopoly and discretion in the allocation and management of public resources. Direct anti-corruption measures have focused on strengthening state organisations that perform oversight functions (horizontal accountability). Donors have also assumed that broader governance reforms that improve other types of accountability relationships (vertical, societal and managerial) will have anti-corruption dividends. There is some evidence that in the fields of public financial management and procurement this is the case. However, the survey of some other typical interventions by Kolstad et al. (2008) suggests that establishing anti-corruption agencies and adopting new anti-corruption laws have had limited or no impact on levels of corruption in most cases (Tisne and Smilov, 2004; Heilbrunn, 2004; Doig et al., 2005).

Anti-corruption agencies cannot have an impact in highly corrupt environments, unless there is a very substantial political commitment (as there was in, e.g., Singapore and Hong Kong). Politicians who campaigned on an anti-corruption platform, such as Mwanawasa in Zambia in 2001 or Kibaki in Kenya in 2002, often disappoint expectations once elected to office – be it because the commitments were primarily an electoral strategy, or because maintaining political coalitions requires making concessions to rent seekers. Moreover, anti-corruption campaigns can have complex political-economy underpinnings and can be selective in their targeting of the political opposition, political predecessors or individual dissidents. We would argue that donors need to re-examine the assumptions underlying their approach to corruption (Box 2.4).

This analysis suggests that if donors are serious about wanting to reduce corruption, they need to modify their approach in three ways:

- They need to take seriously the mantra that politics and context matter by investing more in understanding what drives corruption at all levels and what works to reduce particular forms of corruption under different conditions. Programmes should then be designed accordingly.
- They need to think holistically and innovatively by broadening the current focus on formal institutional incentives for public officials. Both the “supply-side of corruption” (the offering of bribes) and the private sector governance environment have been neglected within the anti-corruption agenda.
- They should be more realistic by extending their time-horizons, accepting the limitations of external influence on domestic politics and giving more attention to the things that they can control. Tackling the global drivers of corruption should be a priority.
On the plus side, there are signs of incremental success in reducing corruption in some contexts. Some of the biggest improvements with regard to corruption have taken place in middle-income transition countries facing the huge incentive of joining the EU, although even there high-level corruption has often persisted (World Bank, 2006). In some cases, very targeted interventions, such as reducing corruption in customs clearance have also been quite successful. Even in low income countries, moreover, the picture is not all bleak. According to Afrobarometer public opinion surveys, in 8 out of 12 countries corruption among national government officials is perceived to have declined by more than 10 per cent between 2000 and 2005 (Bratton and Cho, 2006). Thus, positive change may be possible – but the challenge remains to understand better what types of policies and interventions are most conducive to such outcomes and how sustainable they are.

**Neglect of evaluation**

For a range of governance interventions, then, the gaps in knowledge about “what works” are substantial. Given the strong impetus now behind efforts to improve governance in developing countries, it is essential to narrow these knowledge gaps. This is likely to require several strands: further conceptual thinking, much more comprehensive monitoring and evaluation efforts, and the designing and piloting of new types of interventions.

Further conceptual thinking is needed, for example, to explore synergies and interactions. Some changes to governance may be possible “on their own” while others may only come to fruition once a range of things have begun to improve. For example, sustained reductions in corruption may require greater civic awareness, combined with strengthened institutions of control, combined with some maturity of...
democratic political institutions. Another crucial topic for further thinking is to integrate social and political-economy dimensions into governance approaches. These are especially important in order to understand how “good institutions” emerge, and are strengthened and sustained over time. The challenge is to find more and better ways for donors to engage with such underlying dimensions (Armon, 2007).

Comprehensive monitoring and evaluation efforts are important to improve the evidence base, and reduce the highly normative approach that has usually been taken in promoting governance reforms. At a basic level, efforts merely to catalogue the available options can be an important first step. For example, International IDEA has begun to catalogue electoral and election management systems and their suitability in very resource-constrained contexts. Similarly, the World Bank has started to build databases of various types of laws – anti-corruption laws, budget laws, and others. The U4 centre in Norway has become a useful hub for knowledge around anti-corruption. Cataloguing as such does not yet tell us what works, but it is an essential source of comparative information and can facilitate investigation.

Another important tool in improving our knowledge is systematic evaluation. Assessing the efficacy and impact of governance interventions is not easy, as anyone ever involved in relevant evaluations or in designing monitoring frameworks is aware. However, far too little has been tried, in particular with regard to undertaking more comprehensive and comparative work. Some important efforts in this direction have recently been initiated (EC, 2006; WB/IEG, 2006 and WB/IEG, forthcoming) but far more work is still needed.

