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**RELATIONSHIPS MATTER:  
THE AID RELATIONSHIP  
IN LOW-INCOME POST-  
COMMUNIST COUNTRIES**

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Thesis submitted for the degree of PhD in Development Studies

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## ABSTRACT

In the early 1990s, a group of low-income post-communist countries embarked upon a process of economic, social and political transformation. Most received significant levels of foreign aid during the first fifteen years of change. This research examines the nature of the “good aid relationship” – defined as strong national ownership – in eight of these countries during the period 1990 to 2005, and focusses on explaining why such an aid relationship exists or does not. Initial research reveals that the aid relationship varied significantly across the low-income post-communist countries and over time. Overall, when providing aid, donors did not focus sufficiently on deepening the aid relationship and this probably had a detrimental effect on aid’s impact.

In explaining why a good aid relationship exists or does not, five major conclusions were reached. First, the lack of national ownership of the aid relationship agenda was itself a major barrier to improving the relationship. Second, the dependency of both donors and recipients was as much a political as an economic issue, concerning individuals as well as organizations and governments. Third, better oversight was needed to ensure that donor staff and contactors were held accountable for implementing aid relationship policies, especially when incentives not to do so were strong. Fourth, donor perceptions of weak national capacity were a major constraint to improving the aid relationship. Paradoxically, lack of ownership of the capacity development process itself was often a major cause of its failure, as was the perceived urgency to address critical development needs rather than address longer-term capacity development processes. Finally, it is unlikely that the legacy of the Soviet system had a major effect on the relationship especially in light of donors’ efforts to replicate the structures and relationships they had established in other parts of the world.

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## ACRONYMS AND ABBREVIATIONS

<b>ADB</b>	Asian Development Bank
<b>ADF</b>	Asian Development Fund
<b>AiDA</b>	Accessible Information on Development Activities
<b>AIDS</b>	Acquired immune deficiency syndrome
<b>APAC</b>	<i>Aimag</i> Poverty Alleviation Council
<b>CAE</b>	Country Assistance Evaluation
<b>CAS</b>	Country Assistance Strategy
<b>CBO</b>	Community Based Organisation
<b>CCA</b>	Common country assessment
<b>CDF</b>	Comprehensive Development Framework
<b>CG</b>	Consultative Group
<b>CIRI</b>	Cingranelli-Richards
<b>CIS</b>	Commonwealth of Independent States
<b>CITT</b>	Country Implementation Tracking Tool
<b>CPIA</b>	Country Policy and Institutional Performance Assessment
<b>CSO</b>	Civil Society Organisation
<b>DAC</b>	Development Assistance Committee
<b>DFID</b>	Department for International Development (United Kingdom)
<b>DPAC</b>	<i>Dureeg</i> Poverty Alleviation Council
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>ENP</b>	European Neighbourhood Policy
<b>FAO</b>	Food and Agriculture Organization of the United Nations
<b>FY</b>	Fiscal Year
<b>GBS</b>	General Budget Support
<b>GDP</b>	Gross Domestic Product
<b>GEF</b>	Global Environment Facility
<b>GNI</b>	Gross National Income
<b>GTZ</b>	<i>Gesellschaft für Technische Zusammenarbeit</i>
<b>GWOT</b>	Global War on Terrorism
<b>IDA</b>	International Development Association
<b>IFI</b>	International Financial Institution
<b>IGO</b>	Inter-governmental organization
<b>ILO</b>	International Labour Organization
<b>IMF</b>	International Monetary Fund
<b>I-PRSP</b>	Interim Poverty Reduction Strategy Paper
<b>JICA</b>	Japan International Cooperation Agency
<b>KPAC</b>	<i>Khoroo</i> Poverty Alleviation Council
<b>LIPCC</b>	Low income Post-Communist Country
<b>MDB</b>	Multilateral Development Bank
<b>MDG</b>	Millennium Development Goals
<b>MDGR</b>	Millennium Development Goals Report
<b>MECS</b>	Ministry of Education, Culture and Science
<b>MfDR</b>	Managing for Development Results
<b>MFE</b>	Ministry of Finance and Economy
<b>MPPL</b>	Ministry of Population Policy and Labour
<b>MPRP</b>	Mongolian People's Revolutionary Party
<b>MSWL</b>	Ministry of Social Welfare and Labour
<b>NaTCAP</b>	National Technical Cooperation Needs Assessment and Programming
<b>NDF</b>	Nordic Development Fund
<b>NEPAD</b>	New Partnership for Africa's Development
<b>NGO</b>	Non-governmental organisation
<b>NHDR</b>	National human development report

<b>NPAC</b>	National Poverty Alleviation Council
<b>NPAP</b>	National Poverty Alleviation Programme
<b>OA</b>	Official Aid
<b>ODA</b>	Official Development Assistance
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OED</b>	Operations Evaluation Department
<b>PAF</b>	Poverty Alleviation Fund
<b>PAPMU</b>	Poverty Alleviation Programme Management Unit
<b>PAPO</b>	Poverty Alleviation Programme Office
<b>PAVG</b>	Poverty Alleviation for Vulnerable Groups
<b>PAR</b>	Public Administration Reform
<b>PCA</b>	Partnership and Cooperation Agreement
<b>PMU</b>	Programme Management Unit
<b>PPA</b>	Partnership Programme Agreements
<b>PPTA</b>	Project Preparation Technical Assistance
<b>PRSP</b>	Poverty Reduction Strategy Paper
<b>SDP</b>	Sector Development Programme
<b>SDR</b>	Special Drawing Right
<b>SIDA</b>	Swedish International Development Cooperation Agency
<b>SME</b>	Small- and Medium-sized Enterprise
<b>SPAC</b>	Sum Poverty Alleviation Council
<b>SSA</b>	Sub-Saharan Africa
<b>SSSDP</b>	Social Security Sector Development Programme
<b>SSSS</b>	Social Security Sector Strategy
<b>SWAp</b>	Sector-wide Approach
<b>TA</b>	Technical Assistance
<b>TACIS</b>	Technical Assistance to the Commonwealth of Independent States
<b>UN</b>	United Nations
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>UNDP</b>	United Nations Development Programme
<b>UNEP</b>	United Nations Environment Programme
<b>UNESCO</b>	Educational, Scientific and Cultural Organization
<b>UNIDO</b>	United Nations Industrial Development Organization
<b>UPAC</b>	Ulaanbaatar Poverty Alleviation Council
<b>USAID</b>	United States Agency for International Development
<b>WDR</b>	World Development Report

## **CHAPTER 1: OVERVIEW OF THE RESEARCH AND THE MAIN AREAS TO BE EXAMINED**

The collapse of the Berlin Wall in 1989 was followed by the disintegration of the Soviet Union less than three years later. From these events emerged a set of nations, some of which were previously Soviet republics while others already existed and simply became fully independent of their former masters. The majority of these post-communist countries embarked upon a process of rapid economic, social and political transformation towards democracy and a market-oriented economy. Just a dozen years later eight of them joined the European Union and as many are lined up to do so. By the end of the 1990s a group of countries remained, however, that experienced a rapid economic decline from the start of the transformation process and, concurrently, a rapid increase in poverty and human deprivation. By 2005, although the drastic economic decline of the early 1990s had ended, only three of the eight countries had returned to pre-transition levels of economic activity.<sup>1</sup>

This research focuses on this set of nations, collectively termed low-income post-communist countries<sup>2</sup> over the period from early in the transition process in 1990 to 2005. Foreign aid played an important role in the transformation process for most post-communist countries, from financing important investments to driving the reform agenda itself. The low-income post-communist countries received a significant amount of foreign aid for the first ten years of the transformation, in some cases with little to show for it other than a debt burden. Within the set of countries this research is focused specifically on the relationship between the providers and recipients of this aid.

### **1.1 THE RESEARCH**

Foreign aid has a fairly short history but has become an enormous industry, employing tens of thousands of people and worth billions of dollars. From its inception after the Second World War<sup>3</sup> constant efforts were made to improve its effectiveness and, as a result, the global aid industry has been under constant reform, often subject to fashion or to the whims of its leaders, and sometimes simply reflecting the repackaging of old ideas. While there have been some

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<sup>1</sup> The European Bank for Reconstruction and Development monitors real GDP growth across the post-communist countries (EBRD 2011)

<sup>2</sup> These are Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Uzbekistan. Section 1.4 of this chapter justifies their inclusion in this group.

<sup>3</sup> It can be argued that development assistance efforts were made before the Second World War, for example with respect to British and French colonies, but the foreign aid system as it is known today was established in the 1940s (Little and Clifford 1965).

major development successes in the last four decades<sup>4</sup> it is unclear how much of this progress can be attributed to aid. Comprehensive overviews of the aid system, for example Pearson's *Partners in Development* (1969), Cassen's *Does Aid Work?* (1985), the World Bank's *Assessing Aid* (1998) and Riddell's *Does Aid Really Work?* (2007) have come up with a similar message: Aid does work, but it could do better. Each of these studies has led to a vigorous debate over the results and each has informed a generation of policies, which has been succeeded by the next set of potential solutions. While recognizing the problems with aid, some have called for significant increases in aid volumes to address global development issues, for example the United Nations (UN) Millennium Project.<sup>5</sup> Others are less optimistic, and the cynical view about aid is a common one that has been well articulated from the start (for example the work of Peter Bauer, Milton Friedman or, more recently, William Easterly<sup>6</sup> and Dambisa Moyo). Although even the most ardent supporter of aid would agree that it could do better, by the start of the third millennium there is was growing consensus that aid *must* do better.

The global aid system continued to change in the fifteen years since the start of the transformation of post-communist countries.<sup>7</sup> There was a significant decline in the global volume of aid in the 1990s, at a time when the number of recipient countries was increasing due to the addition of the post-communist countries themselves. Among other things, during this period there was an increase in the importance of governance within the development agenda, partly due to the work on post-communist countries in transition to democracy. Another relevant change was the increased importance of the aid relationship in the rhetoric and practice of donor aid policy as well as among aid recipients. Established ideas such as *partnership* gained new importance during the decade and recognition of the failures of conditionality brought the focus of donor and recipient attention towards the issue of national *ownership*. More recently, the issue of coordination, for a long time perceived as essential for greater effectiveness, started being examined in new light through the Harmonisation and Alignment Agenda.<sup>8</sup> These elements of the aid relationship also form part of the World Bank-initiated Comprehensive Development Framework (CDF) principles<sup>9</sup> that have come to form the basis of a new generation of donor policies and practices in the new millennium. Many of these changes were

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<sup>4</sup> In his report for the Millennium Summit in 2000, the United Nations Secretary General noted: 'Chief among the human development success stories since the 1960s are the increase in life expectancy in developing countries, from 46 to 64 years; the halving of infant mortality rates; an increase of more than 80 per cent in the proportion of children enrolled in primary school; and the doubling of access to safe drinking water and basic sanitation' (Annan 2000: para.67).

<sup>5</sup> The Millennium Project is an independent advisory body commissioned by the United Nations Secretary-General in 2002 to develop a concrete action plan for the world to address poverty, hunger and disease.

<sup>6</sup> Easterly's position can be summed up in the title of his book on aid: 'The White Man's Burden – Why the West's efforts to aid the rest have done so much ill and so little good' (Easterly 2006).

<sup>7</sup> Further discussed later in this chapter.

<sup>8</sup> Examined in more detail in Chapter 2.

<sup>9</sup> The five CDF Principles are (i) long-term, (ii) holistic vision, (iii) country ownership, (iv) country-led partnership, and (v) results focus. They are examined in more detail in Chapter 2.

clearly articulated at the International Conference on Financing for Development held in Monterrey in 2002, which focused on aid effectiveness as well as increased aid flows in the context of achieving the Millennium Development Goals (MDGs).<sup>10</sup> While recognition of the need for a two pronged approach of larger volumes and greater effectiveness of aid is not new<sup>11</sup> there has been significant progress on the former with increasing aid flows evident since 2000. The focus of the donor community has now turned again to increasing effectiveness where progress will probably be much harder. Strengthening the aid relationship can support this effort through adding value to the more traditional donor interaction, and therefore increase the likelihood of aid achieving its core goal of enhancing the prospects for development.

Although interest in the aid relationship has a history as long as aid itself (Fraser 2009) the recent focus on the issue has allowed a degree of consensus to be reached around the meaning of terms and ideas. Agreements such as the 2005 *Paris Declaration on Aid Effectiveness* have helped to codify some of the basic elements of this relationship and helped promote a common understanding, amongst donors and recipients alike, about what these elements mean. Equally, there is a growing (if not complete) consensus, about what the optimal relationship should be to increase the effectiveness of aid. The characteristics of such an optimal or *good aid relationship* can be determined, in very broad terms, from the agreements reached on the issue. It could be described using the language of partnership approaches, stronger national ownership, better alignment of donors to national processes, and so on, even if some of these concepts and definitions are still contested within the donor community, recipient governments and civil society.

Although there may be inadequate knowledge about the role of the aid relationship in determining aid effectiveness<sup>12</sup>, donors continue to promote the *good aid relationship* widely at the level of headquarters rhetoric. For example, the CDF principles are to be used in all low-income countries borrowing on concessional terms from the World Bank regardless of the context.<sup>13</sup> While the rhetoric concerning what needs to be done is strong, as will be seen in later chapters of this thesis, many of the approaches proposed are not new. Moreover, evidence suggests that in practice not enough has been done to improve the relationship across all countries (World Bank 2005a) irrespective of how a *good aid relationship* determines aid effectiveness.

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<sup>10</sup> The MDGs are the eight goals for 2015 that emerged from the 2000 UN Millennium Declaration.

<sup>11</sup> Referring to her time at the Overseas Development Institute (ODI), Teresa Hayter noted 'At the ODI in the 1960s, we believed that our task was to lobby for more aid, and to make it "more effective"' (Hayter 2005: p.88).

<sup>12</sup> The existing body of theory and evidence will be examined in Chapter 3.

<sup>13</sup> The CDF principles of *country ownership* and *country-led partnership* are key to the Poverty Reduction Strategy Paper (PRSP) initiative which has been adopted by the vast majority of World Bank clients borrowing on concessional terms.

The overall objective of this research is to gain a better understanding of the aid relationship<sup>14</sup> in low-income post-communist countries (hereafter abbreviated to LIPCCs) and to learn more about why this relationship has not improved. As a first step, three initial questions are addressed. The first question concerns identifying the nature of the aid relationship and what it means in the context of the research: What is the *good aid relationship*? The second initial question concerns identifying why the aid relationship is important for improving aid effectiveness: What is the theory and evidence that links the good aid relationship to more effective aid? The third question addresses the context by examining the aid relationship in a specific set of countries: Does the *good aid relationship* exist in the LIPCCs? Within this context the thesis will answer the key research question: What explains why the *good aid relationship* exists or does not?

Through answering these questions the thesis makes two significant contributions. First, it assesses the aid relationship in a specific set of countries where the issue of the role of aid and the challenges to increasing its effectiveness have largely been ignored.<sup>15</sup> Even the combination of low income and high aid volumes has not attracted an adequate level of attention to the urgent need for greater aid effectiveness in these countries. This is both in terms of the attention paid by the international community, including civil society organisations, and in terms of the recipient countries themselves where domestic debate on these issues is undeveloped. Some donors have examined the effectiveness of their own aid programmes, for example the World Bank, which undertook a comprehensive study of its support to post-communist countries in transition (World Bank OED 2004a). Other donors have studied the effectiveness of specific aspects of their engagement in individual countries.<sup>16</sup> At the national level, there have been efforts in some countries to examine aid in the context of improved harmonisation and alignment but this focuses largely on improving procedures and institutional arrangements and not on all aspects of effectiveness.<sup>17</sup> Nonetheless, comprehensive examination of aid effectiveness in the LIPCCs, or indeed even a detailed assessment of total aid in a single country, has yet to be undertaken.<sup>18</sup> While this thesis is not going to undertake such a comprehensive assessment it is an important contribution to understanding how the aid relationship, and ultimately development effectiveness, could be improved.

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<sup>14</sup> A more precise meaning of the complex idea of the aid relationship is examined in detail in Chapter 2.

<sup>15</sup> So little work has been done in this area that it is difficult to find a reference to confirm this proposal.

<sup>16</sup> For example the United Nations Development Programme (UNDP) and the Swiss Agency for Development Cooperation (SDC) both undertook evaluations of their role in the Poverty Reduction Strategy Paper (PRSP) process that included case studies from the region.

<sup>17</sup> Mongolia and the Kyrgyz Republic were cases in the 2006 Survey on Monitoring the Paris Declaration.

<sup>18</sup> This is in contrast to the large volume of literature on aid in Africa from comprehensive reviews such as Devarajan, Dollar and Holmgren's *Aid and Reform in Africa* (Devarajan, Dollar *et al.* 2001) to polemics such as Calderisi's *The Trouble with Africa: Why Foreign Aid Isn't Working* (Calderisi 2006).

Second, the contribution is also partly based on the assumption that some of the findings and lessons learned from the research will be of a generic nature and can be applied directly to a broader group of countries or adapted to their particular contexts. The debate on the aid relationship is anchored on many intuitively appealing ideas and passionate rhetoric but this research will try to add some realism to the process. The findings and conclusions of the empirical work will be compared with that of the broader body of research in this area and the experience of countries in other regions. In so doing, the research will also examine how the findings and conclusion can be relevant for other countries in transition, whether from Communism or other social, economic and political upheaval.

## 1.2 RESEARCH DESIGN

Aid is complex: it involves a broad variety of individuals and organisations; it comes in a variety of forms; and, it deals with a wide variety of contexts that often change rapidly. For these reasons, undertaking this research presents many challenges. Much of the existing research into aid effectiveness on a global level has been undertaken using econometric models, seeking to explain aid effectiveness through cross county data. Since the publication of the World Bank's *Assessing Aid* in 1998 (World Bank 1998), a body of research that drew heavily on such econometric practice, there has been an explosion of econometric studies examining the relationship between aid and various development variables such as growth or poverty reduction.<sup>19</sup> These models assume that the generalised results they produce are both accurate and applicable to policy making in a wide range of contexts. Much of the debate has concerned technical issues regarding the specification of the models, while some have also questioned the over-simplistic nature of this approach noting, for example, the fact that aid is not homogenous (Clemens *et al.* 2004).

In the context of this research, the use of such models would require accurate data concerning the aid relationship when, as will be emphasised, key elements such as ownership and partnership are conceptually elusive and difficult to quantify, even through the use of proxies. The econometric models are useful, however, in identifying some broad relationships that deserve further attention, for example the relationship between the effectiveness of aid and the state of governance in a recipient nation. But the debate on their utility, like many conducted on the plane of econometrics, has been inconclusive.<sup>20</sup> While this research draws on the results of

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<sup>19</sup> A good overview of the various models can be found in McGillivray, Feeny *et al.* (2005). The paper notes (p.5) that the impetus for the new wave of econometric modelling may have been Boone (1996).

<sup>20</sup> For example, a recent independent evaluation of the World Bank's research (Banerjee *et al.* 2006) included an examination of the *Assessing Aid* research programme and concluded that "this provocative research program has set

such econometric work, it adds to the understanding of the aid relationship issue through a methodologically pluralistic approach to answering the research questions.<sup>21</sup> Not simply about testing a specific hypothesis, the research focuses on the inductive move from specific cases to make general conclusions. It attempts to explore the multiple realities that exist in the field and therefore relies more on interview than on formal surveys and models.

