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Learning from experience? A review of recipient-government efforts to manage donor relations and improve the quality of aid

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The analysis provided in this working paper on the different country experiences draws substantially on the work of Mulley (2005) in the cases of Afghanistan, Mozambique, and Tanzania, the work of Ghani et al. (forthcoming) for Afghanistan, and the work of ECA/DAC (2005) in the cases of Mozambique, Tanzania, and Uganda.

Acronyms and Abbreviations

ADB	Asian Development Bank
AFD	Agence Française de Développement
APR	African Peer Review
CAS	Country Assistance Strategy
CG	Consultative Group
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
DAC	Development Assistance Committee
DfID	UK Government's Department for International Development
DPG	Tanzania Development Partners Group
ECA	UN Economic Commission for Africa
EU	European Union
FY	Financial Year
GDP	Gross Domestic Product
GFATM	Global Fund to combat AIDS, Tuberculosis and Malaria
GNI	Gross National Income
GoA	Government of Afghanistan
GoM	Government of Mozambique
GoT	Government of Tanzania
GoU	Government of Uganda
GoV	Government of Vietnam
HAP	Vietnam Harmonisation Action Plan
HCS	Hanoi Core Statement
HIPC	Heavily Indebted Poor Countries
IFF	International Finance Facility
IFI	International Financial Institution
IMF	International Monetary Fund
IMG	Independent Monitoring Group
IsDB	Islamic Development Bank
JAS	Tanzania Joint Assistance Strategy
JBIC	Japan Bank for International Cooperation
KfW	German Bank for Reconstruction (and Development)
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goals
MTEF	Medium-Term Expenditure Framework
NDF	National Development Framework
NDS	Afghanistan National Development Strategy
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental Organisation
ODA	Overseas development Assistance
OECD	Organisation for Economic Cooperation and Development
PAF	Performance Assessment Framework
PAPPA	Programme Aid Partners Performance Assessment
PAPs	Programme Aid Partners
PARPA	Plano de Acção de Redução da Pobreza Absoluta
PEAP	Poverty Eradication Action Plan
PER	Public Expenditure Review
PGAE	Partnership Group for Aid Effectiveness
PRS	Poverty Reduction Strategy
PRSC	World Bank's Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper

SWAps	Sector Wide Approaches
TA	Technical Assistance
TAS	Tanzania Assistance Strategy
Tshs	Tanzanian Shillings
UNDP	United Nations Development Programme
USD	United States Dollar
WB	World Bank

Executive Summary

Since the late 1990s, a new paradigm of effective aid has emerged, that, at least in principle, is based on the concepts of country ownership, partnership, and mutual accountability. These principles are embraced in the *Paris Declaration on Aid Effectiveness*, which includes a series of commitments from both donor and recipient countries to improve the quality of international development assistance. Donors have come to recognise that recipient country ownership is essential to the effectiveness of aid and development efforts. It has become increasingly evident that ownership of specific policy measures or programmes, and good governance in general, can only be achieved if recipient governments begin to take a more proactive role in determining how aid is allocated and managed.

Nevertheless, to date there are relatively few examples of recipient governments taking a lead in their relationships with donors. This is perhaps not surprising given the asymmetry of resources, power and capabilities which characterises most of the links between donors and recipients. This paper reviews the efforts of five countries seen as relatively successful examples of recipient-led aid policies and donor management. These countries are Afghanistan, Mozambique, Tanzania, Uganda, and Vietnam. On the basis of their experiences, this paper also suggests some general lessons as to the conditions that may enable recipient governments to take the lead in establishing aid policies and managing relations with donors.

In particular, five enabling conditions are identified. These are summarised below:

1) *Supportive macroeconomic and growth environment*

Most of the countries in the study have been characterised by generally good standards of macroeconomic management. As illustrated by the case of **Vietnam**, among others, this has created a stable economic environment which has facilitated forward planning and has meant that policy dislocations necessitated by IMF conditionalities have been minimised. Sound macro policies have contributed directly to the maintenance of good relations with the donor community. An environment of economic expansion has also been conducive to good relations, on the basis that hard decisions are always more difficult to make and implement in a context of economic stagnation.

However, while the existence of a supportive macroeconomic and growth environment has been an important factor in facilitating donor management, it has not been the only, or most significant one. In **Afghanistan**, for example, slower GDP growth has not prevented engagement with donors on a more equal basis. Thus, macroeconomic stability and growth should be seen as facilitating factors, and not as preconditions.

2) *A history of open and frank engagement between donors and recipients that promotes mutual trust and confidence*

If recipient governments are to be able to take the lead in managing their relations with donors, there needs to be a history of open and frank (if not always free of friction) engagement between the two. This is essential to build a relationship that is based on reciprocal trust and confidence. In **Tanzania**, for example, the improvements that have been noted in the aid relationship are the product of prolonged and sustained interaction between donors and the GoT since the mid 1990s. In both **Mozambique** and **Uganda**, donors and the government have been engaged in constructive dialogue in a period that spans over a decade. In **Vietnam**, constructive engagement dates back to

1993. In **Afghanistan**, the history may be much shorter, but the intensity of the engagement is certainly not.

3) *Commitment to reform and/or strengthen public institutions (especially regarding public financial management – PFM – and within that the budget)*

This is an essential pre-condition in successfully managing relations with donors because of the importance of a strong institutional setting in enhancing national capacity to identify and address development needs, enabling donors to ‘align’ to national priorities and strategies, and nurturing the trust of donors on national systems. Successful reform experiences in Afghanistan and Tanzania are worth highlighting. While economic indicators in **Afghanistan** still need to improve, the GoA has embarked on an ambitious agenda of PFM reform. The GoA has thus created strong policies and systems to which donors can align (see Ghani et al. for greater detail). In **Tanzania**, the government has shown considerable political will to carry out important structural reforms, and the quality of public financial management has improved significantly, as have the business environment and the investment climate. In both **Uganda** and **Vietnam**, donors and the government have been working together to strengthen public administration capacity and systems.

4) *Strong political will and commitment by the recipient government to lead on the development agenda and own the development process*

Experience has shown that it is easier for donors to align to a recipient country’s development plan when country strategies are prioritised and operationalised, and it is easier for recipient countries to lead when their priorities have been identified internally. Internal policy coherence and strong coordination from the government are essential in this respect. As the five cases discussed in this working paper illustrate, part of their success in dealing with (and leading) donors stems from the elaboration of a clear, well-articulated national development strategy linked to a medium-term budget plan. **Mozambique**, **Tanzania**, **Uganda**, and **Vietnam** all have PRSPs in place, many of which are in the process of being revised and updated. While **Afghanistan** is still only at the preparatory stage of its PRSP, the GoA established a clear national strategy early in its relationships with donors.

5) *‘Mutual accountability’ mechanisms¹*

Although all of the examples outlined in the section above on aid coordination and the monitoring of performance include different mechanisms to help track the impact of aid – and several monitoring mechanisms may be in place in any one country – mechanisms intended to extend accountability to donors as well as recipient governments are still very rare. The most notable examples are to be found in **Mozambique** and **Tanzania**, where mutual accountability mechanisms were developed in the context of long-term relationships with donors and were precipitated by crises in those relationships. Interestingly, in Mozambique (as in **Afghanistan**), these mechanisms are formalised, with clear rules and procedures for both donors and the recipient government being set at the country level, while they are more informal in Tanzania (and **Vietnam** as well), though a shift towards a more rules-based approach seems to be underway. In both these cases the use of independent experts has played an important role in mutual accountability processes – the IMG in Tanzania and the Pap-PAF process in Mozambique.

¹ For more information on mutual accountability mechanisms at the country level, see P. de Renzio and S. Mulley (2006) *Promoting Mutual Accountability in Aid Relationships*, Briefing Paper, London: ODI.

In addition to the five enabling conditions outlined above, independent monitoring has also been an important aspect of developing recipient leadership in some of the cases discussed in this paper. In Tanzania, for example, independent monitoring provided the basis for an improved relationship between the government and its donors, and it has also provided information on donor behaviour which is helping the government hold its donors to account more effectively. In Mozambique, independent assessment of the government and donor performance assessment frameworks have been crucial elements of the mutual accountability structures which have emerged around budget support. More generally, mutual accountability has been supported by the availability of reliable data on recipient and donor activities, as in the case of Afghanistan.

In several of the cases, governments have also been able to set conditions on their acceptance of aid. This is most clear in Afghanistan, where the government's determination to control aid inflows was backed up by a willingness to turn down aid which did not meet certain standards.