Evaluations are essential to enable donors to spend money, time and effort more effectively. They can also help generate the kind of knowledge which reformers in developing countries need when they design and pursue strategies for reform. Moreover, they are important in order to avoid “doing harm” rather than good. Evaluations can help to give a more prominent profile to what people in developing countries think about what works and what further efforts to improve governance are needed. Their views may differ from those of donors, but they may have a much better sense of viable entry points and priorities for the country.

Last but not least, it is important to try new things, or try to do things differently – with less replication of standard remedies based on experience in other historical settings. More room needs to be created for heterodox approaches that resonate with the country context. It is still uncertain whether such better “attuned” interventions by development donors are possible, and what these would look like. However, trying out different options, and learning from such pilots, is going to be important in order to develop more effective governance interventions. This theme is picked up, with particular reference to low-income Africa in the next section.

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2.3 Engaging better in Africa

In Part 2 we are discussing how donors rise to the challenge of getting poor countries the kind of governance they need to take charge of their own development. We have now surveyed two issues bearing upon this subject: how donors currently assess governance, and learning from experience in two areas where donor support to governance reforms has been important. Our findings on these issues seem to confirm our opening argument that whether or not donors should engage with governance and politics in partner countries is hardly an issue, but that how they do so bears considerable discussion. Governance assessments should display more intellectual modesty and recognise how little we really know about some basic issues. Support to governance reforms needs to abandon some of its ideological certainties and pay more attention to learning from experience.

In this final section, we elaborate a bit further the theme that what progressive aid thinking requires is more intelligent engagement rooted in better understanding. We draw on three workpackages which share a focus on governance and institutional change in sub-Saharan Africa. The first illustrates how a useful engagement with public-sector reforms in the region depends on having an excellent understanding of the deeper political realities of a country. The second explores whether and in what senses governance improvement in Africa needs to follow a specifically African pathway. The third makes the case for increased donor activism in relation to a particular type of institutional change that has received less than its share of attention until now.

The case for focusing-in on Africa at this stage is easily made. General surveys of knowledge about developmental states, such as those cited in section 2.1, tend to stumble at the point when “lessons” world history have to be turned into prescriptions for the future in a different part of the world in a much transformed global context. Works such as Lockwood’s (2005) do an excellent job of marshalling the evidence that state-building is the missing link in the chain of conditions for Africa’s progress. However, it is clear that many of the problems in the institutional structures of African states, from a development point of view, are very challenging, for complex historical reasons. It is thus not so evident how anything resembling a developmental state might be built – through an effective form of developmental politics – under African conditions and in the global environment of the 21st century.

Getting inside neopatrimonial politics

A premise of mainstream political-science literature on sub-Saharan Africa is that states in the region are typically “neopatrimonial”. This means that they incorporate significant features of the patrimonial systems described by the sociologist Max Weber with reference to early modern Europe and Asia.

In purely patrimonial systems there is no distinction between the wealth of the state and that of the ruler, so that virtually all uses of state resources are legitimate. On

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11 Also, five years earlier, Killick and White (2001).
12 That is, not the global trade biases that NGO campaigners tend to stress, or even the unfavourable geographical conditions emphasised by Jeffrey Sachs (e.g. 2003).
the other hand, modern African states are not purely patrimonial. They have strong bureaucratic and even democratic features, underpinned by formal bodies of law and political constitutions. Neopatrimonial states are hybrid formations, in which the capture of state resources by private interests is blended in a contradictory mix with the formal application of constitutional, legal and bureaucratic rules.\footnote{Note that the concept of hybridity is used in this literature to refer to the intermediate character of the state, whereas in the literature reviewed earlier it refers to the incomplete character of democratic political systems.}

In the literature, neopatrimonial systems are said to be characterised by a set of specific features, the combined effect of which is antithetical to developmental leadership and effective state performance. Box 2.5 provides a summary.

**Box 2.5: Neopatrimonialism and development**

States are known as neopatrimonial where patrimonial practices and institutions are widespread and tend to dominate, or at least weaken, formal, legal-rational institutions. Such states are common in sub-Saharan Africa and other low-income regions. Although the individual cases differ in important ways, they do share a number of features. Common characteristics include:

- a weak separation of the public and private spheres;
- the private appropriation of public resources (corruption);
- a regular use of clientelism, nepotism, and other vertical exchange relationships to maintain power;
- weak cross-cutting horizontal interests and relationships;
- the zero-sum (winner-take-all) nature of politics;
- a concentration of power in an individual who stands above the law ("presidentialism");
- weakness of issue-based politics and political parties; and
- patron-client relations that are replicated at and link all levels of society.