The research also draws and builds on other models and frameworks that have been used to examine the aid relationship and, more specifically, conditionality. For example, the work of Mosley, Harrigan and Toye's important *Aid and Power* published 1991 (Mosley *et al.* 1991) where conditionality is practiced as a strategic game between two players or Killick's *Aid and the Political Economy of Policy Change* (Killick 1998) which uses a principal-agent approach to analyse the relationship. It also draws on the work based around new institutional economics and the incentives faced by various participants in the aid relationship. The *Samaritan's Dilemma* (Gibson *et al.* 2005) is an important example of this approach. Whitfield and Frazer (2009 p.37) note that while these rational choice approaches 'recognize that recipient domestic politics and geopolitical factors are significant in influencing the negotiating strategic of donor and recipients and in shaping their outcomes, they are unable to address them in the models they adopt'. Therefore, rather than base the framework for analysis of the aid relationship on these models, a political economy approach is used in line with that developed by Whitfield (2009) in work on the politics of aid in Africa. The political economy framework adopted for use in the analysis of the aid relationship in this thesis is described further in Chapter 2.

### **1.2.1 Scope of the research and structure of the thesis**

The research first examines a set of eight post-communist countries (described in Section 1.4) and then, in more detail, a single case-study country from within this set. As a third stage in this process the thesis examines the issue at the level of thematic and sectoral programmes within the case-study country. This *funnel* approach allows a more in-depth study to be undertaken in this very complex area in order to capture the nuances of the aid relationship in the case study country. It recognises that certain dimensions of the aid relationship are best examined at different levels and that that these may not be the same levels where investigations, measurement and theory development generally take place. In so doing the main focus is as much on the interpretation of the data collected as on preparation of a model that can be applied to a larger region.

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out some stimulating research questions, and applauds the Banks initial efforts. At the same time, however, we see a serious failure in the checks and balances within the system that has led to Bank to repeatedly trumpet these early empirical results without recognizing their fragile and tentative nature."

<sup>21</sup> Holland and Campbell (2005a) emphasize this notion with a quote from Miles and Huberman (1984: p.20): 'we contend that researchers should pursue their work, be open to an ecumenical blend of epistemologies and procedures, and leave the grand debate to those who care most about it.'

The pluralistic approach means that multiple methods can also be used (as further examined in Section 1.2.2) including qualitative (interviews, focus groups, etc.) and quantitative (numerical data analysis, relationship measurement, etc.) varieties. The material used comes from a variety of sources including official government, inter-government and donor documentation and well as that produced by civil society organisations including think-tanks and non-governmental organisations (NGOs) in the countries being examined as well as in donor countries. The nature and variety of sources is also why verification of findings through triangulation (also examined in Section 1.2.2) is important.

The thesis is divided into three parts. The first part, Chapters 2 and 3, establishes frameworks and provides analysis to support the empirical work. The complexity of aid effectiveness and the aid relationship means that some basic tools need to be developed to facilitate further analysis. These chapters aim to provide a supporting, or underlying, structure to the empirical analysis undertaken in Chapters 4, 5 and 6. Frameworks are developed to describe the conceptual system of definitions and classifications of the related data. The development business is not unlike other fields in that it has developed its own jargon. Terms and concepts such as effectiveness, ownership and even aid itself, have multiple definitions that are contested within the international development community, not just between different organisations but even within them. This is not to say that the definitions used in this thesis are the only ones that can be used or that they are necessarily the best for all purposes. It is also recognised that there will be alternative definitions that are equally valid and that these definitions will evolve over time and take on a life of their own. As one commentator has noted: ‘Attempts to enforce ideally precise definitions will rapidly fail, because they can neither capture present-day nuances nor anticipate all future demands’ (Gasper 1996: p.152). They are, however, important in the context of the thesis since they help ensure clearer analysis and provide consistency across the research.

Chapter 2 examines the aid relationship and defines a working definition of the *good aid relationship* for use in the rest of the research. It attempts to make sense of the rhetoric and policies of the donor community and creates a useful guide for further analysis of this fundamental issue. The chapter also sets out a simple analytical framework for understanding the question of why the *good aid relationship* has not been implemented. This framework will guide the analysis in the empirical chapters. Chapter 3 provides an overview of the existing body of theory and evidence linking the aid relationship to aid effectiveness as well as a framework to examine this relationship. It does so to help identify any additional linkages between the two that come from the empirical chapters (even if exploring this association is not

the core focus of this thesis). Moreover, these links are important because they are factors that can explain the nature of the aid relationship, not least because the positive effect of the aid relationship on aid effectiveness may not affect all stakeholders in the same way.

The second part of the thesis consists of Chapters 4, 5 and 6, which undertake the empirical study using a variety of research methods that are described in more detail in Section 1.2.2 below. Specific issues related to the fieldwork are described in Section 1.2.3. The third part is the final chapter, which brings together the findings and emerging conclusions from the empirical chapters to reach overall conclusions that answer the research question.

The research covers the fifteen-year period from the start of the transition process for the earliest reformers, 1990 to 2005. During this time, the author worked in the case-study country, Mongolia, either as a resident (1991-1996) or as a consultant (1997-2004).<sup>22</sup> Having worked on aid projects and programmes in the majority of the countries being examined, the author of this thesis, *the researcher*, is clearly not independent of *the researched*. It is accepted that development studies research is subjective and acknowledges that there is bias, some of which is acceptable and some of which is not (Sumner and Tribe 2004).<sup>23</sup> Efforts have therefore been made to ensure there is no unacceptable bias as will be described in the following sections on research methods and fieldwork.

### **1.2.2 The Research Method for Empirical Work**

Each of the empirical chapters has a different, yet complementary, research approach which is described in more detail below. Chapter 4 explores the overall aid regimes<sup>24</sup> in the group of transition countries being examined and identifies the data that is available. It examines the overall aid regimes using secondary sources of data but nonetheless introduces original analysis of this data. In so doing it sees what can be learned about certain aspects of the aid relationship. It also provides an opportunity to examine issues related to measurement of the aid relationship as well as the factors that determine it. Most importantly, by looking across a set of eight LIPCCs<sup>25</sup> it allows an assessment of the importance of context in determining if the important factors that affect the aid relationship are common across all LIPCCs.

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<sup>22</sup> Organisations included the United Nations Development Programme and the World Bank (as a long-term resident) and the Asian Development Bank (as a short-term consultant).

<sup>23</sup> This period of fieldwork also raises some questions of research ethics and specifically in relation to *informed consent*. While this issue was taken into account during the research specific fieldwork during 2000-2004 inevitably the research undertaken during the earlier period was characterised by a more general interest in the issues outside a specific research framework. Interviews and discussions were therefore held outside this framework.

<sup>24</sup> The term aid regime is used to mean the combined aid delivery, policies, strategies and organisations of all donor organisations in a country as well as the national structures for aid management.

<sup>25</sup> The selection of these eight countries is explained in the introductory paragraphs of Section 1.4.

Chapter 5 takes the case study country, Mongolia, and examines the overall aid relationship at the country level. This chapter is largely developed from field work in Mongolia. Mongolia was selected as a case-study because it was the country where the author had the longest experience and would therefore be able to draw on this experience as well as documents and contacts to enrich the research process. Chapter 6 examines the aid relationship in the context of development assistance to the Mongolian ministry responsible for labour and social security issues.<sup>26</sup> This chapter is also built largely on fieldwork including the author's experience working with the ministry over the ten years since 1994.

The “drilling” approach – moving from the regional to national to sectoral/thematic levels in a “matryushka of case studies” - allows analysis at different levels of the relationship, each of which presents its own challenges. At the regional level, collection of data on ownership is a major problem as are conceptual problems regarding the aggregation of information. As a result, the analysis only goes as far as the partnership dimension of the aid relationship. At the national level, analysis is easier and a better understanding of the aid relationship is possible. More importantly, the national level of analysis allows the examination of the broad factors that determine the aid relationship. Finally, analysis at the sub-national level is appropriate for more detailed investigation in relation to the existence and nature of the aid relationship as well as the factors that determine it.

The evidence has been gathered from different sources (documents, individuals, etc.) and through different data collection methods (documentation review, semi-structured interview, etc.). Data collected was verified according to the concept of *triangulation*; a process that should ‘cut across schools of thought, disciplines, theoretical frameworks, researchers, populations, stakeholders, key informants, methods and data’ (Holland and Campbell 2005b: p.23). Triangulation was both by method (i.e. between data collected using different methods) as well as by source (e.g. between data collected from different interviewees or across different documentary sources). Where inconsistencies emerged, further investigation was undertaken.

The approach is also supported by the methodological pluralism of the thesis and the multiple methods that are used in the research. The collection and examination of documentation was the first phase of the research work but has continued throughout the process. Perceptions were derived from work experience in the region as well as through interviews made during field work. Validation was made partly through both qualitative and quantitative analysis of secondary data as well as direct observation in the field. The triangulation approach was used

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<sup>26</sup> The generic term “ministry responsible for labour and social security issues” is used as the ministry changed names three times over the period being examined.

not merely to validate claims or to strengthen the data sets. The approach goes beyond facilitating the development of *perfect* research within a single, narrow perspective but is used to learn more and to enrich the analysis (Olsen 2004: p.213). Finally, the potential biases associated with the researcher being too close to the researched were largely overcome to an acceptable level. The data collected through observation and direct engagement in the process (specifically in relation to chapter 6 and the examination of the two case study programmes) was verified through other data sources.

Given the massive political, economic and social changes which occurred in the region being examined it is inevitable that some statistical problems had to be addressed, specifically with regard to the compatibility of statistics from the previous system with the new systems adopted by most of the countries. While this is important for some of the descriptive sections of the thesis that set the context for the research, it has not been a major problem for the research except in a few specific areas that are addressed at the appropriate time in later chapters.

### **1.2.3 Fieldwork**

Fieldwork was undertaken in Mongolia on several occasions during the period 2000-2004. In addition, over the same period approximately three months was spent among some of the other countries being studied (the Kyrgyz Republic, Moldova, Azerbaijan and Tajikistan) working as a consultant on specific donor projects. Fieldwork allowed the collection of data and other information not readily available outside the case-study country and, more importantly, the opportunity to interview a wide range of people from different stakeholder groups related to the aid regimes in those countries.

The semi-structured interviews were conducted within a fairly open framework allowing a focussed two-way exchange of information. The approach was selected over the formal structured questionnaire not only for reasons of flexibility but because the ideas being discussed are complicated, ambiguous and open to wide interpretation, especially for those not immersed in the ongoing debates and literature. Interviewing started with more general questions or topics and allowed exploration as the conversation continued and as the interviewer probed for information to help answer the overall research questions. Not all questions were designed ahead of time and the majority of questions were created during the interview. Table 1.1 below provides the basic framework for the interviews, indicating alignment with the research questions and setting out the lead questions that represent the initial issues raised during the interview and the supplementary questions that could be used to follow-up. Where appropriate, interviewees were asked to illustrate their responses with examples.

Table 1.1: Guiding Questions in Semi-structured Interview.

Research questions	Lead and supplementary questions
What is the aid relationship?	<ul style="list-style-type: none"> <li>- Is there a clear definition of the aid relationship used in the country? <i>Is it official? Where does it come from?</i></li> <li>- What are the characteristics of a donor-recipient partnership? <i>Does it need to be equal?</i></li> <li>- What do you understand by national or country ownership? <i>Who are the owners? What is owned?</i></li> </ul>
Does the good aid relationship exist?	<ul style="list-style-type: none"> <li>- Partnership – do you work together with donor/recipient for the same objectives? <i>Are there shared values among the partners?</i></li> <li>- <i>How are benefits and responsibilities shared?</i></li> <li>- Ownership – who is in control or the aid you provide/receive? <i>How does ownership change over the project cycle?</i></li> </ul>
What difference has the aid relationship made to the effectiveness of the aid provided?	<ul style="list-style-type: none"> <li>- How has the aid relationship made aid better (overall or in individual projects)? <i>Specifically, how has it affected results, governance, learning and accountability?</i></li> </ul>
Why has the aid relationship not been improved?	<ul style="list-style-type: none"> <li>- What is your policy/stance on the aid relationship? <i>Is it an official position? Has it changed since 1990?</i></li> <li>- How dependent on aid is your organization? <i>What would happen to your organisation if aid rapidly declined or even ended?</i></li> <li>- How dependent on aid are you as an individual? <i>What would happen to you if aid rapidly declined or even ended?</i></li> <li>- What are the capacities of your partners to control aid at different stages in the project cycle (design, implementation, evaluation.)? <i>Have these capacities changed over time?</i></li> </ul>

Interviewees included representatives of government (local and central), parliament (current and former members), civil society (including national and international NGOs and academics), and international donor organisations (both donor field staff and consultants). The majority of interviews were conducted on a one to one basis but focus group meetings were also held where appropriate (mostly for NGOs). Table 1.2 indicates the number of interviewees from among the government, international donor community and Mongolian civil society.

Table 1.2: Persons Interviewed by Category of Interviewee

Category of stakeholder	Number interviewed
Mongolian Government (including provincial level)	18
Donor community working in Mongolia (including international NGOs)	11
Mongolia civil society (including academia and consultants)	29

In some cases there was great interest in the aid relationship issue and a clear concern for the country's future aid strategy. In such cases discussion with interviewees often continued via e-mail. This was particularly useful where follow-up interviews were physically not possible. It was especially important in light of the complexity of the issue and the fact that concepts relating to dimensions of the donor-recipient relationship, such as ownership and dependency,

were not always immediately clear. Moreover, these concepts were been part of open debates and need a certain amount of reflection even if the interviewee has been briefed about the nature of the interview in advance.

In relation to the fieldwork, a number of challenges were anticipated. First, a major concern was that following field work and the process of the qualitative and quantitative data collection, new issues would emerge that would require further investigation. This problem was solved through a general agreement noted above to continue discussion through e-mail where possible. Second, access to key informants in government (but also in the donor community and civil society organisations) might be difficult, especially access to those at a senior level. It was expected that contacts developed over many years living and working Mongolia would facilitate this process as would working as a consultant for large donor organisations.<sup>27</sup>

In addition, there was often limited institutional memory amongst the donors. This is due not only to the inevitable turnover of international staff but also to significant changes in national staff. Data collection often meant tracking down potential interviewees, both internationals and nationals, some of whom were willing to engage, some of whom were not because they had moved on and were no longer interested in their past professional work. While efforts were made to interview people from different groups there was also considerable movement of individuals between them; a move from academia to private sector to politics to think tank was not uncommon. Major changes in civil servants following changes in government (contrary to civil service legislation) also made this issue more prominent. Although this often made it difficult to get information from the perspective of a specific group, the broad experience of such interviewees often made their views more relevant and pertinent than those with narrower experience.

The researcher's previous work in Mongolia also affected his "positionality", not only as an outsider, but as someone who worked closely with many informants in the past, and would probably continue to do so in the future. While working as a consultant may have resulted in better access to people and information, there was a risk that respondents might have been less open as a result, and may not have been willing to criticise donor activities. This was not found to be the case. Moreover, the degree of openness was increased as a result of long-term relationships that had been developed across elements of government, the donor community and civil society and the resulting level of trust that had been established. To encourage greater openness during interviews, respondents were assured of their anonymity and confidentiality. It

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<sup>27</sup> Most of the consulting work undertaken during the period 2000-2004 was for the Asian Development Bank.

was agreed that any reference made to their past or present positions would be in general terms (for example, ‘former senior civil servant in the Ministry of Finance’) not to their name.

Part of the field work focussed on the collection of documentary evidence. As in all fields, there was a dramatic increase in the availability of relevant documentation required for this research from the late 1990s because of the World Wide Web. Nonetheless, while documents became more readily available not all useful material has been published on the web and efforts had to be made to find the appropriate documents as well as those produced in the period before web publication became the norm. Fieldwork revealed a number of interesting facts in this respect. First, in the early 1990s the UNDP country office in Mongolia used to keep a comprehensive library of development documentation. Other donors, and especially those with no field presence, used the reference unit to access documentation and to place completed reports. Unfortunately, by the mid-1990s the unit was no longer properly managed and there was therefore a gap in information available over a period of a few years until reports became available on donor agency web-sites. Second, compared to UNDP, many other donors, and the multilateral development banks in particular, were far less decentralised. For example, the ADB was a very important potential source for information required in Chapter 6 but there was very little documentation available in the resident mission in Mongolia and much was only available at the ADB headquarters in Manila. Although there was a significant increase in the availability of official documents on the World Wide Web, there were still large gaps evident in all the countries being examined and even among the international aid organisations.<sup>28</sup>

### **1.3 THE GLOBAL AID REGIME**

The nature of the aid systems in the LIPCCs was heavily influenced by the nature and trends of the global aid regime. This section therefore provides an overview of aid at the global level, clarifying basic definitions, and illustrating its key trends and features over the period 1990 to 2005. In so doing it sets the broad context for further detailed examination of aid effectiveness, the aid relationship and aid in the LIPCCs. The section also places aid in a context where it is not the only source of development finance for a recipient nation or indeed the only, or even most important, form of engagement between the developed and the developing worlds.

The term *aid* is used to define development assistance to developing countries and countries in transition. The Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) considers itself the official international forum for

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<sup>28</sup> An example of the latter point was the difficulty in obtaining presentations and agreements made at Consultative Group Meetings even though these are often collected, collated, bound and distributed to participants by the World Bank.

defining aid. Established in 1961, the DAC 'is the key forum in which the major bilateral donors<sup>29</sup> work together to co-ordinate development co-operation and to increase the effectiveness of their efforts to support sustainable development' (OECD 2006: p.132). DAC defines aid in terms of Official Development Assistance (ODA), which consists of loans and grants to developing countries and territories by donor (DAC member) governments and their agencies that are developmental in intent and are designed to promote economic welfare.<sup>30</sup>

Not all official financial flows are considered to be ODA even if they are developmental in intent. Humanitarian aid is included if it is for long-term development and not just emergency relief (Degnbol-Martinussen and Engberg-Pedersen 2003: p.56) but in practice the distinction is not always clear (Browne 1999: p.16). A key criterion in the definition of ODA is the grant element of the developmental assistance. DAC defines grants as transfers in cash or kind for which the recipient incurs no legal debt and loans as transfers in cash or in kind where the recipient incurs a legal debt. While all official grants that are developmental in intent are considered aid, it is the *grant element* of a loan that determines whether it represents ODA. To be classified as ODA the loan must have a grant element of at least 25 per cent (as well as be developmental in intent and designed to promote economic welfare).<sup>31</sup> It should also be noted that until 2004 ODA represents flows to what is known as Part I of the DAC list of Aid Recipients. Flows that qualify as ODA by the criteria above but were made to countries on Part II of the DAC list of Aid Recipients<sup>32</sup> - mostly countries that it was assumed would not be recipients for long - were defined as Official Aid (OA).

The ODA definition is not, however, all encompassing and ODA will usually underestimate development assistance to a country (even using the grant criteria) for a number of reasons. First, not all donor countries are members of DAC<sup>33</sup> and although non-DAC donors (excluding the People's Republic of China<sup>34</sup>) represented less than five per cent of total flows in 2004 (OECD 2006: p.243), the importance of these donors varies among recipients. Second, DAC

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<sup>29</sup> According to the DAC Development Cooperation Report 2005 (OECD 2006), the 23 DAC members are the 15 pre-2004 EU member states plus Australia, Canada, Japan, New Zealand, Norway, Switzerland, USA and the European Commission itself.

<sup>30</sup> The definition of ODA has not changed since 1972 but some changes in interpretation have tended to broaden the scope of the concept (OECD 2006: p.263).