In most cases, recipient governments have employed a mixture of strategies in their efforts to take on a leadership role in the aid relationship. While their successes have been mixed, and it remains to be seen whether recipient leadership will develop further, it is clear from the examples analysed here that aid recipients can, and do, play an active part in the aid relationship.

Finally, in closing, it is important to note that recipient attempts at leadership in aid are not limited to the country level. Multilateral initiatives, such as the Strategic Partnership with Africa led by organisations like NEPAD, also provide opportunities for recipients to influence donor behaviour. The OECD DAC process on aid effectiveness, although donor-led, includes some elements of international mutual accountability between donors and recipients, with monitorable targets on both sides, although it has arguably yet to deliver on this model.

I. Introduction

Since the late 1990s, a new paradigm of effective aid has emerged. Based on the spirit of the Monterrey Consensus, this paradigm is founded on a discourse of country ownership, partnership, and mutual accountability. These principles are embraced in the *Paris Declaration on Aid Effectiveness*, which was signed in March 2005 and includes a series of commitments from both donor and recipient countries to improve the quality of international development assistance. Donors have come to recognise that recipient country ownership is essential to the effectiveness of aid and development efforts. It has become increasingly evident that ownership of specific policy measures or programmes, and good governance in general, can only be achieved if recipient governments begin to take a more proactive role in the aid relationship and play a bigger part in determining how aid is allocated and managed.

Nevertheless, to date there are relatively few examples of recipient governments taking a lead in their relationships with donors. This is perhaps not surprising given the asymmetry of resources, power and capabilities which characterises most of the links between donors and recipients. This paper seeks to review the experiences of aid-receiving countries that have tried, in different ways, to engage donors on their own terms, and to draw lessons from their experiences.

The paper begins with an overview of the international context, tracing the evolution of the aid system from the Washington Consensus in the 1980s to the signing of the Paris Declaration in 2005. It then analyses the experiences of five countries seen as relatively successful examples of recipient-led aid policies and donor management. These countries are Afghanistan, Mozambique, Tanzania, Uganda, and Vietnam.² By way of conclusion, the paper outlines a set of factors that may facilitate recipient government leadership in the aid relationship.

² Importantly, these five cases were not selected from a larger sample of 'successful examples', and as such they are not intended to be broadly representative.

II. Setting the context: from the Washington Consensus to a new paradigm of effective aid

‘Partnership’ and ‘mutual accountability’ as the foundations of the new aid relationship

The ‘partnership’ approach to development is centred on the Poverty Reduction Strategy Paper (PRSP) process led by the World Bank and the IMF (IFIs). Initially developed as part of the IFIs’ work on the Heavily Indebted Poor Countries (HIPC) Initiative, PRSPs are intended to be documents prepared by governments through a participatory process involving civil society and development partners. They form part of an attempt by the IFIs and other donors to base their aid programming on nationally-owned poverty reduction strategies. To date, approximately 70 low income countries have or are preparing PRSPs.³ In addition, in 2000, leaders from virtually all countries in the world, both developed and developing, agreed to a set of eight ambitious objectives - the Millennium Development Goal (MDGs) - to combat world poverty. Participating countries reaffirmed their commitment to work together to meet the MDGs by the year 2015 at the Monterrey Conference on Financing for Development in 2002.

Drawing on the concepts of country ownership and partnership, the principle of ‘mutual accountability’ is enshrined in several international and regional agreements and declarations. At the international level, for example, the Monterrey Consensus emphasises shared responsibilities for achieving the MDGs. As stipulated by MDG8 itself, these goals are meant to be achieved through an aid relationship between donors and recipient countries that is based on genuine partnership and ‘mutual respect and accountability’. In particular, rich countries have pledged to increase development assistance to 0.7% of national income, and in return poor countries have committed themselves to take concrete steps to improve governance, establish development priorities, and adopt sound policies for growth. Regional initiatives like the New Partnership for Africa’s Development (NEPAD) also focus on country ownership and governance. On the side of donors, the Development Assistance Committee (DAC) of the OECD has stated its commitment to support NEPAD and to promote the ‘good governance’ of aid. All of these mandates include commitments between donors and recipient governments on both sides of the aid ‘partnership’, and emphasise the need for a systematic review and monitoring of mutuality of commitments.

Despite such commitments, many argue that a fundamental lack of accountability on the part of donors continues to characterise the aid system (ActionAid 2005, de Renzio and Rogerson 2005). Recipients have few levers by which they can hold donors accountable for their actions, and there are limited mechanisms to enforce commitments made by donors.

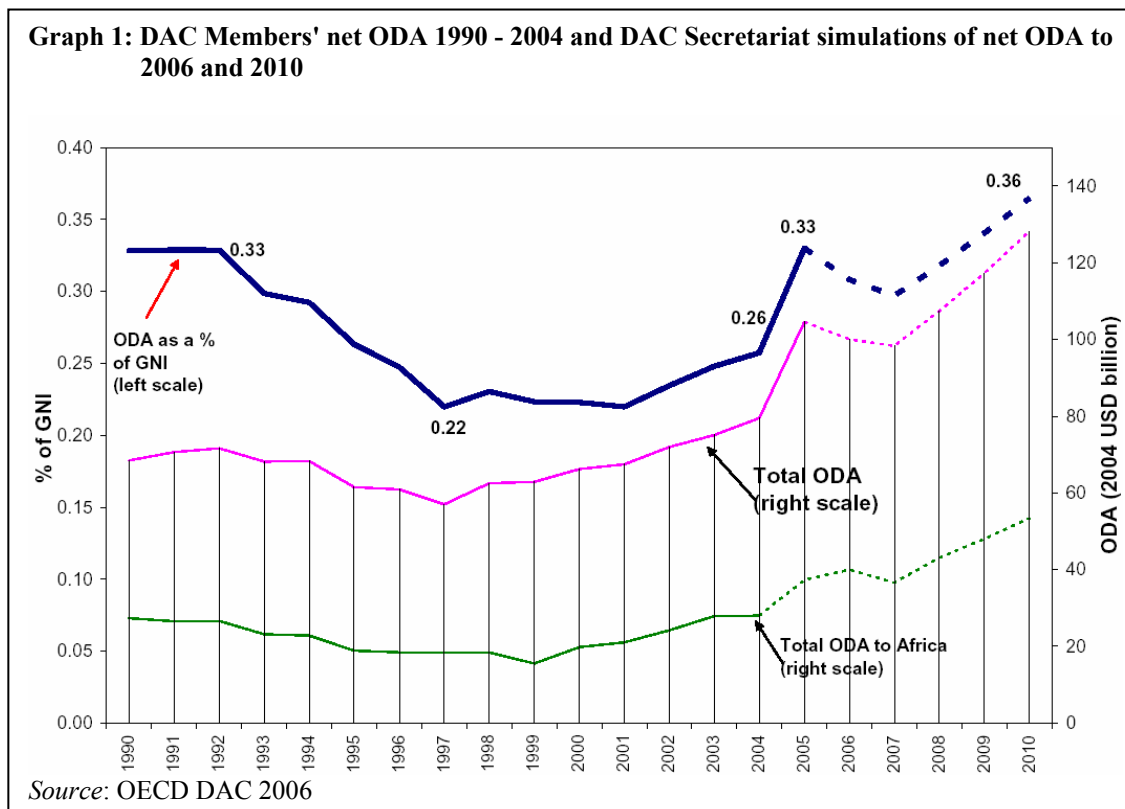
‘Scaling up’ aid: quantity and quality

Over the past few years, calls for ‘scaling up’ aid have become increasingly influential in the international development agenda. The emphasis on ‘scaling up’ development efforts has focused on issues of both quantity and quality of development assistance, and it is based on the premise that adequate, predictable and more effective aid flows are critical to reaching the MDGs.

³ For more information on the PRSP process, see <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,menuPK:384207~pagePK:149018~piPK:149093~theSitePK:384201,00.html>.

In terms of the quantity of aid, in 2005 numerous declarations and reports called for substantial increases in aid flows. Both the Commission for Africa chaired by Tony Blair and the UN Millennium Project directed by Jeffrey Sachs, for example, call for doubling aid to poor countries.⁴ EU Member States, for their part, agreed a timetable in May 2005 to meet the 0.7 percent target of gross national income for official development assistance (ODA).