Such states are generally poorly performing in developmental terms because the “logic” they follow is determined by the elite’s short-term interest in gaining and maintaining access to state resources, rather than by goals such as the development of the nation. Decisions that affect development are made by informal networks of influential people (though some of these may have formal positions in government). Implementation of any polices that threaten the elite’s ability to distribute favours to key supporters is likely to stall as a result. Public bureaucracies in such states are subject to tests of loyalty, and staff appointed and retained on merit face difficulties.

*Source: Cammack et al. (2007).*

The theoretical concept of neopatrimonialism has impressive explanatory power, as demonstrated particularly by Chabal and Daloz (1999) and van de Walle (2001).\footnote{For an overview of the topic, see Erdmann and Engle (2006).} It has been applied with illuminating results in country-specific Drivers of Change studies and Power Analyses for donors like DFID and Sida (e.g. Booth et al., 2005, 2006b). An important question, however, is how far this type of analysis takes us towards the more politically attuned governance work by donors that our research suggests is necessary. This is the question addressed in the research by Cammack et al. (2007) for the project. The research surveyed a wide literature on African neopatrimonialism and included short field studies in Malawi and Uganda.
In their report for the project, Cammack et al. (2007) show how it is necessary to understand the specific logic of policy-making within a neopatrimonial system in order to understand why donor-supported public-sector reforms work out in the way that they do. They show in detail how this applies to experience of local-government and democratic decentralisation in Malawi and Uganda (Box 2.6).

**Box 2.6: The neopatrimonial politics of democratic decentralisation in Uganda and Malawi**

Both Malawi and Uganda are neopatrimonial states, although differences can be discerned that stem from their history, and the nature of their leadership and society. Democratic decentralisation and local government processes in both countries have been affected by neopatrimonial politics in recent years.

In the 1990s in Uganda, President Museveni came under increasing pressure to institute multipartyism, and as he did he sought to win votes by abolishing Graduated Tax and creating many new districts. While the former served populist goals, arguably it undermined local government and efforts to make local councils more accountable to the public. Local “notables” and tribalists were pleased with the creation of new districts, from which they hoped to benefit politically and financially, but district creation was expensive and often unconstitutional, and the new districts have often been inefficient.

In Malawi, local government elections are overdue by more than two years because central government fears that opposition parties will use local assemblies as a base for undermining its power and as a springboard for winning the 2009 elections. Local power brokers (chiefs, district commissioners, party bosses, MPs etc.) have filled the gap left by the absence of legally constituted assemblies, so some services are being delivered (variably by district). However, gains in democratic accountability have been reversed.

We know that politics matters. The point here is the more specific one that, when developmental reforms – such as decentralisation, public sector restructuring, privatisation, etc – are being planned, it is vital that the deep structures underlying political and policy processes are considered and that the “logic”, interests, and networks that will influence implementation are identified.

*Source*: Cammack et al. (2007).

The study illustrates the general proposition that donors wishing to understand or predict the consequences of promoting a measure such as decentralisation need to be attuned to the political incentives that will influence its implementation (or non-implementation). This includes an appreciation of the general logic of neopatrimonial politics. However, the study also shows there is a need to understand the effects of the specific configuration of political forces in a country. Patrimonial logics do not always have the same consequences. This is why, for example, the outcome has been a chronically stalled decentralisation process in Malawi, and a steady increase in the number of district authorities in Uganda. In addition, the nature of neopatrimonialism puts a premium on understanding the particular history, inclinations and associations of the person at the top of the system, the “big man” (Box 2.7).

These findings represent a beginning, not an end. There is some useful literature on what types of political-economy configurations are more likely to generate successful reforms. For example, Robinson (2006) points to the role of committed elites empowering technocratic experts to pursue reforms, insulating them at least for some time from interest group pressures. However, our knowledge about what
generates positive changes, about variations in neopatrimonial structures across countries and about how donors might influence different political-economy constellations is still rather patchy (Armon, 2007).

Box 2.7: The “big man” syndrome and its relevance to development work

In western democracies, where the rule of law is strong; where watch-dog organisations, the media and the public monitor politicians; and where the political system provides checks and balances, leaders are not able to get away with much before being held to account. This is not true in states where these institutions are fragile or absent and where civil society is weak.

In many African states, leaders stand above the law. If threatening to become effective, watch-dog organisations – even if created by a constitution – will be under-funded and captured through presidential appointments. This includes human rights commissions, anti-corruption bureaux and the like. NGOs will be under pressure from government to be apolitical (or else narrowly partisan). Agencies (appointed by presidents) to regulate the media will ban independent radio operators and ensure alternative news sources are not allowed to broadcast. State media workers – with national TV and radio stations – and government-funded journalists (with state- or politician-owned newspapers) will not challenge the ruling party or its leadership for fear of losing their jobs. Independent journalists face threats, harassment and worse. Police and army autonomy is undermined by presidential appointments and nepotistic hiring practices, while independent-minded judges can be neutralised by threats – to their jobs, pensions or lives. Parliament is likely to be captured by a president if he is able for instance to appoint MPs as cabinet ministers and ensure MPs are selected for re-election in their constituencies. Of course, such presidents are not averse to handing out cash, appointments and other resources to supporters and to use his power to crush opponents.