<sup>31</sup> Three factors determine the grant element: (a) Interest rate (% per annum); (b) Grace period (the interval from commitment date to the date of first payment of amortisation), and; (c) Maturity (the interval from commitment date to the date of the last payment of amortisation).

<sup>32</sup> Those countries defined by DAC as More Advanced Developing Countries and Territories (MADCTs) and the Central and Eastern European and Former Soviet Union countries that are not low income.

<sup>33</sup> Only OECD countries that meet certain criteria can join the DAC. In 2005, DAC's membership comprised 22 of the OECD's 30 member countries.

<sup>34</sup> It is difficult to obtain data about China's development assistance but it is reportedly significant and growing at the same time as aid to China is being reduced. For example, according to the World Food Program (WFP) annual Food Aid Monitor with data for 2005, China has emerged as the third largest food aid donor. <http://www.wfp.org/node/534> (downloaded December 2006).

uses an official concept and, therefore, does not capture private developmental flows such as net grants by international NGOs which in 2004 were equivalent to approximately eight per cent of ODA (OECD 2006: p.161). Official export credits or private export credits with official guarantees are not included in the ODA definition. These distinctions are important as they can lead to inconsistencies between international measures such as those used by DAC and national systems of monitoring aid.

The terms *donor* and *recipient* are used in this thesis to reflect the providers and receivers of development assistance respectively. It is, however, important to explore the diverse nature of the donor and recipients, specifically to ‘unpack’ these terms to make them more meaningful (Boyce 2004). First, it is clear that some donors, for example international NGOs, UN agencies or even the International Development Association (IDA) of the World Bank, receive money from bilateral sources while at the same time providing resources – human and financial – to recipient countries. Equally, there are countries that receive assistance and also provide it, for example China. Second, both donors and recipients actually represent a wide variety of organisations and individuals within which are different interests and concerns. On the donor side the interests range from official bilateral aid agencies, development banks and UN agencies to NGOs, other civil society organisations and the private sector. On the recipient side there are individuals, groups and classes that all have interests in development assistance, often divergent interests, which expose contending political forces both within and outside government. While this is recognised, for this research the terms donor and recipient are used to mean international aid organisations of all types and the governments of those countries that receive aid respectively.

### **1.3.1 The Aid Business**

By the end of the first development decade (1960s) the organisational structure of the aid system was much as it is today, and the move from supporting the reconstruction of war-torn Europe to assisting developing countries, many of which were newly independent, was complete. Although the aid business was established, the reasons why donors gave aid varied, and continues to do so, especially with regard to pursuing political and strategic interests (Degnbol-Martinussen and Engberg-Pedersen 2003: pp. 16-24). The moral case was put forward, in its simplest form, in the 1969 Report of the Commission on International Development<sup>35</sup> (Pearson 1969: p.8): ‘it is only right for those who have to share with those who have not.’ The case has been explained in terms of the rights of individuals, such as those established in the *Universal*

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<sup>35</sup> A group of eight high-ranking internationally-known figures brought together by the World Bank in 1968 under the leadership of Lester B. Pearson to undertake a study of twenty years of development assistance.

*Declaration of Human Rights*.<sup>36</sup> Similarly, the mutual benefit case, based around the ideas of interdependence between countries of the North and South, considers aid to be mutually beneficial in terms of both economic prosperity and global peace. More 'realist' views include the case for aid based on strategic and political interests, which can be illustrated by the strategic allocation of aid during the Cold War, especially from the United States. Many donors used aid to strengthen and enlarge their sphere of influence, especially in the fight to prevent the spread of Communism. Within this case can be included aid for historical or cultural reasons often to reinforce former colonial ties (Browne 1999: p.15). While the end of the Cold War may have seemed to reduce the need for the aid as a politically strategic tool, the political case was, and remains to be, as strong as ever, especially in the context of the so-called Global War on Terrorism<sup>37</sup> (GWOT).<sup>38</sup> In a similar way the commercial interests of the donor countries are inevitably important. Such interests are also linked to tied aid,<sup>39</sup> which, although falling as a share of total aid, still represented approximately 9 per cent of ODA in 2004<sup>40</sup> (OECD 2006: p.211).

The combination of need for aid and the willingness to supply it, has led to the development of a large industry - the foreign aid business<sup>41</sup> - that today consists of thousands of organisations including the aid agencies themselves, aid management entities in aid recipient countries, civil society organisations in both donor and recipient countries, and private sector contractors ranging from individual consultants through to large consulting organisations, multinational equipment suppliers and construction firms. In 2005, there were twenty-three members of DAC plus another fifteen or so bilateral donors outside DAC.<sup>42</sup> There were also about thirty-four multilateral development institutions excluding the UN system. The UN had fifteen development agencies and, in addition to the World Bank, each global region had its own development bank as well as specialised financing institutions. The World Bank alone had approximately 10,000 staff located in its Washington headquarters and throughout its 100 or so

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<sup>36</sup> For example Article 25 which states that everyone has the right to a standard of living adequate for the health and well-being of herself and her family.

<sup>37</sup> The *Global War on Terrorism* (GWOT) is an umbrella term coined by the Bush administration to refer to the various military, political, and legal actions taken in response to the September 11, 2001 attacks on the United States to 'curb the spread of terrorism'.

<sup>38</sup> An examination of USAID allocation 1998-2005 found that 'major changes in aid allocation related to the GWOT appear to be affecting only a handful of critical countries, namely, Iraq, Afghanistan, Jordan, and the Palestinian Territories. The extra resources to these countries also seem to be coming from overall increases in the bilateral aid envelope, combined with declines in aid to Israel, Egypt, and Bosnia and Herzegovina (Moss et al 2005: p.14).

<sup>39</sup> Tied aid is defined by OECD DAC as a situation where 'procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all developing countries' (OECD 2002).

<sup>40</sup> Excluding technical cooperation and administrative costs and the ODA of four DAC members who do not report on tying status.

<sup>41</sup> A term common enough to be used as the title of a book (Raffer and Singer 1996).

<sup>42</sup> There are eight OECD member countries that are not members of DAC and 7 donor countries that are not members of the OECD but listed in the DAC Development Cooperation Report 2005.

country offices, not to mention so-called staff consultants who act as if they were staff and shorter-term consultants working on projects and research.<sup>43</sup>

Table 1.3 illustrates the staffing levels and other relevant information concerning the key multilateral organisations in the aid business. To this could be added the development NGOs, with the larger ones having comparable staffing levels even though a larger percentage of staff member are usually nationals from the developing countries in which they work.<sup>44</sup> In mid-2005 the *DGMarket*<sup>45</sup> database of development-related tender opportunities listed over 54,000 of them within 162 countries. On the other side of the coin, the associated *DACON*<sup>46</sup> database of companies engaged in development projects listed over 2,500 organisations (including some not-for-profit) with staff ranging from less than ten to several thousand.

Table 1.3: Overview of Multilateral Aid Agencies

	Location of Headquarters	Number of Offices	Disbursements US\$ mn. 2001	Number of Staff
World Bank	Washington DC, USA	97	17,251	10,000
Asian Development Bank	Manila, Philippines	15	3,874	2,163
Inter-American Development Bank	Washington DC, USA	26	6,459	1,730
African Development Bank	Abidjan, Côte d'Ivoire	4	1,076	1,026
United Nations Dev. Programme	New York, USA	122	1,300 <sup>1</sup>	4,000

*Source:* taken from "Multilateral Institutions: A Brief Guide" in Boas & McNeill (2003) *Multilateral Institutions: A critical introduction* (pp. xi-xvii) which uses data compiled in mid-2002

*Note:* 1. Includes core funding and donor co-financing

So, although only half a century old, the aid business has expanded rapidly and has developed a momentum of its own. This can be linked to high degrees of dependency on the aid business, not just of recipient governments but also of other actors in the aid business in both donor and recipient countries (as is examined in Chapter 2). It is a momentum that can go unchecked due to the special relationship between aid policy and public opinion and the lack of accountability of the aid business (both issues are examined further in Chapter 3). As an example of this momentum, it is interesting to note that although the share of aid in world income has until recently been shrinking, the number of aid organisations has grown steadily and no major aid organisation has closed over the last five decades (Rogerson 2004: abstract).

<sup>43</sup> To put this in the context of the private sector the Fortune Global 500 tables for 2006 reveal that Wal-Mart Stores (#1 in the list of biggest employers) employs 1.8 million people, McDonalds (#10) over 440,000 people, and the banking group HSBC Holdings (#35) over 280,000 people.

<sup>44</sup> For example, CARE International operates in over 70 countries and has more than 12,000 employees of which more than 90% are nationals of the programme countries (<http://www.careinternational.org.uk/about/careinternational.htm>).

<sup>45</sup> <http://tenders.dgmarket.com/> (downloaded June 2005).

<sup>46</sup> <http://www.dgmarket.com/dacon/> (downloaded June 2005).

### 1.3.2 Global Aid Flows and Aid in the Wider Context

By 1960, flows of ODA reached nearly US\$ 4 billion per annum and the increase in ODA remained steady until the 1990s when aid flows began to fall. Between 1992 and 1997 the level of ODA declined 21 per cent in real terms. By 1997 total DAC ODA had fallen to just over US\$ 48 billion from a peak of US\$ 59 billion in 1994 (current prices and exchange rates). In terms of the ODA performance of DAC member countries, total ODA represented 0.34 per cent of total Gross National Income (GNI) in 1982-1986 (annual average) falling to 0.22 per cent by 1997. Since the start of the new Millennium, and more specifically since the 2002 Monterrey International Conference on Financing for Development, there has been a growing consensus among donor countries on the important role of aid in addressing global poverty and, as a consequence, a resurgence of aid flows. ODA reached US\$ 78.6 billion in 2004; a 4.6 per cent increase in real terms from 2003 (the largest ever increase) which follows a 4.3 per cent increase from 2002-2003. A number of countries have made commitments to reach the target of 0.7 per cent of GNI<sup>47</sup> within a specific timeframe.

The impact of changes in flows, and especially their impact on poverty and achievement of the MDGs, will to some extent be influenced by their distribution. For example, the 1990s saw a slight shift in the distribution of aid, away from the Least Developed Countries, a decrease in the proportion of ODA allocated Sub-Saharan Africa (calculations from the OECD/DAC International Development Statistics database 2006). The geographical allocation has also become less clear with the increase in financing of *global public goods*, covering a wide range of areas to include knowledge, the environment, health, trade and financial architecture; recent estimates suggest that aid for such goods has doubled over the last twenty years to reach approximately 9 per cent of ODA (Hewitt 2002).

Aid should also be seen in the context of a broader engagement between the North and South. It is important to recognise that ODA is not the only source of financing for developing countries and that it needs to be seen in the context of other financial flows. Over the past decade there has been a massive increase in the importance of private financial flows to developing countries. The primary sources of private financial flows include: Foreign Direct Investment; Private Export Credits; Bank Lending; Bond Lending, and; Portfolio Investment. In terms of development assistance this was important largely because it strengthened the view that private flows could substitute for aid.

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<sup>47</sup> It is often stated that this is a long-standing internationally agreed target but no international agreement was made until 2005. In addition, the origins of this target raise questions about its relevance (Clemens and Moss 2005).

The financial crisis that started in Asia in 1997 and later spread to Latin America and Russia led to a sharp fall in the level of private financial flows to developing countries in 1998. Combined with the small increase in development assistance this has led to an increase in the relative importance of the latter. It should be noted that private financial flows are concentrated in a small number of large dynamic economies. In 1997 the Least Developed Countries received only about US\$ 1 billion in private flows versus nearly US\$ 14 billion in ODA. Equally, the financial problems of 1997 illustrate the volatility of such private flows making them less effective in terms of supporting long-term development. Table 1.4 below illustrates the change in relative importance between ODA and private flows over the last fifteen years.

Table 1.4: Total Net Flows from DAC Countries by Type of Flow (per cent of total)

	1990-91 average	1997	2000	2004
ODA	64	26	40	53
Other Official Flows <sup>48</sup>	9	3	-3	-4
Private flows at market terms	21	68	58	43
Net grants by NGOs	6	3	5	8
Total Net Flows	100	100	100	100

Source: OECD DAC Development Cooperation Reports 2002 and 2005 (table 2)

In addition to the private commercial flows described above, other non-commercial flows were important for many countries and were not usually captured by official statistics. Private developmental flows came primarily through international NGOs and, as already noted, represented about eight per cent of total net flows to developing countries in 2004.<sup>49</sup> Private remittances from expatriate workers and residents abroad can be an important source of funds for some developing countries. Although accurate measurement of such flows is extremely difficult,<sup>50</sup> estimates by the World Bank indicate that the level of worker remittances to developing countries began to exceed flows of aid after 1996 and by 2004 had reached US\$ 161 billion, or more than twice the level of ODA. Another important source of funds is through Export Credit Agencies, official publicly funded organisations that support overseas investment and trade through loans and guarantees. Estimated in 2006 to be worth approximately US\$ 60 billion annually<sup>51</sup>, these flows are not without critics. Goldzimer (2003: p.2) notes that they ‘the least examined, the least transparent, the least accountable, and, in some ways, the most harmful’ of public financial flows from North to South.

<sup>48</sup> The OECD DAC Glossary (OECD 2002) defines Other Official Flows as: ‘Transactions by the official sector with countries on the List of Aid Recipients which do not meet the conditions for eligibility as Official Development Assistance or Official Aid, either because they are not primarily aimed at development, or because they have a Grant Element of less than 25 per cent.’

<sup>49</sup> There are a number of reasons why it is more difficult to capture the aid efforts of NGOs, not least because of their large number. In the UK alone there are approximately 300 members of the BOND (British Overseas NGOs working for Development) network.

<sup>50</sup> Not all remittances are through formal channels and not all formal channels are required to report transfers.

<sup>51</sup> OCED website [http://www.oecd.org/document/4/0,2340,en\\_2649\\_34169\\_36681348\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/4/0,2340,en_2649_34169_36681348_1_1_1_1,00.html) (downloaded June 2006).

In addition to aid being only one of many flows of finance between North and the South, it is also only one of many areas of North-South interaction affecting a country's development. While it is common to examine the contribution of a Northern country to development through its aid programme, other areas of interaction also have an effect on development in the countries of the South. For example, the Centre for Global Development has developed an index to estimate the North's true contribution (positive or negative) to development. The index illustrates the breadth of the North-South relationship, indicating that aid is only one of many forms of interaction. It uses ratings of rich countries' policies towards the poor in six areas, namely, aid, environment, investment, migration, peacekeeping and trade, illustrating the range of types of engagement. Finally, it is not only governments or the commercial sector that interact with developing nations, but also citizens of developed countries, as taxpayers, supporters of international development NGOs, tourists, investors and consumers.

#### **1.4 THE LOW-INCOME POST-COMMUNIST COUNTRIES**

This section provides a brief overview of the countries being examined and of the post-Soviet transformation up to 2005. The term *post-communist* can be defined in many ways but since the collapse of the Soviet Union it has come to be associated with the transformation of communist countries into democratic market economies. The key features of a communist economy can be considered to be the following (Lavigne 1995: p.3): first, economic life was under the control of a single party (whether or not the party was called communist.); second, the economic institutions were based upon collective, or state, ownership of the basic means of production; and, third, compulsory central planning was the main co-ordinating mechanism, with an increasing but subsidiary role devoted to market instruments. In this context *post-communist* usually refers to the countries of the former Soviet Union and Central and Eastern Europe, together with some other satellites of the Soviet Union (for example Mongolia, Cuba and Vietnam).<sup>52</sup> These countries were members of the international economic organisation Comecon, sometimes known as the Council for Mutual Economic Assistance, which embodied Soviet control over them.<sup>53</sup> Countries such as China and North Korea developed their own kind of socialism outside the Council for Mutual Economic Assistance while Albania and Yugoslavia broke away from the arrangement. In this thesis the use of the term *post-communist* is preferred to *transition* to describe the countries being examined because the latter term often has a

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<sup>52</sup> Post-communism also has a more universal meaning: '...the global post-socialist epoch inaugurated by the fall of the state socialist regimes in 1989-1991.' In this respect the term '...becomes a universal syndrome affecting all countries, irrespective of whether they were once communist' (Sakawa 1999: p.3).

<sup>53</sup> It has been argued that other developing countries chose to follow a 'socialist path of development' but never reached the end of the path so as to become fully-fledged socialist (Lavigne 1995: p.15).

broader meaning.<sup>54</sup> In order to ensure a degree on homogeneity among the countries being examined, the group from which the LIPCCs was selected included only the former Soviet Union and Mongolia (often referred to as the *sixteenth republic*). To be categorised as low-income, countries designated as such by the World Bank in the calendar year 2000<sup>55</sup> were selected. The eight countries classified as LIPCCs in the context of this research are listed in Table 1.5 together with some basic indicators.

Table 1.5: Basic Indicators for LIPCCS

	GDP/Capita US\$ PPP (2003) <sup>56</sup>	Human Development Index Rank <sup>57</sup> (2003)	Population (1999)		Surface Area (2002, thousand km <sup>2</sup> )
			Total (millions)	% of total urban	
Armenia	3,671	83	3.8	70	30
Azerbaijan	3,617	101	8.0	57	87
Georgia	2,588	100	5.3	60	70
Kyrgyz Rep	1,751	109	4.8	34	200
Moldova	1,510	115	4.3	46	34
Mongolia	1,850	114	2.5	63	1,567
Tajikistan	1,106	122	6.0	28	143
Uzbekistan	1,744	111	24.5	37	447

Source: GDP/capita, Human Development Index Rank and Population - UNDP Human Development Report 2005; Surface Area - World Bank World Development Report 2004

#### 1.4.1 Overview of the LIPCCs and the collapse of the Soviet Union

While not geographically or demographically homogenous, countries in this group nevertheless have much in common in terms of Soviet history and the challenges they were forced to address following the collapse of the Soviet Union. Six of the eight countries are landlocked, with only Azerbaijan and Georgia having access to the Caspian and Black Seas respectively. Transport links within the Central Asian region<sup>58</sup> and Mongolia are poor. Both the Kyrgyz Republic and Tajikistan are mountainous countries with mountains covering 87 per cent and 93 per cent of the land respectively. Mongolia is the largest of the eight countries with a surface area fifty times the size of the smallest county, Armenia. Mongolia is also the country with the smallest population among the group, approximately one tenth of that of Uzbekistan, the country with the largest. The Central Asian countries also have a more rural population compared to the

<sup>54</sup> For example, the UN has a broader definition: 'For the UN, transition refers to the period in a crisis when external assistance is most crucial in supporting or underpinning still fragile cease-fires or peace processes by helping to create the conditions for political stability, security, justice and social equity.' UN Development Group Report on Transition Issues (2004: p.6).

<sup>55</sup> World Bank data from the <http://siteresources.worldbank.org/DATASTATISTICS/Resources/OGHIST.xls> (country analytical history tab) (last downloaded October 2012). The table indicates that countries moved in and out of income categories in the early years after the collapse of the Soviet Union. The year 2000 was therefore selected to identify those countries that remained low income nearly a decade after the start of the transformation process.

<sup>56</sup> The mean GDP/Capita for Low-income Countries is US\$2,168, for Least Developed Countries it is US\$1,328, for Sub-Saharan Africa it is US\$ 1,856 and for South Asia it is US\$2,897. Source as for table.

<sup>57</sup> Out of 177 countries ranked according to their Human Development Index.

<sup>58</sup> *Central Asia* is usually defined as the five former soviet republics: Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan.

countries of the Caucasus<sup>59</sup> and Mongolia. Thus, from the outset it is clear that although the LIPCCs share much in common, especially in terms of their Soviet heritage, this is not a homogeneous group.