As shown in Graph 1 below, if donors deliver on the public statements they have made, at the G-8 Summit in Gleneagles in July 2005 and elsewhere, the OECD DAC estimates that ODA from the main OECD donors will increase by approximately US\$50 billion, going from a little under US\$80 billion in 2004 toward US\$130 billion in 2010. This represents the largest expansion in absolute levels of ODA (if not ODA as a proportion of donors' GNI) since the committee was formed in 1960. The sharpest percentage increase is likely to occur in Africa, taking the level of aid to that continent alone to around US\$50 billion in 2010. (OECD DAC 2006)



⁴ See the Commission for Africa report, *Our Common Interest* (<http://www.commissionforafrica.org/english/report/introduction.html>), and the UN Millennium Project report on *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals* (<http://www.unmillenniumproject.org/documents/MainReportChapter0Frontmatter-lowres.pdf>).

The past few years have also seen a variety of efforts to improve aid effectiveness. A large part of the problem affecting the quality of aid to developing countries has been that ‘there are too many cooks in the kitchen’ (de Renzio and Rogerson 2005). Today, the international aid system consists of a loose aggregation of more than 90 aid agencies, and it continues to expand. The latest newcomers include the Millennium Challenge Corporation (MCC) launched by the USA, the Global Fund to combat AIDS, Tuberculosis and Malaria (GFATM), and the (still unborn) International Finance Facility (IFF). Two thirds of ODA disbursed is government-to-government, or bilateral; while one third is multilateral, channelled through international organisations such as the World Bank and the EU. Donors are increasingly recognising that poor coordination between agencies can lead to a number of problems: high transaction costs, negative impacts on recipient country administration, poor allocation decisions, etc.

The importance of coordination is demonstrated in Box 1 below, which summarises the results of a 2002 OECD-DAC ‘Needs Assessment Survey’. This survey identified a variety of donor practices seen as burdensome from an African perspective – issues of coordination among donors, and between donors and recipients, loom large in the list of problems.

Box 1 Africa speaks out on donor practices: ranking problems and priorities for improvement

Ranking of most pressing problems in the international aid system from an African perspective:

1. Donor driven priorities and

d systems, including i) donor pressures on partners’ development strategies and priorities and ii) aid management systems supporting donor requirements, not national systems (in particular, “ring-fencing” and parallel management systems)

2. Uncoordinated donor practices, particularly understanding and fulfilling the multiple, diverse requirements of different donors.

3. Difficulties in complying with donor procedures (especially procurement and technical assistance, or TA) and frequent changes to donor policies, systems and staff.

African priorities for corrective action:

- i) Simplify procedures and systems**
- ii) Harmonise procedures (including agreeing/adopting a common set of procedures or delegated co-operation)**
- iii) Align procedures on partner systems (including synchronising budget/planning cycles, efforts to rely on local systems)**
- iv) Increased use of budget and sector support.**

Source: ECA/DAC (2005)

In response to the concerns of both donors and recipients about coordination, there has been an increased emphasis on *harmonisation* and *alignment* in the aid agenda. Harmonisation entails better coordination among donors. Alignment involves donors following or ‘aligning with’ country policies and priorities, as well as increased donor reliance on national systems rather than on parallel management systems (through budget support, for example). At the High-Level Forum on Aid Effectiveness held in Paris (28 February-2 March 2005), donor countries renewed the pledges made in the 2003 Rome Declaration on Harmonisation to improve levels of coordination and minimise the negative effects of fragmented and unpredictable flows.

In the ensuing *Paris Declaration on Aid Effectiveness*, the DAC also agreed on a set of 12 indicators to measure progress on aid effectiveness and promote greater mutual accountability (OECD 2006). Signed by 61 bilateral and multilateral donors and 56 aid recipient countries, with 14

civil society organisations as observers, the Paris Declaration is seen by many as representing significant progress in establishing ‘a set of monitorable targets for changes in donor, recipient, and joint behaviour’ which could well embody ‘the core of a new compact on mutual accountability’ (Rogerson 2005). In particular, signatories made a commitment to reform the structure of the international aid system and the way development assistance is currently delivered, according to three key principles: recipient-country ownership of the development agenda; donor alignment with the priorities and goals set by partner countries and increased reliance on national administration systems; and more coordinated, streamlined and harmonised actions among multiple donors (OECD 2006).

Whether these initiatives will bear fruit remains an open question, but, at least at the rhetorical level, the trends are clear. This new paradigm of effective aid, purportedly representing a ‘new and improved orthodoxy’ (Maxwell 2005), is summarised in Box 2 below.

Box 2 ‘Leading’ Paradigm of Effective Aid

The key elements of the leading paradigm of effective aid that has emerged in the post-Washington Consensus era include:

- a *compact* linking sovereign responsibility in developing countries for good governance and development choices with better aid quality and sharply increased aid volume in developed countries;
- the *Millennium Development Goals* (MDGs) as guidance for country development priorities;
- *partnership approaches* including the Poverty Reduction Strategy process;
- *streamlined conditionality*, recognising the failure of traditional conditionality;
- *performance-based aid allocations*.

Source: Rogerson (2004)

III. Models of recipient-led aid management

As described in Section II above, one of the central elements underpinning the new paradigm of effective aid is ‘country ownership’. Given the importance of aid in the economies and political systems of many developing countries, it has become increasingly evident that ownership of policy measures or programmes, and good governance in general, can only be achieved if recipient governments begin to take on a more proactive role in the aid relationship, and to play a bigger part in determining how aid is allocated and managed. Although few recipient countries are taking a lead in their aid relationships, some cases of recipient leadership are emerging. This section examines the experiences of five countries that are seen as relatively successful examples of recipient-led aid policies and donor management: Afghanistan, Mozambique, Tanzania, Uganda, and Vietnam.⁵

Importantly, these cases were not selected from a larger sample of ‘successful examples’, and as such they are not intended to be broadly representative. Rather, they seem to constitute much of the universe of such cases. Though not very numerous, these relatively successful cases of recipient-led aid management do illustrate a range of tools which can help recipient governments establish leadership in the aid relationship. As discussed by Mulley (2005), primary among these are:

‘Hard’ conditions for the acceptance of aid (e.g. a recipient government only accepting aid ‘on budget’), backed by the recipient’s ability/intention to reject aid which fails to meet these conditions;

Independent monitoring of donor (and recipient) behaviour, providing information and pressure on donors to improve their practices;

Mutual accountability between donors and recipients, where each is held accountable to targets/standards; and

The establishment of clear priorities, strategies and systems by the recipient government which encourage and facilitate alignment by donors.

Afghanistan⁶

The post-conflict aid effort in Afghanistan did not look promising from the perspective of recipient leadership at the outset. The aid architecture established in 2001 was designed by donors outside the country without consultation with sovereign authorities, and the initial needs assessment and development framework was negotiated and agreed largely between donors. Aid is also very political in Afghanistan, with foreign policy driving donors, which often leads to high levels of instability in aid. In addition, the country remains exceptionally dependent on foreign assistance. In fiscal year 2005, for example, the Government of Afghanistan (GoA) was only able to cover 28 percent of the recurrent budget with its own resources (Rubin 2006).⁷

⁵ As noted in the Acknowledgements, this analysis draws on the work of Mulley (2005) in the cases of Afghanistan, Mozambique, and Tanzania, the work of Ghani et al. (forthcoming) for Afghanistan, and the work of ECA/DAC (2005) in the cases of Mozambique, Tanzania, and Uganda.

⁶ As noted in the Acknowledgements, this section draws on the work of Ghani et al. (forthcoming) and Mulley (2005).

⁷ Ghani et al. have also estimated that, as of March 2004, government expenditures in Afghanistan amounted to US\$1535.5m, of which £348.6m were composed of domestic revenue, and the rest from international aid (Ghani et al. forthcoming).

However, the Afghan Interim Administration (and later GoA) was able to gain some control in its relationship with donors relatively quickly through a combination of clear national policies and systems and some hard conditions for the acceptance of aid.