In such states where institutions are weak and leaders are relatively strong, it is important to understand the persons (and especially the leader) in power. What is needed, then, is a method for systematically analysing not just the elite’s formal relationships but the informal networks of power – how individuals are related, their shared histories and interests. It is important to understand the origins of presidents, ministers, key advisors and cronies; their regional/ethnic/religious/family affinities, and how important these are to them and society. Their financial dealings, business partnerships, commercial interests and the like should be reassessed on a continual basis. Their histories are important because they explain what moulded their personalities, their motives and goals. Broken friendships and radical changes of direction can mark important alterations in any one of these. These factors help explain whether policies are rejected, nominally accepted or actually implemented.

In other words, because decision-making at national and sector levels is generally driven by personalities rather than issues in neopatrimonial states, collecting and keeping such data up to date will help donors understand the forces at play when considering interventions or proposing reforms.

Source: Cammack et al. (2007).

Incentives for change: a regional dimension?

An implication of what has just been said is that African political systems are not sui generis, but do display some distinctive features, including prevalence of neopatrimonialism. It is also the case, as argued by Moore and Unsworth (2006) and Collier (2007), that the global context in which African states are being built is in several respects very much more difficult than that faced by now successful Asian countries at an equivalent stage in their development. If both things are true, the conclusion is irresistible that, if they emerge at all, African developmental states will
be built by a different route and in response to different incentives than previous generations of developmental states.

The vision of a specifically African pathway through governance-improvement to economic and social progress was part of the inspiration of the African Peer Review Mechanism (APRM), instituted by the African Union as part of New Partnership for African Development (NEPAD). The APRM has been seen as offering special promise as a means of mobilising pressure for improvements in governance based on intra-regional (that is, African) rather than external judgements. The APRM initiative rests on the notion that when countries agree to participate they are joining a “club”. The desire to remain or become a member of the club creates a new type of incentive, different and more powerful than the incentives created by aid. The idea is sufficiently important and relevant to the general concerns of the present project that it was made the subject of one of the desk-study workpackages (Grimm, 2007).

At first sight and in the context of the argument we have been developing, the APRM appears to suffer from two limitations. First, its criteria are based on a fairly standard understanding of what constitutes “good governance”. They are being applied mostly to countries that have already proven themselves to be reasonable performers by these standards, without taking the further step of considering whether they are the most relevant (the matter discussed in section 2.1 above). They are not being applied at all to countries that are off the end of the conventional scale, such as Zimbabwe, with losses in terms of collective learning as well as possible leverage for change. For example, the mechanism has not sought to generate a specifically African set of criteria which could distinguish between those of Mugabe’s acts that command considerable unspoken approval in neighbouring countries and those that are generally condemned.

Second, the leverage exercised may be intraregional but it is still external in ways that matter. Politicians have to win elections. It is a plausible hypothesis that external mark sheets, whether good or bad, are a small influence on their prospects of doing so. The ratings would have to be picked up by national politicians and become a real factor in electoral contests in order for this to change.

However, these judgements may be too sharp or, alternatively, premature. The workpackage report (see Box 2.8) agrees with other close studies of the APRM experience to date (e.g., Herbert and Gruzd, 2007) in observing several practical shortcomings that have hampered the operation of the mechanism and blunted its effects. If at least some of these issues could be addressed, further benefit might still be extracted from the experiment. On the other hand, rather predictably, some of the constraints turn out to be about lack of human and financial resources, which brings the discussion back to the all-too-familiar topic of the pros and cons of donor funding for regional initiatives.

And yet the idea of distilling some lessons from Africa’s past and present to help in generating a political formula for developmental state-building in Africa does not seem entirely impractical. In sub-Saharan Africa, as in other low-income regions, outcomes have differed significantly across periods and places. There have been, and still are, better governed and worse governed localities and sectors. The leadership styles that work better are not always those suggested by an unthinking
application of modern management principles and sometimes involve a conscious effort to work “with the grain” of local societies and institutions. These experiences provide a rich source for innovative thinking about alternative forms of developmental politics in Africa.