In Alma Ata (then capital of Kazakhstan) in late 1991, the heads of eleven Soviet Republics signed a declaration establishing the Commonwealth of Independent States (CIS), committing themselves 'to build democratic, law-governed states whose relations were built on the respect for the sovereignty, equality and borders of each, and which would be governed by international norms' (Anderson 1997: p.75). While much rhetoric about democracy was produced at the meeting (and would be repeated in the years ahead) the crucial role in establishing the new political order would be played by the elites inherited from the collapse of the former Soviet Union (Anderson 1997). The powers given to the Presidents of the Central Asian Republics were considerable, and the parliament and executive were relatively weak. The issue is not as simple as a president versus parliament struggle, but rather a complex system of power-brokers and the networks they controlled (Starr 2006).

While in the Kyrgyz Republic, the leadership quickly moved to develop a system vaguely modelled on a western-style democracy (although with a long way to go to achieve it), in Uzbekistan there was little progress.<sup>60</sup> Although Azerbaijan has followed a similar path to Uzbekistan, nearby Armenia and Georgia, as well as Moldova, have been more enthusiastic about embracing democracy, although each has had problems with electoral processes (see various Freedom House<sup>61</sup> "Nations in Transit" reports). Mongolia is different from the other countries in the region in that it was already an independent sovereign state at the time of the collapse of the Soviet Union. This independence was, however, limited and the relationship with Moscow was as if it were a republic.<sup>62</sup> Following a popular movement for reform a coalition government was formed between the Mongolian People's Revolutionary Party and democratic opposition forces in 1991. It has had five fairly contested general elections for parliament since then. Unlike the Central Asian Republics, the President of Mongolia has limited powers and is largely a figurehead.

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<sup>59</sup> *Caucasus* is usually used to describe Georgia, Azerbaijan and Armenia.

<sup>60</sup> In addition, Uzbekistan is implicated in the global outsourcing of torture through extraordinary rendition (Johnson 2007).

<sup>61</sup> <http://www.freedomhouse.org>

<sup>62</sup> Pomfret (1999: p.2) notes that 'Mongolia was so completely integrated both politically and economically with the Soviet Union that it acquired the label "the sixteenth republic"'.

The process of transformation has involved state-building and the establishment of new institutions covering all aspects of society, politics and the economy.<sup>63</sup> The roles of the public administration system at central and local levels, and government relations with the private sector and civil society, have all been redefined since 1992. The comprehensive system of governance is slowly evolving and new capacities are being built in order for it to operate effectively. The progress has not been smooth, however, and of the eight low income post-communist countries that represent the focus of this thesis, three have experienced serious violent conflicts in the period 1990 to 2005. Tajikistan suffered a post-independence civil war until peace was made in 1997. It also suffered natural disasters since 1992 that have had a severe impact on the livelihoods of much of the population. A combination of inter-ethnic strife, the declining economic and social situation in the region and fears for personal security, has led to large levels of emigration by peoples from ethnic minorities, especially ethnic Slavs. The violent conflict between two members of the group being examined, Armenia and Azerbaijan, has never been fully resolved resulting in large parts of land under occupation and a great number of internally displaced persons. Four of the other countries have been subject to smaller ongoing conflicts within their borders, ranging from separatist movements (Georgia and Moldova) to inter-ethnic and anti-government unrest (the Kyrgyz Republic and Uzbekistan).<sup>64</sup> Only Mongolia managed to stay away from any form of serious violent conflict by 2005 although it has experienced some internal unrest in the form of large-scale protests often in support of hunger strikes.<sup>65</sup>

The process of economic transition since independence can only be understood in the context of the historical development during the Soviet period since the Soviet legacy has strongly influenced the direction, speed and results of the reforms. The Soviet strategy was to create a specific pattern of agricultural specialization and industrial development as well as a highly autarkic economic union with an almost infinitely high common external tariff. Although it is beyond the scope of this thesis to describe in detail the collapse of the Soviet Union or to analyse why this happened, nonetheless, some features of the economy during its final years in the 1980s influenced the transition to a market economy in the following decade, especially in terms of the economic decline. Table 1.6 below indicates the decline in average annual growth

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<sup>63</sup> State-building is defined as the construction of legitimate, effective governmental institutions (Paris and Sisk 2009: p.14) although, as noted above, some of the LIPCCs have focused more on institution building rather than establishment of a legitimate state.

<sup>64</sup> The Uppsala Conflict Data Program (<http://www.pcr.uu.se/research/UCDP/>) identifies only Tajikistan and Azerbaijan as having suffered armed conflict defined as a contested incompatibility that concerns government and/or territory where the use of armed force between two parties, of which at least one is the government of a state, results in at least 25 battle-related deaths in one calendar year.

<sup>65</sup> For example, in early 1990 the initial hunger strikes of by ten pro-democracy protesters in the capital Ulaanbaatar's main square soon attracted thousands of demonstrators. It should also be noted that since 2005 it has experienced violent conflict in its capital Ulaanbaatar.

rates of Net Material Product<sup>66</sup> for five-year periods from 1961 until 1989. In the following two years (1990 and 1991), the last two of the Soviet Union, Net Material Product fell by 4 per cent and 8.5 per cent respectively: equivalent to a decline of GDP of one fifth (Hanson 2003).

Table 1.6: Average Annual Growth Rates of Net Material Product in the Soviet Union

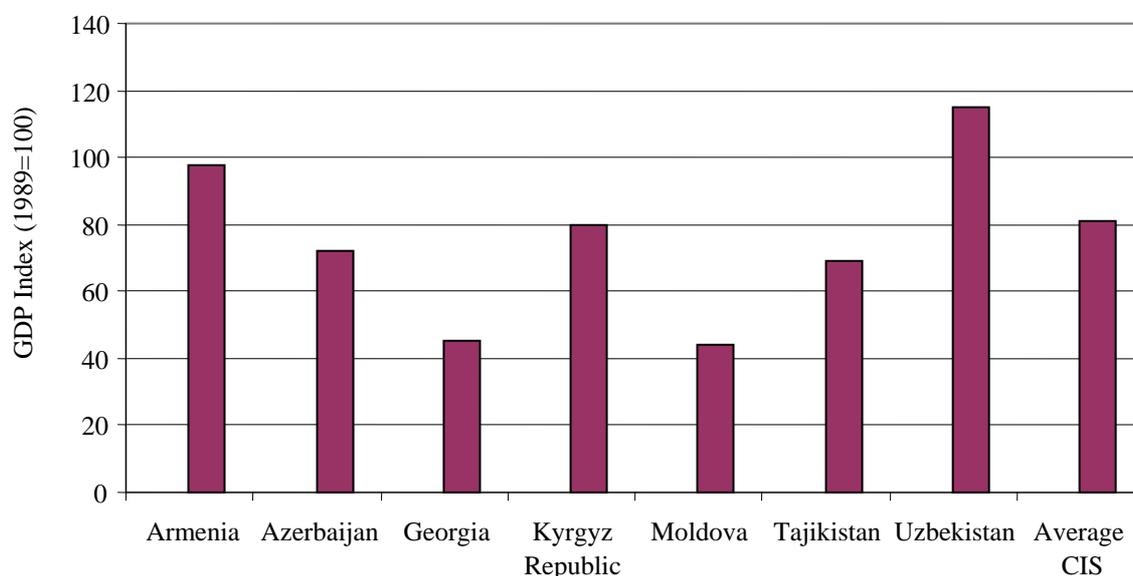
1961-6	1966-70	1971-76	1976-80	1981-86	1986-1989
6.5%	7.6%	5.7%	4.3%	3.2%	2.7%

Source: Holmes, L (1997) Post Communism: an Introduction (p. 204)

#### 1.4.2 The Impact of the Multi-Dimensional Transformation

In 1991, all eight countries were defined by the World Bank as lower-middle income. By 1995, only Moldova and Uzbekistan remained in this category and by 2000 all LIPCCs were classified as low income. Between 2000 and 2005 the three countries of the Caucasus (Armenia, Azerbaijan and Georgia) and Moldova returned to lower-middle income status. Although economic growth in most of the region from the late-1990s addressed some of the problems the countries faced, for the majority it simply meant a return towards pre-transition levels of income. Figure 1.2 below shows the estimated level of real GDP in the LIPCCs (apart from Mongolia<sup>67</sup>) in 2004 compared to 1989.

Figure 1.1: Estimated Level of Real GDP for LIPCCs (2004:1989=100)



Source: European Bank for Reconstruction and Development (EBRD) Transition Report 2005

<sup>66</sup> Net Material Product is the basis of the Soviet national accounting system closest to Gross Domestic Product. Based on constant prices, it did not fully account for inflation and excluded depreciation.

<sup>67</sup> Mongolia is not captured by the EBRD source used for this figure.

Not surprisingly the economic declines experienced by the countries in the region had a very large negative social impact. Where once comprehensive public social safety nets existed these were among the first institutions to suffer from declining fiscal resources and became under-funded and poorly administered, leading to greater reliance on informal safety nets (such as family networks) rather than state protection. Where once employment was guaranteed, the move towards a market economy meant that this was no longer the case. Where once the elderly were well treated by the state, pensions declined rapidly in real terms and were often months in arrears. Using the Soviet Family Budget Survey (problematic at best<sup>68</sup>), it is likely that poverty did exist in the region at the end of the Soviet era. In addition there is also some evidence that poverty grew rapidly in the 1980s in response to economic slowdown and rapid growth of the population, especially in rural areas. This reflects the general trend in post-communist countries as noted by a 2002 study by the World Bank of its work in the region: ‘in 1998 one of every 20 people in the transition economies had per capita incomes below US\$1 a day, up from fewer than one in 60 a decade before’ (World Bank 2002c). Using data largely from World Bank supported surveys, Table 1.7 provides a crude indication of the impact of the post-communist transformation on large parts of society in each country.

Table 1.7: Poverty Measures in the LIPCCs

	Recent Survey	Percentage of the population living below the poverty line of:	
		< US\$1 per day	< US\$2 per day
Armenia	2003	<2	31
Azerbaijan	2001	4	33
Georgia	2001	3	16
Kyrgyz Republic	2002	<2	25
Moldova	2001	22	64
Mongolia	1998	27	75
Tajikistan	2003	7	43
Uzbekistan	2000	17	72

Source: World Bank (2005b)

Note: Figures rounded-up

The increase in poverty was not simply a result of economic decline but also of a concurrent increase in inequality within the low-income post-communist countries. For those who had adjusted quickly to the new economic (and political) environment and had the opportunity to exploit it, the rewards were great. This is in sharp contrast to the majority of the population. The increase in income inequality is difficult to measure, however, due to the incompatibility of measures under a socialist regime and a market-economy (Grootaert and Braithwaite 1998: p.42).

<sup>68</sup> It is difficult to compare the measures (a) between countries and (b) over time due to the vastly different methodologies used within the different surveys (Milanovic 1998). This is particularly true of the differences between the Soviet Family Budget Surveys (the source of the late 1980s data) and the World Bank sponsored Living Standard Measurement Survey-type approaches used in the 1990s.

The impact of the transition on health status and education varied within the region but using life expectancy at birth as a proxy for the overall health of the population, the countries of the region fit neatly in line with the average for Medium Human Development nations as identified by UNDP. Other indicators point to a worsening trend in the health status and health delivery since the start of the transition. Levels of adult literacy, taken as a proxy for overall educational attainment, were high in the region, reaching the same level as High Human Development countries. As with health, however, there was a decline in both the quality and quantity of education delivery in the years since the start of the transition. In addition to the above, there were other dimensions of the social impact of the transition. Most, if not all, of the countries in the region witnessed an increase in crime, suicide rates, violence against women, and alcohol abuse, as well as the spread of HIV/AIDS and the emergence of other new phenomena such as street children (especially in Mongolia).<sup>69</sup>

It is in addressing these fundamental issues of well-being that the donor community could have been of great assistance and where increasing the effectiveness of its assistance could potentially have had significant impact. While the next chapter focusses on the aid relationship, Chapter 3 reviews the theory and evidence linking aid effectiveness to a better aid relationship.

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<sup>69</sup> Various UNDP National Human Development Reports plus the UNDP Regional Human Development Report 1999 (UNDP 1999).

## CHAPTER 2: THE AID RELATIONSHIP AND AID RELATIONSHIP POLICY

The 2002 UN-sponsored *International Conference on Financing for Development* held in Monterrey, Mexico brought together fifty-one presidents and prime ministers, numerous finance and foreign ministers, leaders of international organisations and financial institutions, as well as business and civil society leaders, to address the challenges of development financing and poverty alleviation. More than 180 countries and fifty organisations adopted the Monterrey Consensus document as the outcome of the conference. Nearly three years later, in early 2005, representatives of one hundred countries from the North and the South, together with twenty-five key international development agencies and fourteen civil society organisations, agreed to adhere to the Paris Declaration. Building on earlier work, both these events, and the agreements that resulted, emphasised the importance of a new aid relationship and both set out strategies for improving it. This chapter examines the concept of the aid relationship and its core elements before exploring the donor strategies aimed at making the relationship better. It ends with a framework for examining the factors that determine the nature of the aid relationship.

The Oxford Compact English Dictionary defines relationship as ‘(1) the way in which two or more people or things are connected, or the state of being connected (2) the way in which two or more people or groups regard and behave towards each other.’ But what is the *Aid Relationship*? There is not a single relationship in the aid business but rather a complex and diverse set of relationships between various participants in the development process. The term is usually used to define the relationships between recipient governments and donors but can also include civil society and the private sector. It is also used to define the relationships not only between these different groups but also within them since it is as much about relationships among donors as it is between donors, government and other actors. Moreover, it is as much of a relationship between individuals as it is between organisations. While the relationship can exist at different levels - global, regional, national, local or individual – and between different parties, this research has focused specifically on the relationship between a donor and a recipient government at the national level and below.

Some researchers and practitioners have tried to disaggregate the aid relationship. For example, Eyben (2005: p.100) gives the aid relationship three elements: contract (particularly as understood from the donor side); entitlement (particularly as understood from the recipient side); and gift exchange (as understood by both parties). Ellerman (2005: p.4) suggests a helper-doer relationship to aid. He argues that assistance is a relationship between those offering assistance in some form (the helpers) and those receiving the assistance (the doers). The helpers

could be aid agencies, NGOs or individuals while the doers could be individuals, organisations or government of the recipient country. Rather than adopt one of these, for this thesis the main elements of the aid relationship draws on the concepts, policies and strategies of the major agreements that have been made since 2000 on the aid relationship. Since these concepts are more widely used it is easier to identify the relevant aid relationship policies and strategies that have been established as well as the theories that have been developed to explain why these policies are important for aid effectiveness.

Within the theory and policy surrounding the idea of the aid relationship the distinct, yet closely related, concepts of *partnership* and *ownership* are used. Their use is common in development cooperation, not only in the Monterrey Consensus and Paris Declaration but also in the context of the World Bank's CDF principles. They can be used to capture not only the complexity of the aid relationship, but also the other terms that are used to define, describe and qualify any relationship, for example, the degree of trust, cooperation, or conflict between the different partners. While it is difficult to describe an overall aid relationship using these latter terms, the broader concepts of partnership and ownership can incorporate these different dimensions and to some extent summarise them. These other terms will not be forgotten but will be used to define various types of partnership and ownership. Moreover, issues such as trust or mutual accountability can be seen as preconditions for national ownership and examined as factors that can help explain why national ownership has, or has not, increased (Hyden 2008).

While it was noted in the first paragraph that recipient countries had participated in the setting of the Monterrey Consensus and the Paris Declaration, these agendas can still be considered to be driven by the international donor community and organisations dominated by the *North*. This chapter is not approving nor, at this stage, critiquing the approach but notes where criticism exists. Furthermore, it does not try, at this stage, to analyse how rhetorical the statements are or how ideological, wishful or even desperate, the thinking behind the approaches is.

## **2.1 THE BASIC ELEMENTS OF THE AID RELATIONSHIP**

The term *partnership* is used to denote joint effort by two or more entities in achieving the same objective, output or outcomes with specified joint rights and responsibilities. In the context of development aid it is often used to denote any type of engagement between donor and recipient. Often the term partner is used simply to describe any organisation with which you may work, however indirectly, and with which you may share some very broad, possibly tenuous, objectives. But it is important to define the concept more clearly in terms of the aid relationship and identify how the term has been used.

The 1969 Report of the Commission on International Development recognised the importance of the concept in the context of aid calling for ‘a new partnership based on an informal understanding expressing the reciprocal rights and obligations of donors and recipients’ (Pearson 1969: pp.127-128).<sup>70</sup> In the mid-1990s as a result of discussions in the OECD DAC (OECD 1996) there was a resurgence of the concept and it became, and remains, a key element of donor-recipient relations. This is not to say that the concept has not been interpreted in different ways between, and even within, organisations.<sup>71</sup>

Using the basic concept of partnership as defined above, it is clear that much development aid is undertaken in partnership since it involves two or more entities, usually donor and recipient, undertaking a joint effort supposedly aimed at achieving the same objectives or goals. But partnership is different from engagement; it is a special type of engagement even if the word partner is sometimes used to describe any donor agency involved in a country. Clearly, within the context of the above definitions, it is possible for a donor to engage with a recipient country without a partnership. Equally, a donor whose only type of engagement is through a government partnership may decide not to engage at all in countries where such a partnership is not possible.

Partnerships can also be at different levels of the relationship, for example at the level of the overall programme or at the level of a project, theme or sector. At the same time, a donor may not want to engage in a partnership with the country as a whole (in all sectors) but may be willing to engage in a partnership in a single sector, such as education, or for a single theme such as HIV/AIDS. For a multilateral donor, engagement is often less selective, for example because of the universality principle enshrined by many (especially the UN) which may lead to potential engagement among all eligible states (globally or in a specific region).

The World Bank suggests an operational definition of partnership: ‘Partnership is a collaborative relationship between entities to work toward shared objectives through a mutually agreed division of labour’ (World Bank 2003a: p.1). In a similar way to Pearson, this definition emphasises the importance of the clarity of the relationship, in this case specifically in relation to the division of labour. OECD/DAC defines *partners* as ‘The individuals and/or organisations that collaborate to achieve mutually agreed upon objectives’ (OECD 2002: p.29).

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<sup>70</sup> The informal approach proposed by Pearson was to be replaced by a more formal approach in 1975 when the EEC signed the Lome Convention (Clarke 2004: p.309).

<sup>71</sup> Reviewing three papers presented at the 4<sup>th</sup> World Bank Conference on Evaluation and Development in 2001 under the heading *Partnerships for Development; A Way Forward* (Witte 2001: p.1) the reviewer notes: ‘While the common themes (the role of partnerships in development and/or poverty reduction) as well as the shared terminology (partnership, partner, win-win situation, partner selection, etc) seem to provide a joint framework for all three contributions, there can be no doubt that the three authors at times talk about profoundly different things’.