The National Development Framework (NDF) developed by the Afghan Interim Administration in early 2002 provided the basis for donor alignment around Afghan priorities and strategies. The NDF was based around three ‘pillars’ (Humanitarian Assistance and Human and Social Capital; Physical Reconstruction and Natural Resources; and Private Sector Development) with twelve associated national programmes (e.g. Refugee Return, Education, Transport and Public Administration). In addition, the NDF identified three cross-cutting themes (Governance, Financial Management and Administrative Reform; Human Rights, Security and Rule of Law; Gender) which are priorities across sectors. The NDF formed the basis for the National Development Budget, around which donors were expected to align. The Afghanistan National Development Strategy is currently the subject of consultation, and is expected to be finalised (as Afghanistan’s PRSP) later in 2006.⁸

Afghanistan also took steps to create and/or strengthen government systems, to ensure that donors would feel more confident to use them. Rapid centralisation of revenue and expenditure allowed for centralised budgeting and enforced reporting to the Ministry of Finance. The creation of a Treasury Single Account helped to build donor trust in centrally-held funds. Evaluation was also built into the aid management system from the outset, with both donors and implementing agencies evaluated during and after projects.

In addition to creating strong policies and systems to which donors can align, the Afghan Interim Administration and then the GoA have actively sought to manage aid from the outset. The Assistance Coordination Authority (now the Development Budget and External Relations Unit in the Ministry of Finance), provided a focal point for this. Perhaps the most significant achievement of President Karzai and his economic and security team was to produce a consensus with donors that the goal of development assistance in Afghanistan was state-building. While at the beginning of 2002 development partners had a series of conflicting goals, by December of 2004, the visions of the international community and the Afghan government were aligned around state-building, at least in principle. A number of actions to coordinate security and revenue generation, hitherto considered outside the agenda, then became the subject of serious attention and the focus of collaboration. However, it is also important to recognise that, in practice, many actors involved in Afghanistan have been less than supportive of this state-building agenda. As noted by Clare Lockhart (2005), these actors often pursue contradictory policies through different parts of their organisations or governments, so that much more work on better coherence and coordination remains to be done.

As part of the effort to re-build Afghanistan, the GoA has called on donors to provide the funds for a medium-term compact for post-conflict reconstruction and development. As noted by Ashraf Ghani, Afghanistan’s former foreign minister, and other collaborators,

‘This was done through extremely detailed work that resulted in the production of the document ‘Securing Afghanistan’s Future’, presented to the Berlin conference on March 31/April 1 2004. The conference resulted in a pledge of US\$8.2bn for the next three years, and an acknowledgement by the international community that Afghanistan needed \$27.5bn in public investment between 2004 and 2011, to launch it on a path of sustained growth of 9% per annum. ‘Securing Afghanistan’s

⁸ For more information on the Afghanistan National Development Strategy (NDS), go to the GoA’s NDS page at: <http://www.af/NDS/index.html>

Future' stands in sharp contrast to the donor-driven needs assessment that provided the basis for US\$4.5bn pledged in Tokyo in January 2002. Based on a visit of less than one week to the country, this needs assessment proved unrealistic in its cost estimates and, perhaps more fundamentally, it was not based on the centrality of the task of state-building in the country.' (Ghani et al., forthcoming)

'Securing Afghanistan's Future' was prepared in a period of six months of intense research and analysis, after which it was submitted to Cabinet for debate. Once the paper's final directions were reviewed by President Karzai, the document was subjected to a period of careful scrutiny by donors before it was finally released at the Berlin conference.

In general, the GoA has been keen to secure funds and decision rights directly for the government. The government has a clearly expressed preference for budget support, with multilateral trust funds the preferred second choice where aid cannot be routed through the budget. The Ministry of Finance thus set up the Afghanistan Reconstruction Trust Fund in 2002. The trust is managed by the ADB, IsDB, UNDP, and the World Bank as a pooled funding arrangement which provides coordinated funding for recurrent expenditure, as well as for priority programmes. This has become a key instrument of donor support and has become essential in bringing predictability, transparency, and accountability to aid in Afghanistan. The GoA has drawn on monitoring reports commissioned by the World Bank to analyse the flow of funds to detect leaks in the system and to work towards implementing an agenda of accountability and transparency. This approach has proven relatively successful in drawing in donor support. Canada and the European Union, for example, agreed to enhance their contributions to the Trust Fund. Japan, for its part, broke out of its traditional mould by making a first payment, while Saudi Arabia and other Arab countries have followed suit.

The GoA has addressed the challenge of coordinating aid flows through the establishment of a number of mechanisms to set 'hard' conditions for the acceptance of aid, which have forced even normally recalcitrant donors to harmonise their activities to some extent. For example, the Government limited the number of sectors any donor could work in, and required minimum contributions before donors could expand to new sectors (US\$30m required for the first three sectors before a donor could enter a fourth, which also had to be supported with another US\$30m). In addition, the decision was taken to rule out deficit financing, meaning that loans for current expenditure in the social sector were rejected. Crucially, the GoA has also been prepared to say no to some aid proposals, for example where overhead costs are excessive, or where proposals involve the use of expensive technical assistance.

Although the GoA has taken a fairly tough stance on aid, it has also recognised that different donors need to be treated differently according to their own constraints and needs. The government has been careful to allow enough flexibility in its rules and systems to enable donors to return with new proposals if their initial plans are not acceptable. The GoA also knows that capacity varies across ministries/sectors, and therefore varies modalities as appropriate – for example Health has good capacity, so more donors are using GoA channels in this sector than in others. A combination of effective systems, clear rules of engagement and trust-based relationships have helped to secure (positive) changes in donor behaviour.

While Afghanistan does not have a formally constituted mutual accountability or independent monitoring system as in Tanzania and Mozambique, a few joint mechanisms are in place to help track progress in achieving Afghanistan's state-building agenda. A monthly coordination meeting chaired by the Minister of Finance has been established as a forum for donors and the government to review challenges and accomplishments. The annual Afghanistan Development Forum, which is convened and chaired by the GoA, enables the government and donors to engage in productive dialogue on the development strategies being pursued. The use of the budget process by the GoA as

a vehicle to make its preferences explicit to the donor community and to channel donor resources to those priorities has been crucial. In addition, transparency and the availability of data about donor behaviour has helped the GoA manage its donors. The Development Assistance Database now records over 90 percent of aid coming into Afghanistan and makes data about donors' pledges and disbursements publicly available. Everything is recorded in the budget except for military expenditures and humanitarian assistance.

Having said all this, it is unclear how Afghanistan's relationships with donors will continue to develop over time. Despite early success in establishing clear policies and systems for donors to align to, the GoA's control over aid inflows remains limited by the security situation and the combination of humanitarian, military and development assistance it receives. Although the establishment of hard conditions for the acceptance of aid did have an impact on donor behaviour, this approach may become less tenable if, as seems likely, Afghanistan faces significant shortfalls of resources in coming years. In 2002-03, donors disbursed less than \$1.9bn, despite committing over \$4bn. At least one third of the funds disbursed since 2001 have been for humanitarian projects rather than for reconstruction or development, and almost 80 percent of aid disbursed in 2002-03 was project funding.

Mozambique⁹

The Government of Mozambique (GoM) has developed its role in the aid relationship, and improved donor coordination, through a model based on mutual accountability. The origins of mutual accountability in Mozambique can be traced to a crisis in donor relations. In the mid-1990s, Mozambique was about to be declared 'off track' by the IMF, which would, in normal circumstances, have had negative impacts on aid flows. However, a group of 'like-minded' donors in Mozambique was able to persuade the IMF to approve a 'shadow' structural adjustment facility where new targets were adjusted to the situation in Mozambique. This facility was focused on 'second generation' reforms to governance structures. As a result of this, a group of donors with a privileged relationship with the GoM developed from that point on, and the like-minded donors have continued to play an intermediary role between the GoM and international financial institutions. This donor-led response to the crisis laid the foundations for improved coordination and the emergence of mutual accountability.

The coordination of donors in Mozambique has been based around the GoM's PRSP (the *Plano de Acção de Redução da Pobreza Absoluta*, or PARPA). The first PRSP covers the period from 2001 to 2005, while the second-phase PRSP is currently being developed. The PRS aims to reduce absolute poverty from 70% in 1999 to less than 60% by 2005 and less than 50% by 2010. Key action areas include education, health, rural development, infrastructure, good governance, and macroeconomic and financial management.

In 2000, budget support donors in Mozambique formalised their coordination efforts in the Joint Donor Programme for Macro-Financial Support (JDP). This arrangement was superseded in 2004 by a Memorandum of Understanding (MoU) between the GoM and its programme donors. The MoU, which has been signed by eighteen donor agencies providing donor support or other programme aid (the so-called G-18¹⁰), outlines commitments on both sides to improve the quality and effectiveness of programme aid and build a partnership-based approach to support the

⁹ As noted in the Acknowledgements, this section draws on the work of ECA/DAC (2005) and Mulley (2005).