Box 2.8: Assessing the African Peer Review Mechanism

The APRM has been regarded as a promising means of incentivising African leaders to work for improvements in governance. Its African origin, as the centrepiece of the New Partnership for Africa's Development (NEPAD) sponsored by the African Union, sets it apart from other governance initiatives in the region. By encouraging the development of a “club mentality” and providing opportunities for peer pressure to be exercised at a high level behind closed doors, it provides a useful supplement to existing sources of pressure for better governance, such as demands from civil society. To date, this potential has only been partly realised.

The APRM is a voluntary process that a country “joins” by virtue of signing a Memorandum of Understanding. The process begins with the preparation of a self-assessment, based on a standard set of criteria and indices in four areas: democratic and political governance; economic governance and management; corporate governance; and socio-economic development. There is then a country review mission led by one of a panel of Eminent Persons, which examines the self-assessment and submits a report to the Forum of Heads of State and Government – where the peer review proper takes place. The report is then published. So far, three reports have been published (for Ghana, Rwanda and Kenya), while others await completion of the peer review (South Africa, Algeria).

Strengths of the process have included:

- A high standard of self-assessment set by the front runner, Ghana: critical issues were raised on a number of political levels, without shying away from criticism of systemic weaknesses, the prevalence of corruption or specific human rights issues.
- Signs that the peer review at continental level did raise sensitive issues neglected in the country reports, such as minority rights, even in the case of good performers (Ghana, South Africa).
- Evidence that the continental review subjected the country assessment processes to close scrutiny (Kenya) or exercised peer pressure with regard to the way the assessment was handled (Rwanda).

Weaknesses include:

- Implementation of the recommendations has been slow, even in Ghana.
- Civil society organisations have been limited in the watchdog function they are expected to fulfil by weaknesses in capacity and information.
- There are some notable gaps in the scope of the reviews, with agriculture and the informal sector not sufficiently covered in view of their importance to the population.
- There is a potential for free riding, and for watering down of the process and content of the mechanism for the sake of solidarity within the “club”.

Issues for donors include:

- Whether to provide direct funding to APRM institutions, given the potential that this will undermine the sense of African ownership and weaken the mechanism’s legitimacy.
- Whether to fund the implementation of the Action Plans arising from the reviews, with the danger that these will come to be regarded as technocratic solutions to political problems.

An alternative for donors that has fewer disadvantages is to make frequent reference to the reports when engaging in dialogue with government and civil society at country level.

Source: Grimm (2007).
A five-year research programme launched in 2007 by a consortium of research institutes and think tanks led by ODI is about to tackle this issue. Using Grindle’s (2002a) notion of “good enough governance” as a starting point, the Africa Power and Politics Programme is looking for a language with which to pose questions about neglected pathways and new developmental visions for the continent. It is being funded by DFID and the Advisory Board for Irish Aid.

Maintaining a realistic appreciation of why things currently happen the way they do (Hyden, 2006), the programme will be generating systematic evidence from Africa’s past and present about what works relatively better and worse in solving basic development problems. It will consider how that which seems to work at local or sectoral levels might be capable of being recomposed for application more widely. This may mean identifying formal institutional structures that are more consistent with African social norms and cultural patterns, which implies understanding these better (Chakravarti, 2005; Shivakumar, 2005: Ch. 10; Chabal and Daloz, 2006).

Part of this research will be closer study of what currently prevents things from working that have worked in other times and places. Mechanisms of feasible change will be investigated, focusing on actions and not just than systems. This will involve examining what are known generically as “collective action problems” – types of logjams in which the immediately rational behaviours of individuals and organisations prevent the wider collectivity from realising what is in the long-term interest of everybody.

One set of puzzles that is susceptible to this sort of analysis concerns why the victims of bad policies and inferior public services accept them despite the apparent existence of alternatives. Another is about why political leaders in several parts of the developing world, not just in Africa, do not undertake public service reforms or implement transformative agendas even though they would like to (Geddes, 1994). We shall be looking for ways of breaking up institutional logjams that might work under today’s global conditions, in which there are perverse incentives for national elites, but also opportunities, unheard of in previous times.

Making interventions that make a difference

In thinking about options for donor governance work, it seems important to hold onto the observation we have just made that resistance to widely desired reforms is not only the product of a “lack of political will” in a simple sense. The type of analysis that uncovers the specific interest-conflicts preventing the solution of collective-action problems is the subject of a large international literature. Some of this not only provides a valuable fund of explanations of how progressive change happens (or fails to happen). It also suggests a possible vision for donor governance work that deserves to be articulated expressly. While the application of any of this experience to sub-Saharan Africa may be considered problematic, and should certainly not be taken for granted, further investigation of the possibilities seems justified.