The above quote from the OECD on partnership goes on to note: ‘Partners may include governments, civil society, non-governmental organisations, universities, professional and business associations, multilateral organisations, private companies, etc.’ The idea that partnerships should go beyond donors and government is extremely important and, for some, the most significant dimension of the partnership concept. For example, partnerships have long been seen as essential by the UN, but the emphasis has often been as much (if not more) on the breadth of the partnership (extending the number and types of partners) as on its depth (in terms of changing relationships). At the International Conference on Financing for Development held in Monterrey in 2002, broad partnership was a key part of the consensus. This was made clear in the report by the UN Secretary General on the completion of the conference:

The concept of partnerships in the context of national and international efforts to spur development was extensively discussed. Several ministers regarded the Monterrey Consensus as the embodiment of a new partnership for development: at the national level, partnerships should be based on shared responsibilities of the State, the private sector and civil society and should involve complementarity in efforts and roles; at the global level, developed and developing countries should pursue development as a joint responsibility. Partnerships among countries, development institutions, the business sector and civil society were seen as crucial for achieving greater policy coherence and accelerating development (United Nations 2002: pp. 5-6).

### **2.1.1 Common Goals and Values: the Pre-conditions for Establishing a Partnership**

From the definitions defined above, the idea of shared objectives or goals is at the core of a partnership. In this research the term *common goals* will be used to represent the idea that they are the same, or very nearly the same, for all partners. But partnership has come to encompass a more complex set of characteristics. From the idea of having the same objective or goal, a broader characteristic has emerged, namely the idea of shared or *common values* as a fundamental pre-condition for partnership to take place. In reviewing recent Sida studies on donor-recipient relations, Edgren notes that the issue of shared values has been raised in most of the Swedish political documents dealing with partnerships (2003: p.10). He identifies the values that are supposedly shared among partners as including commitment to poverty reduction, democracy, good governance, respect for human rights and protection of the environment. The 1998 Government Bill on Swedish Africa Policy goes even further, stating: ‘You cannot engage in a partnership without sharing values’ (Danielson and Wohlgemuth 2002: p.8).

The idea of a shared or common vision is also used in terms of partnerships since the common goals and values can be articulated through a vision. The 2004 DAC report on *Managing Aid* noted that DAC’s 1996 report *Shaping the 21st Century: The Contribution of Development Co-operation* uses *shared vision* in a narrower yet more measurable way as one of the four pillars of a framework for providing development co-operation:

A shared vision for development, defined by a set of measurable goals of economic well-being, social development and environmental sustainability to be pursued country by country. These goals included, most famously, the target of halving by 2015 the proportion of people living on less than US\$ 1 a day (OECD DAC 2004: p.15).

More recently the Management for Development Results (MfDR) Sourcebook<sup>72</sup> describes an effective partnership as ‘one in which donors and recipient countries have a common vision of poverty reduction and development, and are willing and able to work together in a coordinated, participatory fashion to achieve these aims’ (OECD DAC 2006a: p.7).

In many statements it is unclear how the common or shared<sup>73</sup> values are different from common goals or visions. In this thesis a value may be considered less precise than a goal or vision. For example, a common objective may be to reduce poverty by 10 per cent over 10 years while a shared value may simply be a focus on significant poverty reduction. It is also unclear how deep these common values would need to be for a partnership to be established. For example, would an agreement to reach a set of nationally determined set of MDGs by 2015 be sufficient? Do these values go beyond factors that influence the direct effectiveness of aid? In any partnership it is likely that while the interests of potential partners may be the same in many areas they may also diverge in some as well. The common values are therefore usually found at the highest level, relating to some very fundamental aspects of both parties’ approach to development, for example on the overall orientation of the economy, the democratic process, or to human rights. There may, therefore, be a hierarchy of values ranging from those that are most important to the parties, and where agreement is essential, to those where divergence would be acceptable. Common values can also be broken down into moral (e.g. poverty reduction), political (e.g. human rights, democracy), or economic (e.g. market-based or centrally-planned system). At the same time donors may pursue partnerships for self-interest, such as for their own political or commercial interest. Box 2.1 below is taken from the United Kingdom Department for International Development (DFID) 1997 White Paper on International Development and is an example of the kind of common objectives and values that donors require before a partnership can take place (DFID 1997: p.39).

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<sup>72</sup> A product of the OECD-DAC Joint Venture on Managing for Development Results, a group of bilateral and multilateral donors as well as, more recently, recipient country representatives, that are working to promote the implementation of the Paris commitments.

<sup>73</sup> In this thesis common and shared are treated as the same.

## Box 2.1 DFID and Development Partnerships

Countries with which we are prepared in principle to embark on a deeper, long-term partnership, involving all forms of assistance, will be low-income, containing a large proportion of poor people. They will also be countries where the UK is wanted as a partner, has the influence to play a positive role, and a comparative advantage in being able to make a strategic contribution to poverty reduction. We would expect partner governments to:

- have a commitment to the principles of the agreed international development targets and be pursuing policies designed to achieve these and other UN targets which they have agreed
- be committed to pro-poor economic growth and conservation of the environment, and be pursuing appropriate policies
- wish to engage with us and with the donor community to this end
- pursue policies which promote responsive and accountable government, recognising that governments have obligations to all their people; promote the enjoyment of civil, cultural, economic, political and social rights; and which encourage transparency and bear down on corruption in the conduct of both the public service and the business sector

Although in the above example DFID is not explicit about what the appropriate policies are, other donors set out more specific criteria for entering partnership. In 2002, the United States President George Bush announced that the United States would augment its core assistance to developing countries by 50 per cent over the following three years representing an increase of about US\$ 5 billion by fiscal year 2006. These new resources were to be channelled through a new Millennium Challenge Account (MCA) that would ‘fund initiatives to improve the economies and standards of living in qualified developing countries’.<sup>74</sup> The key to the MCA is the idea that it would only be used in qualified countries since its goal is ‘to reward sound policy decisions that support economic growth and reduce poverty’.<sup>75</sup> Specifically, the MCA funds would be used to support countries that show a strong commitment to: (a) good governance (including addressing corruption, upholding human rights and adhering to the rule of law); (b) the health and education of their people, and; (c) sound economic policies that foster enterprise and entrepreneurship. These make up the core values the United States government needs to have in common with its partners in the MCA exercise but in addition the MCA also uses sixteen indicators in three categories – ruling justly, economic freedom, and investing in people – to measure the candidate countries against each other.<sup>76</sup>

<sup>74</sup> [http://www.usaid.gov/press/releases/2002/fs\\_mca.html](http://www.usaid.gov/press/releases/2002/fs_mca.html). (downloaded April 2005).

<sup>75</sup> *ibid*

<sup>76</sup> More specifically, candidate countries must be above the median score on half of the indicators in each category, as well as in control of corruption, to be eligible for the MCA. To pass the inflation indicator, a country’s inflation rate must be under 15%, rather than the median. Finally, the MCA board of directors reserves the right to exercise discretion in the selection process. For example it may consider gaps, lags or weaknesses in data; if a country

The idea of common goals and values is also important for multilateral donors. For multilaterals the decision to enter partnerships is based on a variety of reasons, often more technical than for bilateral donors, sometimes only based upon the level of income of the country. The World Bank, for example, lent to countries through its IDA window if their GNP per capita was less than US\$ 965 (1 July 2005). It also needed evidence of a lack of creditworthiness to borrow on market terms and therefore evidence of a need for concessional resources to finance the country's development programme. In addition, it required good policy performance, defined as the implementation of economic and social policies that promote growth and poverty reduction. But while the World Bank engages only on specific grounds (i.e. eligibility for lending) the nature of its partnership is determined by specific criteria (to be discussed below). The UN, on the other hand, is a special case that tends to follow the principle of universality, which partly explains why there are UNDP offices and programmes in some high-income countries.<sup>77</sup>

Further to the hierarchy of values described earlier, for both bilateral donors and multilateral organisations it is possible to identify two types of value that can influence the nature of the partnership. First, it can be influenced by a set of macro-level political values, for example in relation to human rights or democracy. Political issues related to macro-level common values are therefore often much less important for some multilaterals than for bilateral donors. Second, partnership may also be related to institutional concerns or common institutional values. For example, the nature of the partnership with the World Bank will depend on some technical estimation of the common values with the recipient country. It uses the Country Policy and Institutional Performance Assessment (CPIA), which attempts to assess the quality of a recipient country's present policy and institutional framework. For the World Bank *quality* refers to 'how conducive that framework is to fostering poverty reduction, sustainable growth, and the effective use of development assistance' (World Bank 2004b: p.1). The scope of the CPIA, as well as the main headings of the areas covered, is set out in Table 2.1 below.<sup>78</sup>

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performs substantially below the median on any indicator; and additional qualitative information (taken from the Center for Global Development MCA monitor).

<sup>77</sup> For example, Bahrain, the United Arab Emirates and Kuwait. These programmes are largely financed by the host country.

<sup>78</sup> The CPIA will be discussed further in Chapter 4 but here it should be noted that the criteria have changed over time and are the subject of much debate and criticism.

Table 2.1: 2004 CPIA Criteria

<p>A. <u>Economic Management</u>  1. Macroeconomic Management  2. Fiscal Policy  3. Debt Policy</p>	<p>B. <u>Structural Policies</u>  4. Trade  5. Financial Sector  6 Business Regulatory Environment</p>
<p>C. <u>Policies for Social Inclusion/Equity</u>  7. Gender Equality  8. Equity of Public Resource Use  9. Building Human Resources  10. Social Protection and Labour  11. Policies and Institutions for Environmental Sustainability</p>	<p>D. <u>Public Sector Management and Institutions</u>  12. Property Rights and Rule-based Governance  13. Quality of Budgetary and Financial Management  14. Efficiency of Revenue Mobilization  15. Quality of Public Administration  16. Transparency, Accountability, and Corruption in the Public Sector</p>

Source: World Bank CPIA: 2004 assessment questionnaire.

Many bilateral donors share values with each other through alignment with membership organisations such as the EU or DAC and also through membership of smaller, informal groups such as the Like-Minded Donor Group in Vietnam.<sup>79</sup> This is not to say, however, that there is an homogenous set of values shared by all donors, or even DAC members. Values may vary as much between donors as between donors and recipients. At the same time, the donor language of shared values is often rhetorical, possibly for the sake of taxpayers/voters, and not necessarily more than wishful thinking.

### 2.1.2 Nature of the partnership

Partnership is not only a technocratic process but one that involves a power relationship between various partners. First, at the highest level this is reflected in the power of the various partners to enter the partnership in the first place. Clearly this is linked to the discussion on the pre-conditions for partnership described above, and the issue of donor selectivity in relation to partner recipients. A second aspect of the power relationship concerns the dynamic process of partnership and changes that can occur over time. If the shared values, such as respect for human rights, change then the partnership will change, and possibly end. In addition, new partners may also join an existing partnership over time.

While partnerships do not have to be formal, most official aid agencies have an overall agreement with the partner country that sets the parameters of their relationship, usually in legalistic terms. Maxwell and Riddell (1998: p.260) note that there are different partnership models and rank the elements of partnership models as weak or strong. Weak partnership models relate to information sharing and policy dialogue. Strong partnerships on the other hand are characterised by jointly agreed country programmes and multi-annual financial agreements. Examining the partnership agreements of DFID, Maxwell and Riddell (1998: pp.258-260) also make a distinction between hollow and inflexible partnerships, each representing an

<sup>79</sup> Fourteen member countries by 2010: Belgium, Canada, Denmark, Finland, Ireland, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, Germany, UK, and Australia.

unsatisfactory outcome. The hollow partnership exists where the donor alone determines the terms of the agreement and is not answerable to its partners, leading to asymmetrical accountability. The inflexible partnership is where the flows of aid and the forms it can take are fixed well in advance and do not take account of changes in the recipient country. Clearly, they argue, there is a need for a middle ground.

The partnership will cover, explicitly or implicitly, how various finite and divisible elements of the partnership are shared among the partners. Such shared elements could include responsibility, profits, costs, decision-making authority, or obligations. Each partner will have a share of these, for example a share of responsibility for a specific action, the share of decision making at different stages of the project cycle or a share of the costs for implementing an activity. What is important for a partnership is that these shares are clearly stated and agreed. The relative shares of each of these elements will reflect the relative power of the partners in the partnership. Partnership does not necessarily denote equality, for example in the common identification of senior or junior partners in those professions where partnerships are a normal form of business structure. Where equality exists then partnership is qualified by adding *equal* to form the term *equal partnership*.

Broad partnership agreements represent the highest level in a hierarchy of agreements between a donor and a recipient government. Donor country programmes also play a part in formalising the partnership over a specific time frame. There may also be broad partnerships with non-state actors involved in defining the terms and scope of the programme as well as possibly contributing to its implementation. These agreements would also set out the common goals of the parties and would usually define the different shares of responsibility belonging to the parties. At the next level, a well-crafted project document is a form of partnership although narrow in scope; it should be very clear and understandable to both sides (even if the format will usually be the donor's). A loan from a multilateral development bank will usually have a legal agreement that is more concerned with the issue of disbursement and repayment than with the common values of the two parties. The nature and quality of the legal arrangements in place will also help determine the degree of trust that is required between donor and recipient. The mutual trust required will vary, not only with the state of these legal arrangements, but also the ability for legal redress or other sanctions. There may also be conflicts within a partnership, but formal partnership arrangements usually determine the subsequent course of action, for example dissolving it or addressing the issue causing the conflict.

### 2.1.3 The Issue of Ownership in the Context of Aid

Any discussion of ownership, or use of the term in later sections of this paper, first requires the establishment of clear definitions. Yet this is no easy matter (Cramer 2002). The term *ownership* is usually used in the context of property rights and the degree to which a person or organisation can use or trade an asset. In terms of aid, ownership has a variety of meanings that relate to ownership not only of an asset (financial assets in the case of aid) but also of less tangible things such as, *inter alia*, an idea, strategy, plan, project or policy. It is a fundamental element of the aid relationship since it determines whose ideas and desires are reflected in the external assistance that is provided, including in any conditionalities that are attached. These ideas and desires relate not only to the sectors or type of project but also to the modalities used, the type of implementation mechanism, responsibilities, and other dimensions of the aid process and relationship.

Even though the World Bank explicitly distinguishes between ownership and partnership in its CDF work, and they are listed separately as two of the CDF principles, the definitions often overlap. The concept of ownership in the context of development aid has also been interpreted in many ways. For this reason, among others, the former chief economist of the European Bank for Reconstruction and Development (EBRD) believes that ‘the concept of “country ownership” has been used and abused in so many ways that it now is at best unhelpful and at worst misleading and obfuscating’ (Buiten 2005: p.21). For example, in a mid-1990s study of relationships between an African country and its aid donors<sup>80</sup>, representatives of donor agencies were asked about their understanding of *ownership* issues. This elicited some remarkable responses (Helleiner 2000: pp.85-86):

‘Ownership exists when they do what we want them to do but they do so voluntarily’; ‘We want them to take ownership. Of course, they must do what we want. If not, they should get their money elsewhere’; ‘We have to pressure the local government to take ownership’; ‘We have to be realistic. Our taxpayers want to be sure their money is being used well. They want to know there’s someone they can trust, a national of their own country, in charge’; ‘I routinely instruct my staff to draft terms of reference for technical cooperation projects and then spend half an hour with a local government official on it’.

In addition, the literature on ownership has adopted the term *donorship*, which is often used in a pejorative sense, usually meaning the opposite of national ownership or shorthand for *donor ownership*, for example Oxfam (2004), Edgren (2003: p.4) or Cramer, Stein and Weeks (2006). It is, however, also used in a more neutral sense, reflecting overall donor behaviour and approaches, so that it is necessary to qualify the term with adjectives such as *good* or *poor*, for example Ohno and Niiya (2004) or Harmer *et al.* (2004).

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<sup>80</sup> The *Helleiner Report* – the Report of the Group of Independent Advisers on Development Cooperation Issues between Tanzania and Its Aid Donors (Helleiner 1995).

A core issue usually raised in donor definitions of ownership is that of commitment. To the IMF ownership is a concept that is elusive and difficult to define or conceptualise but it manages to state that ‘The country “owns” the program in the sense that it is committed to the spirit of the program, rather than just complying with it’ (IMF 2001a: pp.13-14). A number of donors have included the issue of leadership as a key dimension of ownership, as does the Paris Declaration on Aid Effectiveness. But commitment and leadership are loose terms and intangible concepts. A government may become committed to a programme or exhibit leadership in its implementation once it is realized that it has no choice, for example if it is highly dependent on aid for achieving its development goals. It may therefore be both committed to a programme’s implementation as well as ‘just complying’ with the programme.

In this respect, commitment is not an element of ownership, but a result of it. The recipient government and other stakeholders become more committed if they have more control, for example, over the design and implementation of the donor intervention. McKinley (2004: p.4) notes that national ownership of Poverty Reduction Strategy Papers (PRSPs) ‘usually implies that national stakeholders are encouraged to agree with a pre-determined set of external policy recommendations. They have had little opportunity to choose among various policy options, much less formulate their own.’ In such situations, according to McKinley, what is needed is not ‘ownership’ (in the sense of agreement and commitment) but national empowerment over policy formulation (McKinley 2004). What is more important for ownership are the concepts of control and choice that, when given to a partner, empower it in the sense suggested by McKinley. The importance of choice is recognised by the IMF in the following statement (IMF 2001a: p13):

Implicitly, [ownership] refers to a situation in which the policy content of the program is similar to what the country itself would have chosen in the absence of IMF involvement. This is because the country shares with the IMF both the objectives of the program as well as an understanding of the appropriate economic model linking those objectives to economic policies.

Some definitions focus on ownership as “the exercise of control and command over development activities.” (Edgren, 2003: p.3). The concept of control can be examined with the idea suggested in the previous section that elements of a partnership are shared. If partnership is about sharing, then ownership is about who gets how much of whatever is being shared. The issue of ownership addresses who will get the shares of responsibility at the various stages of the partnership. For example, will the donor have the greatest share of responsibility for decisions over programme design and the recipient for its implementation? Ownership is therefore about articulating the relative shares among partners of the various dimensions of the partnership.

Other dimensions of a partnership include authority, for example in relation to the right to make decisions, the right to access information and the nature/direction of accountability within the partnership. The rewards from the interventions are another dimension that is shared among the stakeholders. This can be interesting when the body that takes the greatest share of the rewards from an intervention is different from that which bears responsibility for its implementation. Clearly from the above definition, where ownership is defined as control over 'conceptualisation, monitoring and implementation' of aid, ownership will also vary with the different stages of the project cycle. For example, there may be a high level of national ownership during the identification stage but less during implementation or evaluation. Not only could the degree of ownership change but also the nature of the owners. In other words the level and nature of ownership is dynamic. At the same time the ownership concept can be applied to a wide variety of tools used by government and the donor community (e.g. policies, processes, programmes or projects) and not just differentiation by different stages of the project cycle. The nature and degree of ownership will be established within the parameters of the donor and recipient aid policy. If a donor insists on establishing project implementation units for each project then the degree of government ownership of the implementation process will be limited. Ultimately the nature of ownership will result from a process of negotiation between donors and recipients.

A major question in relation to recipient ownership is: who are the owners in the recipient country? The following definition of ownership, based on the work of Johnson and Wasty (1993) for the World Bank in the mid-1990s raises this issue and distinguishes different sets of owners:

Country ownership may be manifested in a number of ways: (a) the locus of initiative is within the government; (b) key policy makers accept the direction and analytical underpinnings of the strategy and its policy performance targets; (c) the top political leadership and the cabinet provide evidence of public support; and (d) there is broad-based participation through representative institutions (World Bank 2001a: p.23).

The above makes a distinction between government, key policy makers, top political leadership and cabinet and representative institutions, presumably including the national and local legislatures. Some of the definitions used in the donor and general development literature distinguish between broad and narrow ownership. Narrow ownership refers to ownership by the contracting party, for example the government, while the concept of broad ownership is based on multiple ownership by different stakeholders. Simple broad participation is not the same as ownership. The question of who owns a policy or intervention within government is even more complex since it will vary depending on the dimension of ownership and the stage on the project

cycle. For example, one group may be committed; another may feel in line with the policy or intervention and another responsible for the implementation. Regional initiatives may require ownership by two or more countries but within such a regional partnership the various aspects of ownership can be shared as within a national initiative.