¹⁰ The G-18 include: the African Development Bank, Belgium, Canada, Denmark, the EC, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the UK, and the World Bank. Observing external partners included: the IMF, Japan, United States, and UNDP.

government's poverty reduction strategy (GoM and PAPs 2004). Through the MoU, donors commit themselves to work on six key areas: align to GoM policies and systems; increase the predictability of aid flows; eliminate bilateral conditionality; reduce transaction costs; promote the transparency of aid flows and conditions; and enhance GoM capacity and leadership. Significantly, MoU negotiations took over 20 months to come to a close. In that process, the GoM demonstrated a strong commitment to lead the negotiations with donors. One example of such leadership is that, in the original budget support MoU, approximately 130 conditionalities were proposed, but the Minister of Finance in Mozambique fought to have those progressively reduced to 30.

The GoM has also signed up to a Performance Assessment Framework (PAF), a multi-annual matrix of priority targets and indicators based on the PRSP. The PAF provides the basis for an annual joint review process whereby donors assess GoM progress and make aid commitments for the following year in a coordinated way. The PAPs have made a commitment to use the PAF as the *single conditionality framework* for budget support and to rely on government monitoring information as the basis for their performance assessments (Driscoll et al. 2005).

In an important effort to improve mutual accountability, since 2003 donors in Mozambique have themselves been assessed under the Programme Aid Partners Performance Assessment Framework (PAP's PAF). The objective is to monitor donor behaviour regarding commitments, expose non-compliance and weaknesses to peer pressure, and strengthen donor accountability to government. A baseline for donor performance was defined in 2003, and an annual independent assessment process monitors donors' progress on MoU commitments. These annual donor performance reports are publicly available. Although the PAP's PAF has been criticized for failing to set firm targets in a number of important areas (e.g. alignment of medium term aid commitments with GoM planning horizons), it does provide a degree of mutual accountability in Mozambique which is far ahead of that achieved in most aid-receiving countries. Assessments and rankings of donor performance are carried out annually on the basis of a questionnaire, with points allocated according to GoM priorities. These are proving effective in generating pressure on donors to improve their performance. They have also provided a useful focus for discussions of monitoring and evaluation systems – and even those donors who dispute the methodology of the PAP's PAF are engaging with it.

One of the main limitations of the MoU/PAF system is that it applies only to programme aid and programme aid donors. This leaves around two thirds of Mozambique's aid outside the system, as budget support accounts only for 30-35% of total aid. While there is some coordination of project aid through sector-wide approaches (SWAps), which are long-established in Mozambique (the Agriculture SWAp was established in 1991), problems are now arising in aligning sectoral initiatives with the MoU process. There are concerns that line ministries with responsibility for delivery in key sectors are marginalised in the MoU process, and support for budget support is low in these ministries. There is a need for a central locus for policymaking in the GoM with sanctions to discourage 'undercutting' of central government policy positions. As Harding and Gerster (2004) suggested in a 2004 report to the GoM and PAPs on the Joint Review, the GoM needs to work to promote stronger accountability among different state institutions and to prevent the 'balkanisation' of the state in response to incentives to seek direct donor financing of specific departments and projects. The linkages between the GoM PAF and the PAPs' PAF also need to be improved, in recognition that many improvements by both sides are dependent on actions taken by the other party.

The systems discussed seem to be changing donor behaviour in Mozambique. Since the development of the PARPA, the number of donors providing budget support (and participating in associated mutual accountability frameworks) has increased from six to eighteen. Seven donors now meet or exceed the GoM's target for more than two thirds of aid to come as programme aid.

Fourteen of the eighteen donors participating in the MoU process now have multi-year arrangements in place, and in 2004 twelve donors reported that disbursements took place on schedule (compared to six in 2003). The number of donors stating that they were fully aligned with Mozambican funding cycles rose from four in 2003 to eight in 2004.

In general, there is a sense that the quality of aid to Mozambique has improved as a result of the many agreements and commitments that have been outlined above. The Harding and Gerster report (2004), for example, found that significant progress has been made in the quality and effectiveness of aid to Mozambique since donors began to provide coordinated and untied support to the state budget in 2000. The report also argues that donors need to solidify these improvements and further harmonize their interventions while aligning with government systems more fully and promoting capacity building. Killick et al. (2005) also found that, overall, the quality and effectiveness of aid is improving in Mozambique, with donors in advance of their counterparts in most other countries. However, in their report, they were also critical of the performance of both donors and the government in Mozambique. In the case of the GoM in particular, Killick et al. highlighted ‘weak’ leadership and lack of involvement at the central and the sectoral levels as problematic. In their view, the government was ‘hardly involved’ in setting up the first PAF matrix in 2004, leading the authors of the report to comment that ‘we are uneasy about the extent to which the PAPP [Programme Aid Partners Performance Assessment] processes are seen as largely matters for the donors, with the GoM somewhat passive’ (Killick et al. 2005).

On the other hand, while the aid management model in Mozambique has been largely promoted by donors, the GoM is now further developing its role. The mutual accountability model is still developing, and it seems likely that the GoM will increasingly take a lead on it. The real challenge for the GoM is to use the emerging mutual accountability structures to hold donors to account for their project aid, which is undermining coordination efforts. Overall, donor coordination in Mozambique remains incomplete and administration costs high (the Government is estimated to have over 1000 bank accounts due to donor requirements, and received 143 donor missions in 2004, the excluding World Bank), and as noted above more than half of aid to the country remains off budget and outside the mutual accountability arrangement. There are concerns in some quarters that the focus on the budget support element of Mozambique’s aid has reduced coordination in the rest of the portfolio. Killick et al.’s *Perfect Partners?* report suggests that a more comprehensive Mozambique Assistance Strategy needs to be developed as a way of including all donors in the same strategy.

Tanzania¹¹

Since the mid 1990s, the relationship between the Government of Tanzania (GoT) and its donors has undergone remarkable change. This has been a long process whereby the GoT has taken steps to improve the quality of the aid it receives based on a model which combines independent monitoring and elements of mutual accountability to promote Tanzanian leadership in the aid relationship. As a result of these efforts, relations between the GoT and the donor community have progressively moved from a period marked by distrust and confrontation in the early 1980s and 1990s to one based on mutual trust and collaboration. Today, Tanzania is considered one of the most successful examples of recipient-led efforts to manage relations with donors.

Tanzania had a troubled relationship with donors from the early 1980s onwards. Although the adoption of an IMF package in 1986 eased the way for increased aid levels, the ‘second generation’ reforms called for by donors and the international financial institutions after that time became

¹¹ As noted in the Acknowledgements, this section draws on the work of ECA/DAC (2005) and Mulley (2005).

politically controversial in Tanzania. Donors felt that the GoT was not delivering on its reform commitments, and the GoT felt that donors were interfering too much in its policies. By 1994 the aid relationship had reached crisis point. As a response to this, the GoT (with financial support from the Government of Denmark) commissioned an independent group of advisers to investigate the problems with the aid relationship, mediate between the donors and the GoT, and propose solutions. This group was accepted as legitimate by both sides. Its 1995 report (Helleiner et al. 1995) facilitated the formulation by 1997 of 'Agreed Notes' between the GoT and its donors which set out the terms of the aid relationship and defined specific commitments on both sides to improve aid outcomes.

Progress against these commitments was initially assessed in regular reports from the Chair of the original Group of Independent Advisers. Since 2000, it has been monitored through a formally constituted Independent Monitoring Group (IMG), a high-level panel composed of national and international experts. The IMG reports to the GoT and donors every two years, and its membership is approved by both sides to ensure that it remains legitimate. The IMG does not currently have a permanent secretariat, but there are plans to establish one. This independent group has been instrumental in improving the quality of aid to Tanzania by identifying problems in the aid relationship and recommending improvements. The role of the IMG and its biennial reports have also been recognised as legitimate and valuable.¹²

In 2002 the GoT's strategy for managing aid was formalised through the Tanzania Assistance Strategy (TAS). The TAS is 'a Government initiative aimed at restoring local ownership and leadership by promoting partnership in the design and execution of development programmes' (GoT 2003), and it outlines the commitments of the GoT (e.g. improved financial management, anti-corruption measures, domestic resource mobilisation) and its donors (e.g. harmonisation, aid untying, use of central budgeting tools).