The ability of a donor to contribute to the removal of collective-action logjams is a theme developed in a recent evaluation of DFID’s small programme in Latin America (Booth et al., 2007). For example, the Nicaragua country programme is credited with a significant role in overcoming non-cooperative patterns of interaction between
stakeholders in the Small and Medium Enterprise sector, with potentially large effects on investment and economic growth. Other agencies could no doubt cite comparable experiences, although an important feature of the DFID experience in Latin America – the intensive use of local staff with relatively little funding to disburse – may point to reasons why most donors in most countries do not engage in this type of activity.

Other experiences that do not involve donor organisations in a direct way are nonetheless suggestive of a possible focus for donors. Institutional barriers to reform in the health sector, for example, often have to do with an institutional set-up in which opponents of change are well-informed, easily mobilised and otherwise influential, whereas the far more numerous potential beneficiaries have none of these advantages. Studies of successful social-sector reform in Asia and Latin America point to deliberate preemptive action by reformist leaderships to alter the terms of this relationship (e.g. by sequencing or complementary measures) as one of the secrets of their success (Box 2.9). This observation was the starting-point of a project workpackage designed to explore the scope for pro-active management of sector policy change, taking Health as an example (Buse et al., 2006a).

<table>
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<th>Box 2.9: Proactive management of the political-economy of health reform: the concept</th>
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| Literature on the political-economy of social sector reform suggests that the prospects for pro-poor reform are not encouraging (Batley, 2004). In the health sector, this is partly a function of the technical complexities – which make reforms difficult to grasp (and therefore sell) and because they often affect so many different interest groups. A more significant problem, however, concerns the asymmetries of power and the incentives facing the winners and losers (including service providers, politicians and the bureaucrats who often dominate policy-making).

Specifically, the potential losers are aware of their losses and quick to respond (e.g., health provider unions, programme managers). Potential winners (e.g., the primary beneficiaries of interventions) are less likely aware of their benefits (which may not accrue immediately and will be widely dispersed). Typically, they are poorly organised. Furthermore, institutional arrangements condition the extent to which winners and losers have access to decision-making forums as well as the value of their political assets (Swank, 2002) reflecting the ability of winners of prior policy contests to rig the rules of the game in their favour. This is well illustrated by Green (2000), who describes the shifting power of interest groups in keeping needed health reforms off the agenda in Thailand.

Nonetheless, the literature, based mainly on experience in Latin America and Asia, also reveals that a number of approaches have enabled social sector reforms to occur “against the odds” (Grindle, 2002b). These include the empowerment of change teams (constituted by officials from various departments/ministries or co-opted academics) to lead reform processes from protected positions within the Ministry of Health (or executive office). Strategies adopted by such teams include the careful timing and sequencing of activities; the nurturing of state-society coalitions among groups with similar aims and interests around specific reform issues; the calculated buying-off of groups which stand to lose from reform; and the mobilisation of public opinion.

Other strategies involve venue shifting. For example, when the Minister of Health in Colombia was unable to convince the Executive Office to consider health reform, as its priority was pension reform, he took the issue to the legislature, which made pension reform conditional on health reform (González-Rossetti and Bossert, 2000). Often, these processes are preceded by stakeholder analysis and other political analysis by change teams, which informs the tactics they use to engage more strategically in the policy process (as described by Glassman et al., 1999, with reference to the Dominican Republic).

Source: Buse et al. (2006a).
Building on this experience, Buse and Booth (2007) investigated the scope for similar action, with funding agencies playing a non-passive role, to support well tried, pro-equity policy innovations, in a pair of Irish Aid programme countries, Uganda and Tanzania (Box 2.10).

**Box 2.10: Prospective management of health reforms in Africa?**

One aim of our research was to assess the feasibility of employing more structured and systematic approaches to understanding the underlying political-economy factors associated with proposed reforms and of using such understanding to engage more effectively in the policy reform process. Better policy analysis, it was hypothesised, might lead to the development, for example, of creative alliances between progressive, evidence-informed, pro-poor reformers within Ministries of Health, civil society groups and like-minded donors who could collaboratively develop strategies and tactics to address the political and institutional constraints to the implementation of policies aimed at delivering services more effectively and efficiently.

We surveyed headquarters’ health staff of key bilateral and multilateral agencies and found that although all agencies seek to understand the political dimensions of policy reform, few respondents understood “politics” in terms of the famous definition by Harold Lasswell (who gets what, when and why?) and none of the organisations employed a specific analytical tool at the sector level to gain such understanding.

Short field investigations in Uganda and Tanzania revealed that the objectives of improving sector effectiveness and efficiency were running up against a populist domestic politics, the perceptions and interests of key groups, and the incentives offered by some unruly global health initiatives. In this context, we identified a number of contraints, opportunities and preconditions for undertaking prospective policy management in the internationalised reform politics of sub-Saharan Africa.