## **2.2 STRATEGIES FOR A BETTER AID RELATIONSHIP**

The aid relationship is clearly more than just a series of ideas, definitions and concepts. Although these ideas have a long history (in the context of development aid) the broad donor community only started to systematically prepare a number of practical approaches and strategies for moving towards a better aid relationship in the 1990s. As already noted, the basic elements of the aid relationship have become key elements of donor aid policy and strategies. In this section the focus moves from what the elements of the aid relationship are to what they should be as agreed in international fora. In other words, the move from what is partnership and ownership to issues related to who should be the owner and when. Although many of the donor strategies started towards the end of the period being examined or even at the end (notably the Paris Declaration) their use here is to develop an analytical framework that can then be applied to the LIPCCs over the period 1990-2005.

### **2.2.1 The evolution of the *Partnership Approach***

While Pearson had established the importance of partnership as a principle, in 1996 OECD DAC set out what was to become the so-called partnership model of development assistance (OECD 1996: p.13):

Acceptance of the partnership model, with greater clarity in the roles of partners, is one of the most positive changes we are proposing in the framework for development co-operation. In a partnership, development co-operation does not try to do things for developing countries and their people, but with them. It must be seen as a collaborative effort to help them increase their capacities to do things for themselves. Paternalistic approaches have no place in this framework. In a true partnership, local actors should progressively take the lead while external partners back their efforts to assume greater responsibility for their own development.

In the partnership model or approach, the OECD moved beyond the objective analysis of partnership to a normative one. It addresses power relationships and clearly suggests that these must move in favour of the recipient. It moves from the idea of ownership as sharing elements of the partnership to *how* these elements should be shared. The main policy use of the aid relationship is clearly that the power should move from donors to recipients and that recipients should be in greater control of aid resources. The rise in the importance of increased national

ownership coincided with the decline in the belief of conditionality as an effective approach. To use the language of the World Bank, the country must be in the *driver's seat*.

At the same time, while the use of the word *ownership* may be a recent phenomenon in international aid, the basic ideas surrounding the importance of greater national ownership are not so new. Conyers and Mellors (2005) note that Dumont highlighted the need for local solutions to local problems in his 1962 book *False Start* while Schumacher emphasised the importance of self-learning in his classic 1973 text *Small is Beautiful*. When the UN established the Expanded Programme for Technical Assistance in 1949<sup>81</sup> it explicitly noted the importance of aligning aid with national plans (Jolly 2005: p.40). In the 1960s the fledgling Swedish aid programme promoted an approach based on solidarity. Further examples of the long history of many of the concepts associated with the good aid relationship are provided in Chapter 3.

Moreover, these concepts have been adopted and promoted by many recipient governments and civil society organisations. An example is from President Mkapa of Tanzania: 'Ownership of development policies and programs is not only an understandably nationalist yearning, an inherent and sovereign right, but it also creates the most fervent disposition and conditions for hard work and for self-development, both at the national and the local level.'<sup>82</sup> The partnership approach has also manifested itself in some important initiatives, the most notable of which is probably the New Partnership for Africa's Development (NEPAD), a vision and strategic socio-economic development framework for Africa's renewal spearheaded by African leaders. NEPAD is designed to address the current challenges facing the African continent, such as escalating poverty levels, underdevelopment and continued marginalisation.

### **2.2.2 The CDF Approach and the World Bank/IMF**

The World Bank was quick to adopt the partnership approach taking the basic definition of partnership used above ('a collaborative relationship between entities to work towards shared objectives') and adding an indication of what it thinks the nature of the partnership should be: 'At the country level, this means engaging under government leadership with national stakeholders and external partners (including international development agencies) in developing, implementing, and monitoring a country's own development strategy' (World Bank 2003a: p.1). The World Bank also emphasises broad ownership among a wide range of stakeholders, including 'line ministries, parliament, sub-national governments, civil society

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<sup>81</sup> In 1965 by the General Assembly of the United Nations decided to merge the United Nations Expanded Programme of Technical Assistance and the United Nations Special Fund (established in 1958) to form UNDP.

<sup>82</sup> Referred to in the address by James Wolfensohn, President of the World Bank Group, to the Board of Governors of the World Bank Group, at the Joint Annual Discussion. September 28 1999.

organisations, and private sector groups' (World Bank CDF website<sup>83</sup>). The introduction of the CDF principles allowed the World Bank to be far more explicit about precisely what it meant by the core elements of the aid relationship.

Two of the CDF principles<sup>84</sup> relate to partnership and ownership and these have been applied to the PRSP process. First, the principles of *Country-Led Partnership*, defined as:

Recipient countries should lead aid management and coordination through stakeholder partnerships. Donor-recipient relationships should be actively managed by the recipient country as a partnership and not dominated by donor preferences. Partnerships built on mutual trust and consultation can improve aid coordination and reduce the inefficiencies, asymmetrical power relationships, and tensions of donor-led aid initiatives. (World Bank OED 2003: p.5)

Second, the principles on *Country Ownership*, which the World Bank defines as:

Development goals and strategies should be "owned" by the country, based on broad citizen participation in shaping them. While donor-driven aid delivered under structural adjustment was sometimes effective, in many cases painful and lengthy adjustment measures were eventually undone. When countries have greater say in shaping reforms, governments and their citizens will be more committed to seeing them through. (World Bank OED 2003: p.5)

Based on this definition the principle can be disaggregated into various components to facilitate measurement, as set out in Box 2.2 below.

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<sup>83</sup><http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/STRATEGIES/CDF/0,,contentMDK:20072933~menuPK:140843~pagePK:139301~piPK:139306~theSitePK:140576,00.html>.

<sup>84</sup> The other two principles are a long-term holistic vision and results focus.

## Box 2.2: Elements of the CDF Country-Led Partnership and Country Ownership Principles

### Country Led Partnership

- Government leadership of coordination. There is a clear structure for development assistance coordination with strong leadership and a structure for agreeing on new financing from development assistance agencies. Consultative group or Roundtable meetings take place in the country and are chaired by the government. The government leads informal working groups to discuss sectoral or thematic issues.
- Partners' assistance strategy alignment. Country assistance strategies of the major partners are explicitly aligned with the national development strategy. There are some strong public/private partnerships supporting strategy implementation.
- Financial and analytical partnership. External partners provide budget support around one common country owned policy framework linked to the national development strategy. There are a number of well-developed sector-wide approaches coordinated through government structures rather than isolated Project Implementation Units. There are some strong examples of joint analytical work.
- Coherent and coordinated capacity support. A capacity building strategy is integrated into the overall national development strategy around which external partners are coalescing.
- Harmonization with country systems. External partners rely on country systems such as national procurement and financial management when providing project and sector program assistance. A large percentage of funds is channelled through budget support, de facto relying on country systems.
- Partnership organisation. The major external partners have decentralized their decision-making processes, increased their presence in the country or region, or delegated cooperation in order to be able to participate actively in day-to-day development work.

### Country Ownership

- Government initiative. Country leaders have shaped the vision and strategy and there is a clear locus of initiative and a strong mechanism for inter-ministerial coordination at the policy level.
- Institutional mechanisms for stakeholder involvement. The government is involving stakeholders in systematic dialogue on strategy formulation and implementation, through permanent institutions (e.g. local government structures, public-private councils).
- Civil society involvement. One or more umbrella representative NGOs play a prominent role in dialogue with the government. Civil society organisations, such as NGOs, community-based organisations, think-tanks, trade unions, are involved systematically in providing feedback to the government on strategy formulation and implementation.
- Private sector involvement. Representative private sector associations play an active and systematic role in providing feedback to the government on strategy formulation and during implementation.
- Parliamentary involvement. The plenary examined and/or approved the national development strategy and the vision consistent with its constitutional or traditional mandate, where relevant. Parliament is routinely involved in [poverty reduction strategy] implementation through the budget discussion, with a parliamentary committee that takes the lead on monitoring the strategy.
- Capacity to formulate strategy, e.g. distribution of skills and resources. The ministry in charge of strategy formulation or coordination of implementation has capacity for planning. Line ministries have capacity to prepare sector strategies. In decentralized countries, local government has capacity and resources for planning. Parliament has capacity and resources to have an impact on [poverty reduction strategy] policy content. Stakeholders within and outside government have capacity and resources to consult among each other and engage in a give-and-take debate on the policy content of the [poverty reduction strategy].

Source: World Bank (2005a: p.2)

The CDF principles are important beyond the World Bank itself, as they have been incorporated in the PRSP approach, which is being undertaken by the vast majority of countries borrowing from the World Bank concessional window, IDA. It is through support for the PRSP process that many bilateral donors have implicitly supported the two CDF principles related to the aid relationship. However, the 2003 evaluation of the CDF (World Bank OED 2003) found that ownership was narrowly based and progress with partnership highly uneven.

### **2.2.3 The Harmonization and Alignment Agenda**

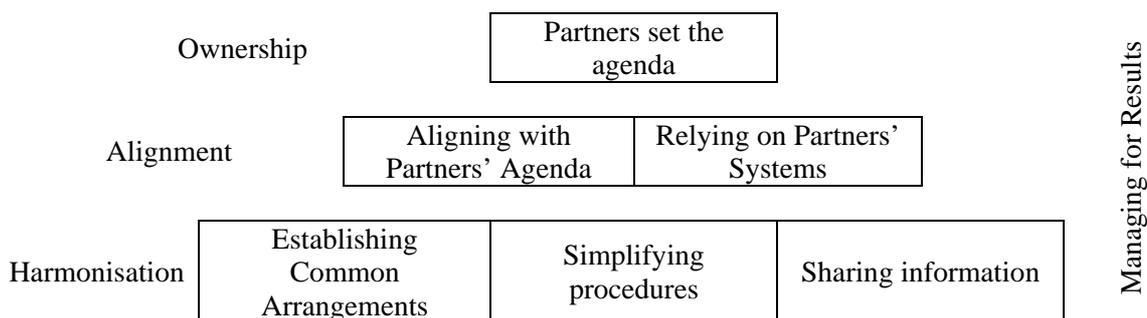
While the OECD's partnership approach guides DAC members and the CDF principles are endorsed by the World Bank and either explicitly or implicitly by other donors, it was not until 2002 that the ideas encompassed in these two agendas gained wider agreement. The International Conference on Financing for Development and the resulting Monterrey Consensus mark a new stage in the development of a strategy to achieve a better aid relationship. The Consensus document noted that 'Effective partnerships among donors and recipients are based on the recognition of national leadership and ownership of development plans and, within that framework, sound policies and good governance at all levels are necessary to ensure ODA effectiveness.' It went on to promote more flexible delivery of aid 'taking into account the national development needs and objectives under the ownership of the recipient country'; greater use of development frameworks that are 'owned and driven by developing countries'; and enhancement of 'recipient countries' input into and ownership of the design, including procurement, of technical assistant programmes'(United Nations 2002: p.15).

A year after Monterrey a smaller group of countries (donor and recipient), as well as development organisations, met and agreed the Rome Declaration on Harmonisation. This was to be followed by another High-Level Forum on Aid Effectiveness and meeting of a larger group (noted in the introductory paragraph to this chapter) in 2005 in Paris. The outcome of the event, the Paris Declaration, is the clearest exposition of how the donor community believe the aid relationship should look. It set out the four broad areas of the Rome and Paris<sup>85</sup> commitments and the key elements of the Harmonisation and Alignment Agenda as illustrated in the pyramid in Figure 2.1 below.

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<sup>85</sup> As well as the Marrakech Declaration that resulted from the Second Roundtable on MfDR held in Marrakech in 2004.

Figure 2.1: The Harmonisation and Alignment Pyramid



Source: (OECD 2005b: p.14)

Starting from the bottom of the pyramid, *harmonisation*, the Paris Declaration (OECD DAC 2005a: p.6) states the goal that ‘donors’ actions are more harmonised, transparent and collectively effective’. Harmonisation among donor organisations – establishing common arrangements, simplifying procedures and sharing information - is therefore the bedrock upon which the rest of the agenda is built. At the next level, *alignment*, the goal is that ‘donors base their overall support on partner countries’ national development strategies, institutions and procedures.’ Donors need to align what they do and the way they do it with national priorities and systems. At the top of the pyramid is *ownership* and the goal that ‘partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions’ (*ibid*: p.3).

The Paris Declaration has had a significant impact on the strategies and policies of the broad donor community. Of the countries and organisations that signed the Declaration, 18 prepared harmonization action plans and programmes and in 2008, 55 countries participated in the survey to monitor its implementation. Meetings in Accra (in 2008) and Busan (in 2011) have allowed the global debate on this issue to continue and further agreements to be reached.

### 2.3 A FRAMEWORK FOR ANALYSING THE AID RELATIONSHIP

Even within the framework of the Paris Declaration, the meetings, the evaluations and the increased accountability through monitoring reports, progress towards a better aid relationship is slow. The 2008 monitoring survey (OECD DAC 2008: p.12) revealed that ‘[The Paris Declaration] has helped generate a common sense of purpose on actions needed to improve aid effectiveness over time. In so doing, it has stimulated dialogue between partner countries, the community of donors and key actors from civil society’. However, it also noted that it is ‘clear that the pace of progress is too slow. Without further reform and faster action, we will not meet

the 2010 targets for improving the quality of aid. Meeting the targets will require not only acceleration in the pace of progress but also a significant change in how we do business.’

If, as has been argued, many of the ideas related to strengthening the aid relationship have been around for some time, why has the situation not improved? Donors have responded with more instruments designed to improve the relationship (such as SWAs, pooled technical assistance, improved budget support, etc) as well as more recent attempts to integrate the Paris Declaration and similar international agreements into their planning and strategies, but clearly this has not been enough. What are the factors that can explain why progress towards the good aid relationship has not been faster? The following sections set out a framework for answering this question.

### **2.3.1 The Analytical Framework**

Taking into account the critiques of previous efforts to examine ownership, Whitfield (2009) developed a simple analytical framework that focusses on the negotiations between donors and recipients and distinguishes between *negotiating capital* of both parties and the strategies they undertake in performing the negotiations. In this framework, negotiating capital (donor and recipients) is derived from economic, political, ideological and institutional prior conditions. It refers to the leverage that a negotiator is able to derive from these structural conditions. *Negotiating strategies* (donor and recipient) are, in turn, derived from perceptions of relative negotiating capital and policy preferences.

The framework proposes that the encounter between the donor and recipient produces an outcome and that donor and recipient preferences are heavily constrained by the conditions under which they face each other (the negotiating capital) and the strategies they adopt. In this model negotiations lead to aid agreements that, following implementation, lead to outcomes. It is not a single negotiation, for example over a loan agreement, but iterations of a game over time. Moreover, while Whitfield uses this for examining agenda setting and policy formulation it can be used in a broad range of stages of donor-recipient engagement and at all stages of the project cycle.

The next sections will examine the three main sets of structural conditions that will influence negotiating capital, negotiating strategies and ultimately the outcome of the negotiations and the overall donor-recipient relationship. First, the ideological and political conditions (including policy preferences) that have been established by donors and recipients will be key structural conditions. Second, dependency can be considered a major economic and political condition that through affecting incentives will determine the willingness of donors and recipients alike to

improve the aid relationship. Third, the institutional conditions— capacity in its broadest sense – will also help determine the relationship. These sections will examine (and try to make sense of) the current literature on the importance of the conditions for setting the negotiating capital and in turn influencing the aid relationship. The empirical chapters will then use this framework for analysis of the aid relationship and the question of why greater progress has, or has not, been made in improving it.

The framework recognizes that many players are involved, directly or indirectly, in the negotiations: government, citizens, civil society organizations and donors (including their contractors). It also recognises that the aid relationship is unlikely to be determined in a single negotiation at the start of the project or programme but that it will change through the different stages of the project cycle. At each stage negotiations may take place between different players.

It should be repeated here that the focus of the research is on the core element of the aid relationship, ownership, and that this is taken forward in the empirical work (and forms the basis of the question set out in section 1.2.3). In this sense, the *good aid relationship* means strong ownership (in the sense of control) by the national authorities. This approach, also taken by Whitfield (2009), clarifies the issue of who is the owner but does not make a judgement on different types of domestic policy making. As noted in Chapter 1, other dimensions of a relationship are not ignored and are used as explanatory factors.

### **2.3.2 Ideology and policy conditions**

The ideological stance and resulting policies of both recipient and donor are important parts of the negotiating capital. In this context this ideology and policy refer to both development and the aid relationship.

The importance of development ideology and policy has been captured in the earlier discussion on partnership. Clearly the existence of a partnership and of shared objectives will affect the relationship between donor and recipient and the degree to which the donor will accept losing some control in the design of the project or programme. Where the partnership does not exist some donors may decide not to engage but the the relationship between engagement, partnership and ownership can be summarised through the idea that donors work *with, through* or *around* the recipient government (Collier and Dollar 2004). Where there is a partnership the donor works *with* the recipient. Where the donor cannot work with the government, it can work *through* it, in other words ‘letting the government implement the projects which it, the donor, chooses’ (*ibid*: p.264). This is the situation where conditionality would be among the tools used

by the donor. The third option is for the donor to work *around* the government, for example, by financing local NGOs or other civil society organisations. Table 2.2 below illustrates this point.

Table 2.2 : Engagement and Partnership with a Recipient Government

	Engagement	Partnership	Ownership
Working <i>with</i> the recipient government	Yes	Yes	Yes
Working <i>through</i> the recipient government	Yes	Yes	No
Working <i>around</i> the recipient government	Yes	No	No

The second dimension of ideology and policy refers to the aid relationship itself. As noted earlier in this chapter some donors may be committed to aspects of the aid relationship long before the *good aid relationship* was codified through the Paris Declaration, CDF and other initiatives or agreements. At the same time some organisations have signed up to these initiative but treated implementation with little enthusiasm or have taken time to warm to the ideas. Japan is an example of a donor whose approach to the aid relationship has differed quite sharply from other bilateral DAC donors.<sup>86</sup>

The driver of the ideological stance of the donor is important and can affect the extent to which it implements the policy or to which its staff adhere to it. It is clear that for many donors the ideology is technically driven: promoting a better aid relationship will lead to better development results. In a paper written by two DAC staff (Deutsher and Fyson 2009) and referring to the poor implementation of the Paris Declaration and the Accra Agenda for Action the authors conclude ‘if the 1.4 billion people who still live in extreme poverty are to be given a real opportunity to improve their lives, the governments and other participants must start to “walk the talk”’ (in the context of the paper to go beyond nice words to actually implement). Chapter 3 provides much of the evidence upon which such beliefs are based. Whitfield (2009), on the other hand, points to the issue of sovereignty as a universal right of states to determine their own destinies even if this means making mistakes. The distinction between the two is important as it determines the significance of the evidence that the good aid relationship has a positive impact on aid, and ultimately development, effectiveness.

This last point is also crucial because of the incentives that could move aid away from the rhetoric of a good aid relationship. In their study of the institutional economics of foreign aid, Martens *et al.* (2002) note that since aid agencies are accountable to a variety of political principals who represent different interests and therefore emphasize different aspects and objectives for the programmes, they suffer from the same incentive problems as all public

<sup>86</sup> Japan’s approach to the aid relationship is further examined in Section 4.4.2.

agencies. 'The wider the range of political principals and interest groups to which the agency has to respond, the vaguer the agency's mission and the weaker the performance incentives' (p.181). At the same time, the agencies are made up of large numbers of staff who have different decision making responsibilities at different stages of the relationship and utilize the services of contractors who are subject to their own set of incentives to implement policy. These sub-contractors often have substantial discretion that 'may facilitate both collusion and conflict with recipient organizations, depending on the terms of the sub-contract' (Martens *et al.* 2002: p.182).