The TAS *Implementation Action Plan* agreed in 2003 by the GoT and development partners outlines specific actions to be taken on both sides. These focus on four priority areas: improving predictability, integrating aid into the budget,¹³ rationalising and harmonising processes, and building capacity for aid management. The TAS system is essentially a mutual accountability framework, with both sides being held to account through the work of the IMG. The latest report of the IMG, which came out in 2005, assesses the progress that development partners and the GoT have made towards principles and objectives set out in the TAS since December 2002. According to the report, progress has been made in most areas, and where progress has not been made it makes recommendations on the way forward (Economic and Social Research Foundation 2005).

Since mid-2004, the GoT has led a process in collaboration with DFID and the World Bank to use the TAS as the basis for developing a Tanzania Joint Assistance Strategy (JAS). The purpose of the JAS is to improve donor coordination, by, among other things, identifying donors' comparative advantage and introducing a single review cycle. The JAS is also intended to replace individual country assistance strategies of participating donors. While the GoT has until now been reluctant to reject aid that does not meet the country's national priorities, the JAS may signal a move toward the establishment of harder conditions on the acceptance of aid. As a step in that direction, the 2003 Government Loans, Guarantees and Grants Act enshrines a minimum grant element of 50% for new

¹² See Tanzania Development Partners Group – DPG at www.tzdac.or.tz/main/main.html.

¹³ To this end, the GoT has created a special mechanism that links information to government accounts for donors to use in channeling funds to projects, NGOs, and the private sector. It has also provided relevant training to interested donor agencies in the functions of its public management system in order to improve donor understanding of how the system operates and increase their confidence in its workings. As of August 2004, however, only four of Tanzania's development partners have indicated their readiness to use this facility.

borrowing in law, and the GoT has rejected loans which don't meet this standard. The latest report from the IMG also recommends that future project aid be subject to firmer conditions.

The JAS represents an ambitious strategy toward harmonisation and alignment. The GoT has committed to creating appropriately integrated structures to act as the basis of coordination (e.g. PRS and Budget, performance assessment frameworks) and donors have accordingly committed to alignment and harmonisation measures, including the identification of lead and delegating donors in each sector and increased use of budget support. Although it is not yet clear how the JAS will be enforced, early indications are that lead donors will make long-term budget support commitments to Tanzania under the terms of the JAS, and that the JAS will reinforce the GoT's clear preference for budget support over other aid modalities. The JAS will provide a locus for the GoT and 'like-minded' donors to work with other donors to change their practices at the country level. Nevertheless, the impact of this process is likely to be limited by donors' headquarter policies (for example with respect to tied aid) and there are now suggestions that the JAS will emerge as an inclusive set of principles, perhaps at the expense of harder conditions on the acceptance of aid.

The actions taken by the GoT seem to be affecting donor behaviour. More aid is being delivered via budget support - the level of general budget support has risen from Tshs. 274.6bn in 2002/03 to Tshs. 405bn in 2003/04, and it is expected to reach Tshs. 434.5bn in 2004/05. Budget support (including debt relief) now accounts for around 50% of Tanzania's aid. Predictability has also improved. In 2003, around 70% of donors indicated to the Government what their planned aid disbursements were over the following three years, while budget support disbursements in the first quarter of the financial year have risen from 8% in FY 2002/03 to 80% in FY 2004/05. The GoT is now measuring the predictability of aid from different donors and publishing the results, which may provide the starting point for more systematic performance monitoring of donors. More than 40% of aid is now channelled through the national budget (compared to 30% in 2002), and estimates suggest that more than 75% of project aid is now recorded in the centralised budget system. Alignment of donors' calendars to the Tanzanian budget cycle has also been improved through the PER/MTEF processes.

While substantial progress has been made in Tanzania, however, donor coordination around GoT priorities remains incomplete. Much aid continues to come in the form of project aid - 1000 projects accounted for only 17% of aid flows in Tanzania in FY 2003. Although Tanzania has reduced the number of reports it has to produce for donors and has identified 'quiet times' when donor missions are discouraged, it still received over 500 donor missions in 2002/03.¹⁴ TA remains tied for the most part, and donors seem unwilling to move on this issue. There are also concerns that new coordinated arrangements (e.g. SWAps, basket funds) simply add new structures and management requirements to existing ones. In addition, it is not entirely clear that the GoT has real leadership in all policy areas. Many reforms in Tanzania have been initiated by donors, and although the GoT is now taking steps to coordinate the policy reform process, national strategy is still often preceded by donor-led sectoral initiatives.

In addition to the IMG, to provide accountability to donors for the use of donor budget support, there is a joint Poverty Assessment Framework (PAF) in place which aims to describe the common poverty reduction goals of the GoT and budget support donors. The PAF details the policies needed to achieve these goals and the indicators with which to monitor progress in those policies. However, some critics have argued that in practice the alignment of the PAF with the PRSP is yet to be fully achieved (Driscoll et al.), and this issue was addressed in the revision of the PRSP in 2004.

¹⁴ To address this problem, the GoT has established a public website (www.tzdac.or.tz) for donors to provide information on planned missions and meetings. One impact of the website's accessibility to both donors and civil society has been increased peer pressure to reduce missions.

In total, the PAF contains over 60 separate actions covering issues of public financial management, macroeconomic management and public service development, as well as 60 outcome and impact indicators. The Framework sets out a matrix of agreed actions and timelines. Performance in the PAF is assessed during annual and mid-year reviews. Progress in actions laid out in the PAF matrix, together with the information provided in the annual PRS Progress Report, form the basis for these joint government-donor reviews, and most donors (with the notable exception of the World Bank) rely on this system for assessing the performance and progress made by the government. Disbursements of budget support are therefore dependent on the outcomes of these reviews, in particular on the conclusions of the donors regarding government's progress against PAF actions and indicators. Each donor has its own bilateral funding agreement with the GoT. However, these agreements are not supposed to include any conditionality actions/indicators that are not included in the PAF.

Uganda¹⁵

Over the past ten years, Uganda has displayed strong government ownership and leadership of the development process. This has been done partly through Uganda's PRSP, known as the Poverty Eradication Action Plan (PEAP), which has achieved a good track record in terms of implementation since it was first completed in 1997. The PEAP was revised in 2000 and again in 2004. The development of the PEAP enabled Uganda to become a recipient of debt relief through the HIPC initiative as well as a recipient of the World Bank's Poverty Reduction Support Credit (PRSC), which provides a general source of donor funding to the recipient government budget to support the achievement of the country's PRSP. The Government of Uganda (GoU) has also engaged in efforts to build its public financial management capacity.

The GoU has worked closely with its development partners toward achieving mature harmonisation and alignment arrangements. In the late 1980s and early 1990s, public investment in Uganda was characterised by a large number of donor-driven projects, which resulted in significant duplication and chronic recurrent expenditure shortfalls. Thus, the GoU progressively developed sector strategies that set a coherent framework and established clear priorities for donor support. This facilitated 'first-order' harmonisation efforts among donors (e.g. common reporting, disbursement and auditing arrangements for basket funds). Sector strategies were then integrated into the PRSP and unified (including inter-sectoral linkages) in a medium-term expenditure framework (MTEF) that set funding priorities and integrated recurrent and development expenditures. As quoted below, the PRSP clearly reflects a preference for international aid to be channelled by modalities such as common pool and budgetary support:

'The Government is introducing a sector-wide approach wherever feasible, under which government and donors contribute to a common pool of resources used to achieve the sectoral objectives. The flexibility which this arrangement allows is essential to the efficient use of public expenditure, because only in a sector-wide approach can the overall implications of a national programme within each sector be considered, and because a sector-wide approach can reduce duplications of effort by different projects and divergences of cost structure between projects and other public activities' (GoU 2004).

According to Mary Muduuli, Deputy Secretary to the Treasury, Uganda's experience highlights the fact that 'sector wide approaches have provided a very useful vehicle for improving coordination

¹⁵ As noted in the Acknowledgements, this section draws on the work of ECA/DAC 2005.

between government and donors, for enhancing donor confidence and support for government's expenditure strategy and for improving capacity in line ministries' (quoted in ECA/DAC 2005).

The GoU has enhanced efforts to upgrade public financial management capacity and invited donors to provide budget support. While in the 1990s budget support accounted for just 26% of total aid inflows, in 2003-04, this share had increased to 58% (Driscoll et al.). The GoU has received budget support in three different ways. First, budget support can be earmarked to a specific sector or sub-sector within the budget (e.g. primary education). This is the narrowest definition of budget support. Less narrow, but still restricted, is budget support earmarked to the Poverty Action Fund (PAF). The PAF is a virtual fund within the government budget which includes only those areas of expenditure which directly contribute to the reduction of poverty (e.g. primary health care, primary education). The third type, which is the most favoured by the GoU, is general, un-earmarked budget support. As of fiscal year 2002-03, most budget support in Uganda fell in the latter category, and over time the difference between PAF and full budget support has become increasingly indistinguishable.