As regards constraints, there is a question of the extent to which reform stakeholders are truly cognisant of the underlying interests inherent in the various reforms (our reading is that there is a case for improved policy analysis). Additional constraints include a formal interpretation of the concept of “partnership” and a misreading of the Paris commitments which implies that, even when there is good understanding of the political economy issues, donors do not believe it is appropriate for them to do anything with it. Moreover, the formal nature of the partnerships tends to leave little scope for issue-based networking and strategising. There appears to be a lack of attention to identifying and supporting instances where domestic stakeholders, including parliamentary committees or CSOs, take a stand on the same issues that concern donors.

Yet, there are also a number of possible opportunities for improving the use of policy analysis so as to support reformers, including more creative use by them of existing forums and evidence, the generation of evidence on the “small p” political obstacles to change, and more creative alliance-building. Based on our study, we would recommend a focus on a few important reforms – particularly those which have natural constituencies in the Ministries of both Finance and Health – and to support more proactive networking between donors, non-governmental health stakeholders, poverty-focused budget advocacy organisations and progressive officials, in the social-sector and Finance ministries. We also recommend more tough-mindedness about the political nature of priority-setting, a recognition that global and local issues – in terms of both aid modalities and specific policy interests – are entwined with each other, and a re-reading of Paris Declaration on Aid Effectiveness which keeps fully open the debate on how to attain pro-poor policy goals.

*Source: Buse and Booth (2007).*

It is clear from the results of this work that aid-dependent African countries provide a setting for this proposal that is very different from that of Asia or Latin America. The contribution of international actors and their local allies of various kinds is very substantial, with the effect that actions to alter the terms of the relationship would
need to be geared to the global as well as the local scene and include quite centrally such major actors as the Global Fund for AIDS, TB and Malaria. On the other hand, it appears that donor advisers and potential allies are currently working under constraints that are at least partly self-imposed. More tough-mindedness about the inherently political character of reform processes, and a less mechanical interpretation of the Paris commitments on local ownership of the policy agenda, could open up worthwhile opportunities.

The possibilities suggested by this research may be illustrated by DFID’s Coalitions for Change programme in Nigeria, which is operating in a number of sectors under somewhat similar circumstances. While the details of the programme’s implementation are not yet known, its origins in an in-depth Drivers of Change analysis give it something of the character of a pro-active application of sectoral political analysis.\(^\text{15}\) We consider this an experience worth watching.

### 2.4 Can it be done?

We would not want claim too much on the basis of these limited examples about the possibilities for positive involvement of donor advisers in the political economy of change in Africa. What is certain is that there is work to be done, involving a closer-than-usual collaboration between donor strategists and researchers, to extract the full benefit of the sensitivity that now exists to a number of issues – the need to understand African politics and leadership properly, the possibility of multiple pathways to developmental governance, and the feasibility of active management of reform processes at national and sector levels.

We would not claim, either, that the arguments for delinking governance work from financial leverage and risk avoidance that we offered in earlier sections of Part 2 will necessarily find a ready reception among the senior managers and ministers who run development agencies. The pleas for intellectual modesty and ideological flexibility, in view the gaps in our knowledge about what matters and what works, may also fail to persuade those who have to defend aid budgets to Northern parliaments and voters. The addiction of Northern publics to simple diagnoses, simple solutions and the notion that “all good things go together” are too strong.

As we concluded in Part 1, therefore, the donor-side incentives working against doing what evidence suggests are the right things are not to be taken lightly. In order to be able to pick up the challenge of doing more sophisticated and pro-active work on the institutional obstacles to development in Africa, donor agencies will need somehow to find ways of managing the political pressures to which they are exposed at home. We return to this theme in the Conclusions.

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Conclusions

The proposition that the best aid is that which helps countries to assume ownership of their development is true and important, but it badly needs unpacking. The implications for aid modalities and their management need to be more closely specified than they have been until now. So do the implications for donor governance work. The experience analysed in this report suggests that donor agencies need to be persuaded to back off and become less control-oriented when delivering financial aid, but to become more actively as well as more intelligently engaged when it comes to both policy and governance. This may seem paradoxical and counter-intuitive, but that is because we are accustomed to thinking of aid as basically about resource and knowledge transfers. In reality, much of the time the most important impacts that aid has, for better or worse, are institutional. It is the centrality of institutions and their transformation that leads to the particular combination of “backing off” and “getting engaged” with which we are led to conclude.

That aid should help to build country ownership of development efforts is well grounded in both research and practical experience. However, we have seen that the basic vision is subject to a number of unresolved issues. Some of these concern the way the vision is being implemented by official donor agencies. Others are about the political and governance conditions within recipient countries that are necessary for the new approach to have the hoped-for effects, and what role, if any, donors have in helping to create them. The research undertaken within the project on Good Governance, Aid Modalities and Poverty Reduction has helped to clarify a few of the unresolved issues.