### **2.3.3 Dependency – a complex economic and political structural condition**

On the donor side, willingness to promote a good aid relationship through stronger national ownership of aid was illustrated by the signing of the Paris Declaration and the Monterrey consensus or by supporting the PRSP process and its CDF principles. Within this there are clearly degrees of willingness related to the specific issues and of *how to get there* and *how quickly* to do so. Inevitably national or inter-governmental politics can get in the way of bilateral and multilateral organisation change respectively. An early evaluation of Germany's implementation of the Paris Declaration noted the disincentives to doing so, including: shortage of staff; increased transaction costs (e.g. time-consuming coordination) despite the opposite being intended; interfering political priorities (e.g. cross-cutting thematic earmarking such as for health); pressure to disburse funds; the call for visibility of German aid contributions; and, institutional self-interests (which may for instance impede joint missions and reports) (Ashoff 2008: p.4). Until Paris there was little accountability in terms of implementing the policies and strategies required to achieve a good aid relationship as there existed little monitoring and little explicit policy with which to hold donors accountable.

It is even more difficult to generalise about recipient country willingness to engage in the good aid relationship. On the one hand, although the idea of greater control over resources and policies is likely to be appealing, there is a possible downside, including responsibility for results. Recipients may not be held accountable to their citizens for the aid relationship even where such accountability mechanisms exist. At the same time, implementation of the Paris Declaration does not come without its costs (as noted above) but these costs may fall disproportionately on the recipient (Tandon 2008b).

Moreover, there may be incentives in place that will reduce the willingness of the recipient to push for greater ownership and a better aid relationship overall. This specifically relates to the concept of dependency and how much the aid is needed by the recipient (or donor). The issue of

aid dependency<sup>87</sup> is highly emotive and has been used as a critique of the international aid system and as a means to justify a reduction in aid flows by the donor community. At the simplest level aid dependency is often used in the same way as resource intensity to mean a high level of aid flows in relation to either GDP or per capita. For example Brautigam (2000: p.2) states: ‘As a proxy for [aid dependency], we use a measure of “intensity” of aid: countries receiving aid at levels of 10 per cent of GNP or above’. In this respect, a country is more aid dependent the greater the relative flow of aid it receives from the donor community. The World Bank also uses dependency in this way in its annual World Development Indicators publication.<sup>88</sup> Taking a more sophisticated approach, Lensink and White (1998) examined the various existing definitions of aid dependency and formulated their own definition: ‘A country is aid dependent if it will not achieve objective X in the absence of aid for the foreseeable future’ (p.13). According to Lensink and White if you plan to have economic growth of five per cent and need donor assistance to achieve it you are aid dependent (in other words if you would only achieve, say, three per cent without aid). This would mean that such countries are willing to accept aid dependence since they have a choice between three per cent and five per cent.

In this use, even countries with relatively low levels of aid could be defined as aid dependent if their objectives cannot be achieved without aid. What of countries where the choice is starker, for example serious economic decline with no aid? Are there degrees of aid dependency? Brautigam (2000: p.9) uses a stronger definition moving from the inability to achieve goals to the inability to perform core functions: ‘My own definition of aid dependence is a situation in which a country cannot perform many of the core functions of government, such as operations and maintenance, or the delivery of basic public services, without foreign aid funding and expertise.’ Using dependency in even stronger terms, Lancaster and Wangwe (2000: p.11) define aid dependence as: ‘A situation in which a government (or other entity) receiving concessional external assistance would suffer serious economic and possibly political repercussions if that aid were significantly reduced or eliminated in a short period of time.’

From the above, two basic types of recipient country dependency can be identified that largely reflect the degree of this dependency. First, what can be called *limited dependency* reflects a situation where a country will not achieve objective X in the absence of aid for the foreseeable future. Second, the idea of *fundamental dependency*, a situation in which a country receiving external development assistance would suffer serious economic, social, environmental or

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<sup>87</sup> The ideas of aid dependency as used in this section owes little to *Dependency Theory* which suggests that the wealthy nations of the world need a peripheral group of poorer states in order to remain wealthy.

<sup>88</sup> <http://devdata.worldbank.org/wdi2005/Section6.htm> (downloaded March 2006).

political repercussions if that aid were significantly reduced or eliminated.<sup>89</sup> Both these concepts are used in this research.

Many commentators have noted that aid dependency is not simply a mechanical issue whereby a country becomes dependent when it reaches a certain level of a dependency indicator. In setting out Tanzanian perspectives on aid dependency, Wangwe and Lyakurwa (1999) take a qualitative approach rather than using quantitative resource gaps. To them, aid dependency is an expression of behaviour: ‘Aid dependency is manifested in the lack of initiative, and in the attitude of waiting for the other partner to suggest or even prescribe the action to be taken. This aid dependency has practically increased the tendency of passiveness on the recipient side.’ (p.180) Similarly, Rehman Sobhan, a Bangladeshi critic, calls aid dependence ‘a state of mind, where aid recipients lose their capacity to think for themselves and thereby relinquish control’.<sup>90</sup> Measuring aid dependency using these definitions is difficult, if not impossible.<sup>91</sup>

Whatever the definition, the degree of dependency will depend on a number of factors including the type of aid. For example a country may be more dependent in the short-term in relation to budget support than to technical assistance or investment projects. For longer-term development it may be more dependent on funds for investment and support for capacity building. It will also depend on the nature of the complements and near-substitutes of aid. For example, if private investment flows are readily available then dependency on aid for infrastructure development may not be so high. Equally, dependency on the IMF or World Bank may be high if flows from these organisations lead to complementary flows from bilateral donors. While dependency on aid may be considered a bad situation as it increases the country’s vulnerability to the outside world and may reduce the autonomy of the government, it should be noted that countries may also be dependent on other global flows, climate change, short-term weather, world commodity prices, tourism, trade, exchange rates, and so on. It would be difficult, or at least extremely costly, for many countries to opt out of the international economy and free themselves from its influence (Leander 2001).

A distinction should also be made between the dependency of the country and that of the government since many governments and political systems would not survive without aid even

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<sup>89</sup> With both limited and fundamental dependency the government (as opposed to the country) is only dependent if there are political implications to not reaching your target i.e. if it is not widely advertised or if figures can be manipulated or if you are not in a democracy then you are not so dependent. The implications of the dependency will also depend on the political situation. In a mature democracy the political impact of a reduction in public services or even not achieving development objectives may be important for a government. In a dictatorship the importance may be less.

<sup>90</sup> Quoted in Brautigam (2000: p.9).

<sup>91</sup> Issues related to the measurement of aid dependency are examined in more detail in Chapter 4 of this thesis in the context of the group of LIPCCs.

if the country were not subject to serious dependency. In addition, dependency may not be only at the national level and there are other groups who are also dependent on aid for their livelihoods or power. For example a ministry may be dependent on technical assistance for knowledge, for undertaking its basic activities such as preparing reports and studies, or for covering some recurrent costs. At the same time individuals may be dependent on aid for high salaries. Moreover, dependency is not just on the recipient side. As has been noted earlier, the aid business has its own momentum, a fact that could possibly be explained by high levels of donor dependency. Aid agencies, large and small, are dependent on the flow of aid as are the individuals who work in them. A decline in aid flows could reduce the need for staff and such dependency may explain the drive to disburse resources in some organisations in an effort to justify their existence.<sup>92</sup>

### **2.3.4 Capacity and institutional conditions**

At the core of the Good Aid Relationship is the issue of capacity development. The World Bank recognised the importance of capacity development in its CDF principles, stating that ‘Ownership requires that a country has sufficient institutional capacity for defining and implementing a national development strategy’.<sup>93</sup> The Paris Declaration refers to capacity throughout the document, recognizing its important in terms of the aid relationship and the strategy for improving it. Recent DAC guidelines on capacity development clearly state the case: ‘country ownership of policies and programmes is premised on the capacity to exercise it. Ownership will not begin to emerge in the absence of sufficient capacity’ (OECD DAC 2006c: p. 13).

Given that capacity development is inevitably a long term process, the promotion of country ownership will, in many cases, also need to be seen in the long-term. Where capacity does not exist, increasing country ownership may not necessarily result in an increase in aid effectiveness. The good aid relationship can therefore be seen in two ways: First, in a dynamic sense that promotes national ownership over the longer term taking into account capacity development needs and helping national partners in addressing them. This recognises that the capacity development process itself may be externally driven for a period until national capacities are in place. Second, the good aid relationship can be seen in a more static sense where ownership should be given more immediately. For example, the PRSP process working in the context of the CDF principles and broadly in line with the good aid relationship tried to promote national ownership of the poverty reduction strategy process in the short term even

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<sup>92</sup> An example of such donor dependency can be seen from the resistance at UNDP to close its offices in those countries that have recently joined the European Union. By May 2006, two years after the EU added 10 countries to its list of member states, UNDP still had representations in six of them (<http://www.undp.org/europe/>).

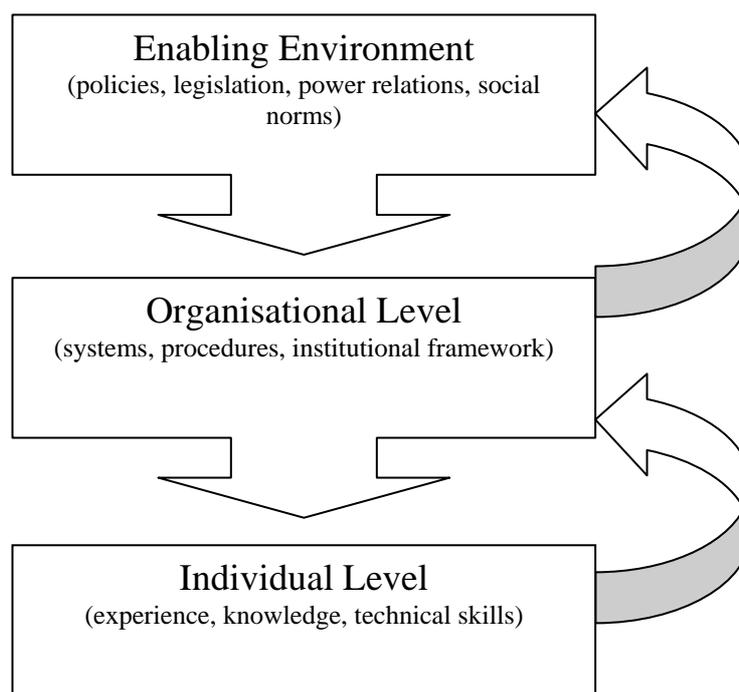
<sup>93</sup><http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/STRATEGIES/CDF/0,,contentMDK:20072933~menuPK:140843~pagePK:139301~piPK:139306~theSitePK:140576,00.html> (downloaded January 2007).

though capacities were not in place to take this ownership (World Bank 2002b). The above distinction has implications for the universality of the approach since a dynamic approach can be used in all circumstances whereas the static one is not universal and only appropriate in countries where the capacity exists.

While national capacity is seen to be essential for national ownership, research into capacity development constraints reveal that national ownership is essential to develop national capacity. As the DAC guidelines on capacity development (OECD DAC 2006c: p.7) note: ‘The new consensus, articulated strongly in the 2005 Paris Declaration, sees capacity development as a necessarily endogenous process, strongly led from within a country, with donors playing a supporting role’. This capacity-ownership paradox raises the question of who decides on the capacities that need to be developed. Is the donor community setting the capacity development agenda and does it decide when capacities have been developed enough to allow for greater ownership? Moreover, if you assume that the basis of the good aid relationship is a partnership, can capacity development address conflicting political or policy ideologies that may prevent the existence of shared values. Capacity development therefore presents the problem of ideological capture by the donors who push the development of preferred capacities.

For analytical purposes it is useful to disaggregate the idea of capacity. A systemic approach to defining different levels of capacity has been developed and adopted by donors (OECD DAC 2006c) as illustrated in Figure 2.2 below.

Figure 2.2: Levels of Capacity: a Systemic Approach



This view of capacity development suggests that capacity resides not only within individuals but also at the level of organisations and within the enabling environment.<sup>94</sup> Capacity exists at these inter-related and complementary levels that combine to form an integrated system. At the first level is the enabling environment, which includes capacities related to policies, legislation and social norms, all of which govern the mandates, priorities, modes of operation and civic engagement across different parts of society. These factors determine the *rules of the game* for interaction between, and among, organisations. Individuals and organisations do not function in isolation but are part of a broader system, which facilitates or hampers their existence and development.

At the second level of capacity is the organisational level comprising ‘the policies, procedures and frameworks that allow an organisation to operate and deliver on its mandate and that enable individual capacities to connect and achieve goals’ (UNDP 2008: p.6). Finally, capacity is defined at the individual level, where it refers to ‘the skills, experience and knowledge that are vested in a person’. Each and every person is endowed with a mix of capacities that allow the individual to perform, whether at home, at work or in society at large. Some of these are acquired through formal training and education, others through learning-by-doing’ (*ibid*: p.6). Even though the above concepts are drawn from donor documentation (specifically DAC and UNDP) it is interesting to note that such disaggregation of the concept does not usually appear in strategy and policy documentation. It is, however, useful in the context of analysis in this research.

It should also be noted that although the focus has been on the capacities of recipients (especially recipient governments), capacity constraints can relate to donors as well. Certain organisational limitations on the way business is done by individual donors may affect the capacity to move towards the good aid relationship. The donor usually has the option of drawing on additional capacity through consultants and contractors but the capacity of these will also be a factor in determining the aid relationship.

## ***SUMMARY***

The chapter set out to define the aid relationship and identify the strategies undertaken and agreements made to promote a certain ideal relationship that may or may not exist. For analytical purposes, this good aid relationship is defined using the concepts of donor-recipient

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<sup>94</sup> Within the literature on capacity development, variations on the basic distinction among these three levels can be found. For example, the organisational level is sometimes referred to as the institutional level and the enabling environment is sometimes referred to as the institutional or societal level (UNDP 2008).

partnership and national ownership. Specifically, the good aid relationship involves greater national ownership defined as control over various parts of the engagement. Other elements of an aid relationship such as trust are used as factors to explain the relationship.

Equally important, the chapter establishes a framework to examine why the good aid relationship is or is not in place. The framework will be used for analysis in Chapters 4, 5 and 6. It is based on the idea that the aid relationship is the result of a series of negotiations among various parties and that the negotiators are constrained by a set of structural conditions related to: ideology and policy; political and economic dependency, and; capacity and institutions. It was noted that policy could be based on the technical understanding that the good aid relationship will promote aid effectiveness and ultimately greater development effectiveness. The following chapter sets out the theory and evidence to support of such ideology.

### CHAPTER 3: AID EFFECTIVENESS AND THE AID RELATIONSHIP

In a paper on foreign aid written for the OECD Development Centre more than forty years ago, Goran Ohlin concluded by considering the move towards a code for development assistance that would not only set out the joint interests of donors and recipients but also ensure mutual understanding of the two parties. In discussing this issue he noted (Ohlin 1966: p.100):

But if development assistance is to meet the hopes put upon it, it is desirable that recipients and donors alike arrive at a clearer conception of the aid relationship. The mutual involvement to which development assistance gives rise is alien to the relations between sovereign states, and the difficulties of coming to terms with it are no less on the receiving side than on the donor side, probably even a good deal greater. That the aid relationship is delicate need not be repeated, but upon this fragile link rests the effectiveness of aid.

Forty years later his statement on the importance of the aid relationship is still relevant and now reflects a common approach among most donors; relationships matter. In 1966 this assessment would probably have been developed as much from intuition as from empirical evidence. This chapter now examines the theory and evidence concerning why the aid relationship is important, specifically how the *good aid relationship* can improve aid effectiveness.

Even though the issue is now receiving more attention, the term aid effectiveness has featured heavily in the development literature for some time<sup>95</sup> and remains an ongoing concern in the rhetoric of the aid community. While efforts to increase the effectiveness of aid must be seen as a good thing, the meaning of effectiveness is not always clear. This chapter therefore establishes a working definition of aid effectiveness for use in the research and a framework for analysing the key challenges for increasing it. Using the framework, it examines the body of theory that links the mainstream version of what the aid relationship should be, to the process of overcoming these challenges.

At the simplest level, effective means ‘producing a desired or intended result’ and effectiveness means ‘the power to be effective’ (Compact Oxford English Dictionary). When applied to aid, however, the concept is deceptive in its simplicity. The attribute of simplicity has led many organisations and researchers to use the term without reference to what it means. An examination of a cursory and random sample of over ten documents using *aid effectiveness* or *development effectiveness* in the title shows that only four actually define the terms. Of these, only two looked at the distinction between aid, development and organisational effectiveness

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<sup>95</sup> This is reflected by the title of a recent review of the issue: ‘The Aid Effectiveness Literature: The Sad Result of 40 years of Research’ (Doucouliagos and Paldam 2005).

and none examined competing definitions.<sup>96</sup> While this may not be a statistically representative survey, it is indicative of the lazy approach to using the terms within the development industry. When attempts are made to develop a more sophisticated definition the results are also often unclear. For example, the OECD/DAC *Glossary of Key Terms in Evaluation and Results Based Management* (OECD 2002: p.21) includes a definition of effectiveness in the context of aid that is in line with the standard dictionary version given above:

The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance. Note: Also used as an aggregate measure of (or judgment about) the merit or worth of an activity, i.e. the extent to which an intervention has attained, or is expected to attain, its major relevant objectives efficiently in a sustainable fashion and with a positive institutional development impact.

In addition to the numerous attempts to research the effectiveness of aid, donor agencies themselves undertake performance assessments within their own accountability frameworks. For many multilateral or bilateral donor organisations the degree of effectiveness will help determine the level of future funding. How aid effectiveness is defined is therefore crucial.<sup>97</sup>

Definitions such as the OECD/DAC one used above still leave unanswered a number of important questions as to what aid effectiveness means. For example, there are also important distinctions between different types of effectiveness. In relation to aid, two types are usually discussed, namely, *development effectiveness* and *aid effectiveness*.<sup>98</sup> In turn, at least four basic approaches have been used in the development literature to illustrate how these relate to each other. The first approach is that aid effectiveness and development effectiveness are essentially the same. In a working paper for the Asian Development Bank (ADB), the author sees no difference between the two terms, stating from the start that 'Expressions such as "development effectiveness" and "aid effectiveness" are used to convey the same ideas. In this paper, "aid effectiveness" and "development effectiveness" are used interchangeably' (Quibria 2004: p.3). The second approach is that development effectiveness represents the developmental impact of the donor intervention as opposed to the effectiveness of the intervention in achieving technical results such as being implemented according to a specific schedule (which in this usage would be aid effectiveness or sometimes *organisational effectiveness*). For example, the World Bank's website states that 'The bottom line for the World Bank is its development effectiveness.'<sup>99</sup>

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<sup>96</sup> A specific example is the December 2002 BOND *Aid Effectiveness Survey* which used a questionnaire that did not define what was meant by effective aid even though the survey designers felt it necessary to define aid itself (BOND 2002).

<sup>97</sup> Issues related to the difficulties in measuring effectiveness are discussed in Chapter 4. Issues related to who sets, and possibly amends, the objectives to which the aid will contribute are also examined in the context of ownership.