Budget support was also intended to enable a larger share of public investment to come under government oversight and be subject to scrutiny by parliament. Such reforms were intended both to improve the quality of aid that Uganda receives and to provide accountability to donors for the support provided while strengthening domestic institutional mechanisms of budgetary control and accountability. As stated in the PEAP, 'it is clear that far from making fungibility easier, the injection of budget support ... allows a more transparent understanding of the additionality of donor resources than was ever possible with the funding of individual projects' (GoU 2004).

Several mechanisms amounting to an Annual Progress Review (APR) are currently in place to monitor progress in the implementation of Uganda's PEAP. The mechanisms are intended to provide accountability to both donors and to the Ugandan population. The elements constituting the APR are embedded in several different documents, including a set of formal partnership agreements between donors and the GoU. These include a Poverty Status Report, a Background to the Budget, Budget Performance Reports, the high-level Consultative Group (CG) Meetings, which are being used as the means of tying donor coordination to the government, the World Bank PRSC process, and Sector Reviews, among others. A key event in the annual budgeting cycle in Uganda is the Public Expenditure Review (PER). The purpose of this review is to bring together donors, government, and other stakeholders to discuss public expenditure issues. For example, presentations from sectors often focus on assessing the efficiency and effectiveness with which public (including budget support) resources have been allocated and utilised. The Ministry of Finance, Planning and Economic Development also presents the indicative macroeconomic framework and MTEF for the medium term, giving donors an opportunity to comment on the budget allocations for the forthcoming period.

For all donors providing budget support to Uganda, the World Bank PRSC matrix has recently become the central tool which outlines the conditions attached to the release of donor funding. Rather than each donor coming to the table with individual targets and conditions, as had been the case in the past, all donors now endorse the PRSC matrix as a joint document and agree to disburse funds conditional on progress in targets outlined in this matrix. However, donors disburse funding at different times and one of the problems lies in determining the precise triggers for disbursement. Thus, while at the broad level the PRSC describes the conditionalities attached to budget support in Uganda, the actual trigger points differ for each donor.

Of course, not all eventualities can be captured in the one PRSC matrix, and so there may be other issues which influence the trigger point for budget support. Political and governance issues used to

be covered in a different matrix, for example, but they were incorporated into a new, more comprehensive PEAP matrix when the PEAP was revised in 2004.

To exert greater discipline on donors regarding extra-budgetary aid flows, as of 2005 the GoU also intended to tighten budget oversight by offsetting additional donor support to sector ministries (for example ministries that exceed their respective MTEF ceiling) with a commensurate cut in government budget funding to the ministry(ies) concerned. The GoU has also centralised donor coordination in one ministry and developed a set of 'Partnership Principles' as a framework for coordination and dialogue in the long term. Each step in this ten-year process was meant to be undertaken in a transparent manner, through continuous dialogue and confidence-building efforts between government and development partners. Both the creation of a strong, competent central ministry driving the process forward and sustained support by development partners who were prepared to be innovative have been crucial in helping explain how the GoU has been able to play a strong role in managing relations with its donors.

A similar process to the JAS in Tanzania is currently underway in Uganda, although it is not nearly as advanced. The GoU is working with the World Bank and several other key donors on a new Country Assistance Strategy (CAS) that continues to build on the principles of aid harmonisation and alignment.¹⁶ The key point to highlight is that the CAS, even if not yet completed, represents the elaboration of a contractual framework of role distribution and performance expectations at country level that points to a promising direction in increased collaboration between the GoU and its development partners under GoU leadership.

On the other hand, after being considered a 'darling' of the international assistance community for a long time, the GoU has recently experienced a downturn in its relationship with donors.¹⁷ Beginning in early 2006, various donors have cut their assistance, especially in terms of untied budget support, after President Museveni changed the constitution to make it possible for him to run for a third term in office, and he also put his main opponent, Kizza Besigye, behind bars, charging him with treason and rape. If nothing else, the current situation in Uganda highlights the primacy of domestic politics in guiding the choices and actions of political actors, and shows that the role of donors in promoting 'good governance' by providing or withholding aid is at best limited. Thus, there is not necessarily a guarantee that promoting greater recipient government leadership in the aid relationship will lead to improved developmental outcomes, although this is an area that merits further research.

Vietnam

The Government of Vietnam (GoV) has displayed a solid track record in tackling poverty at the macro level and in setting its own development strategy. After some difficulty in the mid-1990s, the Vietnamese economy has been steadily recovering and has been growing at an annual rate of more than 7%, and ODA represents only approximately 4% of GDP (compared to FDI of around 14% of GDP). It is expected that, at current growth rates, aid to the country will be considerably scaled back by 2010, when GDP per capita is projected to reach USD\$1,000.

The government embarked on the PRSP process in mid-2000, and produced a final document, the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) in May 2002. While it is still too early to determine the medium-to-long-term impact of the CPRGS, the process itself seems to have

¹⁶ See World Bank – Uganda at www.worldbank/ug.

¹⁷ See P. de Renzio (2006) 'The primacy of domestic politics and the dilemmas of aid: What can donors do in Ethiopia and Uganda?' ODI Opinion no. 65, London: ODI.

yielded important positive results in the short term, including the involvement of new actors (e.g. a number of Vietnamese NGOs) in the policy process, as well as the development of a somewhat different type of intra-government policy process in which key ministries have been brought together to debate their individual contributions to an overall poverty reduction strategy.

Facing an economic downturn in the mid-1990s, Vietnam began to engage with aid donors and investors. Initially, the government welcomed all investors and donors and exercised little control over projects and investments, while focusing on capacity building and evaluation to lay the foundations for a more structured aid policy. From 2000 onwards, however, the GoV developed a more proactive strategy based on the experience and knowledge gained since opening up for aid.

There are now many different donors present in Vietnam, including 25+ bilateral agencies and 15 international organisations who have pledged (though not fully disbursed) more than USD\$3 billion a year. Key areas of interest among donors include governance (including legal reform and anti-corruption measure), poverty alleviation, water, sanitation, and HIV/AIDS. Existing donor groups include the Five Bank Group (ADB, AFD, JBIC, KfW, and WB), the Like-Minded Donor Group, the EU, the UN, and the Japan group. The jointly chaired Partnership Group for Aid Effectiveness (PGAE), which meets once a month, has become the prime forum for government-donor dialogue on aid effectiveness.

The GoV has succeeded in establishing some divisions of responsibility among donors. Thus, for example, the PGAE looks at public finance reform, and the Five Bank Group looks at project management and the harmonisation of procedures. The GoV has also established legal rules that structure relationships with donors, as in the case of procurement, for instance. The GoV is also working with donors to establish common results-based monitoring systems. Although Vietnam has not yet implemented a centralised system for handling donors, the GoV ensures that it is involved with project/programme design with donors from an early stage. At the same time, the GoV has displayed very strong ownership of its public policy agenda and has provided real leadership in managing donors – as demonstrated by its willingness to forego ODA rather than accommodate certain donor demands.¹⁸ The GoV also continues to emphasise the importance of evaluation in aid policy, encouraging learning from donor experiments in different sectors.

The drive to improve overall aid effectiveness, along with ongoing reform efforts and strong government commitment to set the country's development priorities and reduce poverty, make Vietnam well suited for piloting efforts to coordinate donor assistance. In fact, the GoV has invested significant political capital in its status as a pilot country on harmonisation. Vietnam has been a very active participant at OECD/DAC meetings and progress on harmonisation in Vietnam was showcased at the High-Level Forum on Harmonisation and Alignment in Rome.

Two key initiatives/documents on aid effectiveness in Vietnam have emerged from the PGAE: the *Vietnam Harmonisation Action Plan* (HAP) and the *Hanoi Core Statement* (HCS). Both enjoy high-level support among donors and the GoV. The HAP and its accompanying Monitoring Framework are intended to provide the development community in Vietnam with both a vision and concrete steps to achieve aid effectiveness based on the principles of country ownership, alignment and harmonisation, and streamlining. As part of HAP, donors have committed to supporting the formulation and implementation of the GoV's Five Year Socio- Economic Development Plan (2006-2010), as well as to align with the government's sector/sub-sector policies, strategies, and priorities.