In particular, we have presented results suggesting that realisation of the gains from new aid modalities is being compromised by inconsistent donor behaviour. Both donors that prefer to avoid the modality of budget support and continue, in one sense or another, to build parallel systems, and those that are assumed to be in the vanguard of the new thinking, are at fault. Risk-aversion and illusions of control are leading even the progressive donors to adopt practices – within sector programmes and budget support – that are at variance with the policies they espouse. This is understandable in terms of the incentives that structure donor practices but is nonetheless regrettable. The fact that political “realities” in the donor country make this behaviour hard to avoid does not seem a sufficient reason for not doing what is right. A thinking and learning organisation would set itself the goal of managing these constraints, rather than tamely accepting them. Helping the public to understand how parallel systems and projectised aid actually hurt aid recipients would be a start.

Donors should be expected to be consistent with the principles they espouse, in choosing modalities, the way they use conditionality and how they respond to negative political developments in countries that have become reliant on budget support. However, consistency in donor behaviour will not be enough by itself to usher in self-directed, country-owned development. The fundamental determinants of development success are not the policies of donors but the policies of recipients, and the underlying institutional conditions: country governance. This too is a problem. Typically, the country conditions for the budget-support vision to work well are also weak or missing.
Therefore, a major question for donors is whether they can help in improving governance and enabling the emergence of developmental states in their partner countries. The research reported here has settled some issues about this, but has also thrown up several questions calling for fuller investigation.

Now that donors have almost universally recognised the importance of governance in development, it is crucial that they “get it right”. This is more likely to be the case if efforts to understand countries’ political systems are wholehearted and not shackled to governance-assessment instruments that are motivated by old-fashioned donor-agency concerns about disbursement conditions, aid allocation or political back-covering. In this sense, what are saying about governance is directly consistent with what we have argued about aid modalities: donors should back off from unrealistic efforts to secure guarantees on the spending of their money and engage differently.

The main thing is to engage intelligently, on the basis of good information. To begin with, this involves recognising that a number of important questions about governance for development are still unsettled. That implies becoming quite modest about recommending specific reforms. Users of quantitative indicators of governance quality need to be sensitive to the limitations of such data. There also needs to be much more evaluation work on the governance programmes that donors support, with, among other things, a sharper appreciation that it may not be possible to achieve all of the desirable outcomes at once.

There needs to be more discussion of what donors and reform-minded country actors could do differently. Some of this requires research – for example to identify specific forms of “good enough governance” that might be capable of offering solutions to the types of institutional blockages that hamper developmental progress in Africa and other very poor regions. However, even with current knowledge, donor advisers could be more imaginative and pro-active about taking political-economy factors more squarely into account, for example in the facilitation of pro-poor reforms in sectors such as health.

A more active and informed engagement with country political systems and reform processes will not seem to everybody a desirable step for donor agencies to take. However, it is a necessary one. Even if donors become much better than they now are at implementing the principles behind the Paris Declaration, the goal of government-led, country-owned development will not be achieved without major changes in country systems. Donors cannot make this happen, but some form of external trigger may be necessary, even in the case of widely desired reforms. Thus, donors may be able to assist, and if they can it is surely within their mandate to do so. At the very least, they need to be sure that they are not preventing it from happening, which means becoming informed about the forms of engagement that are to be avoided.

Even this minimal response will involve some risks. And risks, as Collier (2007) has reminded us, are the sort of thing that development ministers like to avoid. It will also require an investment of time, effort and intelligence on the part of agency staff – something whose availability is threatened in many official agencies which have committed themselves to disbursing more aid with fewer professional staff. In these
as in other respects, doing the right thing will involve agencies’ becoming conscious of their own political constraints, and taking action to address those as well as the institutional challenges with which they are more conventionally concerned.

There is a common view that country ownership of development efforts implies turning aid agencies increasingly into mere purveyors of finance for development. This is deeply mistaken. On the contrary, the aid agency of the future will be one that is capable of understanding and actively helping to transform institutions and relationships – those within developing countries that influence governance and affect the pace of progress, and those within the aid relationship that determine whether aid is, on balance, a force for good. Whatever the level of resource transfers between rich and poor countries is achieved during the coming years, aid will remain fundamentally a relationship business, in which development results depend more on the institutional impacts than on the resources themselves.
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Final versions of Project Working Papers and Briefings are downloadable in PDF format from: http://www.odi.org.uk/PPPG/politics_and_governance/what_we_do/Politics_aid/Governance_Aid_Poverty.html

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