Vietnam is also developing a Master Plan on ODA Mobilisation and Utilisation to establish the strategic direction for ODA use over the coming 2006-2010 plan period. A baseline survey is to be conducted as part of the HAP, which could become a crucial document in demonstrating the flaws of more traditional/less harmonised approaches to aid delivery and in showing progress over time.

¹⁸ This can in part be explained by the fact that Vietnam is not as aid dependent as some of the other case studies analysed here.

The HCS was a rapidly formulated local response to the signing of the *Paris Declaration* in 2005, placing Vietnam at the cutting edge of local responses to the Paris agenda. The Vietnamese document sets 14 key indicators relating to ownership, alignment, harmonisation, managing for results, and mutual accountability. It includes comprehensive progress indicators and suggests targets for 2010, and in some instances it is more ambitious than the Paris targets themselves. The PGAE is in the process of revising the HAP so that adequate targets are in place to put the HCS into action.

IV) Enabling Conditions for Recipient Leadership

On the basis of the experiences of the five countries described above, it is possible to suggest some general lessons as to the conditions that may enable recipient governments to take the lead in establishing aid policies and managing relations with donors. Five enabling conditions are highlighted below.

1. Supportive macroeconomic and growth environment

Most of the countries in the study have been characterised by generally good standards of macroeconomic management. As illustrated by the case of **Vietnam**, among others, this has created a stable economic environment which has facilitated forward planning and has meant that policy dislocations necessitated by IMF conditionalities have been minimised. Sound macro policies have contributed directly to the maintenance of good relations with the donor community. An environment of economic expansion has also been conducive to good relations, on the basis that hard decisions are always more difficult to make and implement in a context of economic stagnation.

However, while the existence of a supportive macroeconomic and growth environment has been an important factor in facilitating donor management, it has not been the only or most significant one. In **Afghanistan**, for example, slower GDP growth has not prevented engagement with donors on a more equal basis. Thus, macroeconomic stability and growth should be seen as facilitating factors, and not as preconditions.

2. A history of open and frank engagement between donors and recipients that promotes mutual trust and confidence

If recipient governments are to be able to take the lead in managing their relations with donors, there needs to be a history of open and frank (if not always free of friction) engagement between the two. This is essential to build a relationship that is based on reciprocal trust and confidence. In **Tanzania**, for example, the improvements that have been noted in the aid relationship are the product of prolonged and sustained interaction between donors and the GoT since the mid 1990s. In both Mozambique and Uganda, donors and the government have been engaged in constructive dialogue in a period that spans over a decade. In Vietnam, constructive engagement dates back to 1993. In Afghanistan, the history may be much shorter, but the intensity of the engagement is certainly not.

3. Commitment to reform and/or strengthen public institutions (especially regarding public financial management – PFM – and within that the budget)

This is an essential pre-condition in successfully managing relations with donors because of the importance of a strong institutional setting in both enhancing national capacity to identify and address development needs and nurturing the trust of donors on national systems. Successful reform experiences in Afghanistan and Tanzania are worth highlighting. While economic indicators in **Afghanistan** still need to improve, the GoA has embarked on an ambitious agenda of PFM reform. The GoA has thus created strong policies and systems to which donors can align (see Ghani et al. for greater detail). In **Tanzania**, the government has shown considerable political will to carry out important structural reforms, and the quality of public financial management has improved

significantly, as have the business environment and the investment climate. In both **Uganda** and **Vietnam**, donors and the government have been working together to strengthen public administration capacity and systems.

In all five case studies, governments have stated a strong preference to receive aid in the form of budget support. The establishment of stronger PFM systems has made it easier for donors to rely on national systems and to provide increasing levels of support through national budgets.

4. Strong political will and commitment by the recipient government to lead on the development agenda and own the development process

Experience has shown that it is easier for donors to align to a recipient country's development plan when country strategies are prioritised and operationalised, and it is easier for recipient countries to lead when their priorities have been identified internally. Internal policy coherence and strong coordination from the government are essential in this respect. As illustrated by the five cases discussed in this working paper, part of their success in dealing with (and leading) donors stems from the elaboration of a clear, well-articulated national development strategy linked to a medium-term budget plan.

In all five cases, the government has played a proactive role in setting development priorities and articulating its development preferences and strategies clearly. **Mozambique**, **Tanzania**, **Uganda**, and **Vietnam** all have PRSPs in place, many of which are in the process of being revised and updated. While **Afghanistan** is still only at the preparatory stage of its PRSP, the GoA established a clear national strategy early in its relationships with donors.

5. 'Mutual accountability' mechanisms¹⁹

Although all of the examples outlined in the section above on aid coordination and the monitoring of performance include different mechanisms to help track the impact of aid – and several monitoring mechanisms may be in place in any one country – mechanisms intended to extend accountability to donors as well as recipient governments are still very rare. The most notable examples are to be found in **Mozambique** and **Tanzania**, where mutual accountability mechanisms were developed in the context of long-term relationships with donors and were precipitated by crises in those relationships. Interestingly, in Mozambique (as in **Afghanistan**), these mechanisms are formalised, with clear rules and procedures for both donors and the recipient government being set at the country level, while they are more informal in Tanzania (and **Vietnam** as well), though a shift towards a more rules-based approach seems to be underway. In both these cases the use of independent experts has played an important role in mutual accountability processes – the IMG in Tanzania and the Pap-PAF process in Mozambique.

¹⁹ "For more information on mutual accountability mechanisms at the country level, see P. de Renzio and S. Mulley (2006) *Promoting Mutual Accountability in Aid Relationships*, Briefing Paper, London: ODI".

V) Conclusions

A number of recipient countries have taken steps towards leadership of their aid relationships. The five cases discussed here illustrate a range of strategies. All the recipient governments involved have set out their own development priorities and approaches, although with different degrees of involvement from donors. The governments of the countries discussed here also have, to varying degrees, developed clear financing policies which have provided the basis for effective aid management. Whether or not all this represents ‘real’ ownership is of course not clear-cut, but it is certain that without the willingness of recipient governments to exercise some leadership on development policies in general and financing strategies in particular, recipient leadership of the aid relationship cannot emerge.

Independent monitoring has been an important aspect of developing recipient leadership in some of the cases discussed here. In Tanzania, independent monitoring provided the basis for an improved relationship between the government and its donors, and it has also provided information on donor behaviour which is helping the government hold its donors to account more effectively. In Mozambique, independent assessment of the government and donor performance assessment frameworks have been crucial elements of the mutual accountability structures which have emerged around budget support. More generally, mutual accountability has been supported by the availability of reliable data on recipient and donor activities, for example in Afghanistan.

In several of the cases, governments have been able to set conditions on their acceptance of aid. This is most clear in Afghanistan, where the government’s determination to control aid inflows was backed up by a willingness to turn down aid which did not meet certain standards.

In most cases, recipient governments have employed a mixture of strategies in their efforts to take on a leadership role in the aid relationship. While their successes have been mixed, and it remains to be seen whether recipient leadership will develop further in the cases discussed here, it is clear that aid recipients can, and do, play an active part in the aid relationship. The cases discussed here suggest that recipient leadership can play an important role in improving the quality and effectiveness of aid.

Ultimately, the ability of recipients to change donor behaviour rests on both recipients and donors being able to build on or establish a relationship that is based on mutual trust and confidence. Importantly, as stated above, this does not imply that recipients need to have good relationships with donors in order to take the lead and manage/change donor behaviour – the case of Tanzania being a good example. The willingness of donors to engage with the recipient governments also clearly requires some level of donor-perceived credibility. And recipient governments need to have the capacity (both technical and political) to set their development priorities and provide essential policy coherence in order to enable donors to ‘align’ to country strategies.

Finally, it is important to note that recipient attempts at leadership in aid are not limited to the country level. Multilateral initiatives, such as the Strategic Partnership with Africa led by organisations like NEPAD, also provide opportunities for recipients to influence donor behaviour. The OECD DAC process on aid effectiveness, although donor-led, includes some elements of international mutual accountability²⁰ between donors and recipients, with monitorable targets on both sides, although it has arguably yet to deliver on this model.

²⁰ For more information on international initiatives to promote mutual accountability in the aid system, see P. de Renzio, A. Rogerson, and A. Rocha Menocal (October 2005) ‘Promoting Mutual Accountability in Aid Relationships: International Level Issues and Options’, Background Paper, London: ODI.

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