<sup>98</sup> Other concepts such as political or environmental effectiveness face similar definitional problems but relate to a narrower set of objectives.

<sup>99</sup> <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20040927%7emenuPK:34480%7epagePK:34370%7etheSitePK:4607,00.html> (downloaded April 2005).

A third distinction concerns the scope of a donor country's interventions. Here, aid effectiveness refers to the effectiveness of the donor aid programme, whereas development effectiveness refers to the larger engagement of the donor with developing countries including its trade, finance, security, immigration and drugs policies (Christiansen 2005: p.1). The fourth approach is more literal and therefore simpler. Its scope is also beyond the individual aid agency or intervention but to the aid regime as a whole (aid effectiveness) or to national development processes (development effectiveness). A recent document prepared for DFID,<sup>100</sup> for example, sets out the definitions of different effectiveness concepts: Aid effectiveness refers to 'the aggregate impact of aid in developing countries to which all [aid agencies] organisations contribute (e.g. a rise in literacy levels)' while the term development effectiveness refers to 'the medium or long-term and development impacts to which all aid agencies (plus government, NGOs and others) contribute' (Scott 2004: pp. 5-6).

While there is no correct definition, for the sake of consistency and clarity, the final approach is used throughout this thesis as the basis for defining different types of effectiveness. For this research, therefore, *aid effectiveness* refers to the aggregate effectiveness of aid in terms of achieving its developmental objectives,<sup>101</sup> while *development effectiveness* refers to the overall effectiveness of development policies and practices undertaken by government, civil society and the donor community. *Donor programme effectiveness* is used where necessary to refer to the effectiveness of a specific donor in achieving its objectives. In the same way, the term *donor organisational effectiveness* is used to cover organisational issues related to the internal workings of the donor.

The next section of this chapter sets out a simple analytical framework for examining four key challenges to increasing aid effectiveness at the country level. The process of developing the framework takes into account the fact that aid effectiveness is an extremely complex issue and that there is a risk of over-simplification for the sake of analysis. It therefore tries to be both simple and comprehensive, capturing all relevant aspects of the aid effectiveness issue. There is no pre-existing analytical framework suitable for the purpose of the research and no single, unified system for assessing overall aid effectiveness at the country level (Bigsten 2005). Others have prepared lists of features to explain why aid works, for example Rogerson and de Renzio's 'seven habits of effective aid' (2005), or why it does not, for example Birdsall's 'seven deadly

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<sup>100</sup> Prepared as part of DFID work on a Multilateral Effectiveness Framework.

<sup>101</sup> In this context *effective aid* is clearly aid that achieves its objectives and should not be confused with the World Bank's definition of *Effective Development Assistance*, which is an aggregate measure of aid flows combining total grants and the grant equivalents of all official loans (Chang, Fernandez-Arias *et al.* 1999) i.e. to identify what is actual or *effectively* aid.

sins' of aid (2004). But while these lists are more detailed they are not comprehensive enough for the purposes of this research. The lists also provide the answers – what works and does not – rather than facilitating a process of finding the answers. The framework developed here is used to help structure relevant sections in the empirical chapters covering the LIPCCs.

The four challenges of the aid effectiveness analytical framework are examined individually in the subsequent four sections. Each of these sections introduces the theory as to why an improved aid relationship, or more specifically the *good aid relationship* described in the previous chapter, would help address these challenges. The theory that is described is not just derived from the donor community<sup>102</sup> but is used by donors to design new, or justify existing, aid relationship policies. While recognising that there is no single coherent donor approach to the aid relationship it is nonetheless possible to identify the core elements of what the majority of major donors follow. Moreover, it is important to note that much of the theory is contested and that the body of evidence behind it is not always strong, even if the theory is intuitively appealing to many.

### **3.1 FOUR KEY CHALLENGES TO EFFECTIVE AID**

For donors, ensuring high levels of aid effectiveness at the country level requires addressing a number of specific challenges. Clearly, at a basic level, the key is to ensure that the aid interventions achieve a set of appropriate development objectives. Achieving these objectives through better design, content and implementation of projects and programmes is the first major challenge. But to focus only on the declared objectives is a very narrow approach - described as a donor's 'tunnel vision' (Gasper 2004: p.52) - since aid has other, indirect and often inadvertent, impacts beyond achieving its stated objectives (for example, the burden placed on government officials during discussion or negotiation of a country programme). The impact of these indirect factors – both positive and negative - also needs to be taken into account if the study is to examine effectiveness on a country level rather than on the level of a narrowly focused donor programme. What is needed is the ability to capture the total impact of aid rather than just its intended results. The second major challenge is therefore to reduce the negative indirect impact of aid.

Furthermore, in the context of changing recipient environments (social, political, economic and physical), it is important that efforts to increase aid effectiveness do not simply lead to a blueprint of what aid policies and strategies should look like but rather to creating an optimal

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<sup>102</sup> Much of the theory and also the critiques of the donor theory will also come from academia and development organisations such as NGOs and think tanks (from both the North and the South).

environment for improving aid policy/strategy and, as a result, increasing aid effectiveness. It is therefore necessary to take a dynamic approach to the analysis, recognising that the overall aid regime in a country needs, first, to develop over time to become more effective as lessons are learned from previous and ongoing experience and, second, to adapt to changes in the context and environment within which it operates. In addition to optimising policies and procedures, efforts aimed at increasing aid effectiveness should therefore focus on learning and knowledge management. This is the third major challenge for effective aid. Finally, donors will face positive and negative incentives for engaging in this dynamic process, specifically for learning, utilising the knowledge, reforming policies and procedures and then implementing them. Getting the incentives right is the fourth challenge.

The framework focuses on problems directly related to the aid system and not on the generic issues that relate to organisations within national and international public administrations. For example, bilateral donor organisations are usually ministries, departments of ministries or specialised government agencies and face many of the same problems that concern similar organisations dealing with other international issues as well as those dealing with the domestic agenda. Many of the generic issues facing multilateral aid organisations are also similar to those faced by their bilateral counterparts. Efforts are made to identify a narrower set of specific problems that are inherent in the aid system and, while they may also affect other public organisations, there is something specific in the relationship of these issues to the aid system either in terms of their nature or intensity.

For each of the four challenges to aid effectiveness a corresponding frame is identified that facilitates and guides the research process. These frames, and the related challenges, are set out in Table 3.1 below. The rest of this section makes the linkages between the challenges and the relevant frames and provides definitions where needed.

Table 3.1: The Four Challenges to Increased Aid Effectiveness

Aid Effectiveness Issue	
Challenge to Aid Effectiveness	Frame for Analysis
Achieving the Objectives of a Donor Intervention	Donor Programme Effectiveness
Reducing the Negative Indirect Impact of Aid	Recipient Governance
Ensuring Adequate Learning about Aid and its Impact	Evaluation
Making Donor Incentives Appropriate	Accountability

### 3.1.1 Challenge 1: Achieving the Objectives of a Donor Intervention

In the context of the analysis in this chapter, the effectiveness of the donor's aid programme is considered to be the basic building block of an effective aid regime at the country level. Since the focus of this research is at the country level, the frame for examining this challenge will be

*donor programme effectiveness* (as defined above) as it concerns the objectives for the whole donor country programme. The dominance of the concept of *effectiveness* in the debate about the role of aid in improving well-being in developing countries has moved the focus away from other issues that are equally important for achieving high quality aid. For example, it moves attention away from the question of how efficiently resources are being used in achieving the objective. Other similar terms can also be added. For example, the OECD/DAC definition of effectiveness used above ends with the statement: ‘Related term: efficacy’ but does not say how they are related. In the World Bank, efficacy is defined by the Operations Evaluation Department (OED) as ‘the extent to which development objectives have been (or are expected to be) achieved’ (or very similar to effectiveness), and efficiency as ‘the extent to which the objectives have been (or are expected to be) achieved without using more resources than necessary’ (Picciotto 2002: p.7). How to identify the necessary or unnecessary use of resources is not made clear.

If aid effectiveness is about achieving objectives then it is clear that these objectives need to include issues such as sustainability and relative cost implications of the interventions. At a basic level the main evaluation criteria as set out by DAC could be used: ‘the relevance and fulfilment of objectives, developmental efficiency, effectiveness, impact and sustainability’ (OECD 1992: p.132). Using these criteria, effectiveness is *de facto* just one of a number of aspects of aid that would need to be examined. Again, the definition just adds to the confusion as the ideas of *fulfilment of objectives* and *impact* are listed separately from *effectiveness*. In this research, effectiveness is considered to be the umbrella for these other dimensions of aid performance that should be considered when examining aid’s role in promoting development. To ensure logical consistency, these other dimensions (sustainability, efficiency, and so on) will be captured as *generic objectives* of any aid intervention or programme. These are complemented by the *specific objectives* of the intervention or programme, such as reducing infant mortality rates or creating jobs. Generic objectives can be technical, such as the examples given above of sustainability or efficiency, but could also include other, more qualitative and/or political objectives such as “autonomy” and “freedom”.

### **3.1.2 Challenge 2: Reducing the Indirect Negative Impact of Aid**

The second challenge of reducing the negative indirect impact of aid can take many forms. For example, there may be important opportunity costs for aid: implementing a health project that requires a government contribution could mean no government counterpart funds would be available for an education project that is a higher national priority. Another example could be allocating resources to good governance projects may detract from investing in productive infrastructure serving export-oriented agriculture. There may also be *externalities*, for example

from a project that changes relative prices or has an unintended social impact. These side effects of aid are not minor and were identified more than four decades ago when Hirschman (1967: p.160) recognised that projects have indirect impacts ‘usually dealt with under the terms indirect benefits or side-effects, external economies or benefits, spillovers, linkages, repercussions, and similar terms’. Many of the manifestations of aid’s negative impact would be familiar to a government planner who would take into account such externalities when judging between investment or policy options. The breadth of the potential impact is large enough that a frame for analysis of these impacts also needs to be broad in scope. In the context of aid it relates to the impact of the ability of the recipient government to manage and make the appropriate decisions in support of national development. These factors can be captured using the framework of *governance*, in other words, examining the negative impact of aid on governance in its widest sense. As with many of the concepts discussed in the previous chapter, the idea of governance itself has become ‘as elastic as it is popular’ (Harrison 2004: p.3).

Since the World Bank’s Articles of Agreement prevent it being involved in political interventions,<sup>103</sup> it framed early definitions of governance in economic terms. In the World Bank’s 1992 report *Governance and Development*, governance was defined as ‘the manner in which power is exercised in the management of a country’s economic and social resources’ (World Bank 1992: p.1). The UN is less constrained than the World Bank in discussing the political dimensions of governance. Within the UN development system the United Nations Development Programme (UNDP) is the primary agency responsible for addressing governance problems and promoting good governance and it defines governance as ‘the exercise of political, economic and administrative authority to manage a nation’s affairs. It is the complex mechanisms, processes, relationships and institutions through which citizens and groups articulate their interests, exercise their rights and obligations and mediate their differences’ (UNDP 1997: p.9). In this broad conceptualisation, three main types of governance are identified, which, to varying degrees, are all subject to the influence of civil society and the private sector. First, *Administrative Governance* is a system of policy implementation carried out through an efficient, independent, accountable and open public sector. Second, *Economic Governance* includes processes of decision-making that directly or indirectly affect a country’s economic activities or its relationships with other economies. UNDP recognises that economic governance has a major influence on societal issues, such as equity, poverty and quality of life. Third, *Political Governance* refers to decision-making and policy implementation of a legitimate and authoritative state. The state should consist of separate legislative, executive and

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<sup>103</sup> Article V Section 6 Political Activity Prohibited states ‘The Association and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in this Agreement.’

judicial branches, represent the interests of a pluralist polity, and allow citizens to freely elect their representatives. These elements constitute the governance system, that is, the formal institutional and organisational structure of authoritative decision-making in the modern state.<sup>104</sup> In the context of this thesis, the three dimensions of governance identified by UNDP are used as they are clear about political aspects of governance.<sup>105</sup> The World Bank definitions need to be borne in mind, however, as they are responsible for much of the work on examining the importance of governance for development and, more importantly in the context of this thesis, for measuring governance.

### **3.1.3 Challenge 3: Ensuring Adequate Learning about Aid and its Impact**

Strengthening aid effectiveness is not a one-off exercise but a process that requires learning and the utilisation of knowledge to produce better policies. The issue is simple: ‘Aid agencies and their counterparts would be well advised to ask themselves: Do we learn from our experiences and do we feed that knowledge back into improved practices’ (Carlsson and Wohlgemuth 2002: p.7).<sup>106</sup> The OECD DAC, representing the bilateral donors, agrees:

The statements from Monterrey, Rome, and Marrakech reflect the growing consensus that managers in both countries and development agencies need to create better ways to obtain feedback on their work, continuously learn from the experience of trying to achieve development objectives, and make better development decisions on the basis of what they have learned. Feedback and learning are powerful public management tools that can improve the way governments achieve results. A growing body of evidence suggests that the way development partners manage the collective learning and feedback process can play a central role in the success or failure of any development intervention. (OECD DAC 2006a: p.7)

While the basic issue may be clear it is not being adequately addressed. An editorial from the *Financial Times* in August 2006<sup>107</sup> noted:

It is astonishing that we still know so little about what sort of aid works. Donors - and their critics - are too quick to embrace the latest fashion and too slow to ask the hard questions about what really works in development. Perhaps they feel they already know the answer, or perhaps they are afraid of what might be revealed.

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<sup>104</sup> UNDP also uses a fourth definition of governance, systemic governance, which encompasses the processes and structures of society that guide political and socioeconomic relationships to protect cultural and religious beliefs and values, and to create and maintain an environment of health, freedom, security and with the opportunity to exercise personal capabilities that lead to a better life for all people. Where appropriate some of these issues have been captured within Political Governance.

<sup>105</sup> There have been arguments that the definitions of the governance concept used by donors is not appropriate or that they are not universal, for example Doornbos (2001). The thesis is not examining whether the concept of governance used by the donor community is an appropriate one.

<sup>106</sup> In the context of this thesis, learning is the process of acquiring knowledge (for example through feedback mechanisms). The process of converting information into knowledge and then use this knowledge to achieve an organisation’s aims is called knowledge management.

<sup>107</sup> *Poverty: what counts?* Financial Times, Aug 15, 2006. Downloaded from the Center for Global Development website [http://www.cgdev.org/files/9691\\_file\\_CDI2006FT815.pdf](http://www.cgdev.org/files/9691_file_CDI2006FT815.pdf), (downloaded October 2006).

This knowledge – aid knowledge – is different from the broader development knowledge that donors collect. *Development knowledge* includes knowledge about which policies (such as those related to privatisation or trade) contribute the most to national or global development goals. *Aid knowledge* concerns the knowledge they have in relation to the aid business. When donors talk about *knowledge management* or about the World Bank as a *knowledge bank*, they usually mean both but predominantly the process of utilising the vast wealth of development knowledge that they have stored. Here the focus is on aid knowledge: the knowledge required to make aid policies better. Aid knowledge comes from a variety of sources, from monitoring aid and its results, from examination of aid activities, from research, from other feedback mechanisms for both accountability (such as performance management systems) and learning, or from surveys and other studies. *Evaluation*, in its broadest sense, is the main method that is used by donors for learning about the effectiveness of aid policy or of different aid policies in different contexts (Engel *et al.* 2003) and will be used as the framework for understanding the issues related to better learning for greater aid effectiveness.<sup>108</sup>

The process of aid evaluation is taken as the frame for examining the issue of learning for more effective aid. Like governance, evaluation is an ‘elastic term’ (Furubo and Sandahl 2002: p.2) the OECD DAC Principles for Evaluation of Development Assistance (OECD 1991: p.5) defines it as follows (a definition that will be used in this thesis):

an assessment, as systematic and objective as possible, of an on-going or completed project, programme or policy, its design, implementation and results. The aim is to determine the relevance and fulfilment of objectives, developmental efficiency, effectiveness, impact and sustainability. An evaluation should provide information that is credible and useful, enabling the incorporation of lessons learned into the decision-making process of both recipients and donors.

#### **3.1.4 Challenge 4: Making Donor Incentives Appropriate**

It has been argued that for aid to become more effective, not only should donors, recipients and other stakeholders learn from their experiences, but they also need to use this knowledge to change their policies and the way they do business. Unfortunately, as one former head of evaluation at DFID has noted:

All too often the possibilities of translating good ideas arising from evaluations into action are stymied by such obstacles as overly restrictive regulations, excessive compartmentalisation, risk aversion, perfectionism, fear of offending colleagues, linear thinking, opaque decision-making processes, reluctance to change existing ways of doing things, and problems of poor internal communications (Cracknell 2001: p.378).

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<sup>108</sup> For this thesis, aid evaluation will include all learning about aid interventions including that from work which could be considered research. For analysis of the distinction between evaluation and research see Boulmetis and Dutwin (2005).

To ensure improved learning, knowledge utilisation and implementation of new and better policies, the incentive regime needs to be strengthened. Three groups of incentives can be identified, each reflecting different stages of the policy process/cycle: first, incentives to actually learn, for example to undertake evaluations on a timely basis and in an effective manner; second, to utilise the knowledge for policy reform, and; third, the incentives to implement the reformed policies. For example, while the rhetoric of the good aid relationship is appealing to many, and even if there is a move towards consensus, is it enough? Will the policies be implemented? One aspect of this issue is to examine how much of the agenda is actually new and how much is just rebottled ideas from earlier debates. While the word *new* appears in many of the titles given to the aid system at the start of the 21<sup>st</sup> century, how new are these ideas? Roberts (2004) sums up the issues with the title of a paper: ‘Thirty-five years later in development assistance: have we moved on, or just performed a minuet’. This cynicism about the *new* is also reflected by Easterly (2002: abstract) who asserts that donors ‘engage in obfuscation, spin control, and amnesia (like always describing aid efforts as “new and improved”)’.

Getting the incentives right is a complex matter given the multitude of complex relationships and actors involved in planning and delivering aid, but for it to be effective the various individuals and organisations in the aid process need to be accountable for their actions. For the aid business, accountability is therefore considered the key factor to get the incentives right and is the frame within which the incentive issue will be examined. It is clearly not the only factor responsible for getting the incentives right in the aid process, but the majority of the other factors are generic to public organisations and not aid-specific. Accountability is where aid is different from other government actions as will be examined in Section 2.6 of this chapter.

There is a sense of what accountability means but no agreement on a definition. ‘Appropriated by a myriad of international donor and academic discourses, accountability has become a malleable and often nebulous concept, with connotations that change with the context and the agenda’ (Newell and Bellour 2002: p.2). At its simplest level, accountability refers to ‘a process by which individuals or organisations are answerable for their action and the consequences that follow from them’ (Kovach *et al.* 2003: p.3). This definition gives rise to questions such as accountability for what, by whom and to whom.<sup>109</sup> Woods (2000) identifies the three core elements of accountability in the context of international financial institutions (IFIs) that also apply more generally, but especially to other development aid organisations: first, the importance of, and need for, greater transparency, for example data collection and

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<sup>109</sup> The accountability debate/issue has spawned a host of definitions and sub-categories, for example horizontal vs. vertical, internal vs. external, formal vs. informal, bottom-up vs. top down, functional vs. strategic.

dissemination; second, the issues of compliance, for example through monitoring, auditing and publishing results of evaluations<sup>110</sup>, and; third, and equally important, is the issue of enforcement, for example the ability to impose sanctions.

The accountability of the state to its citizens is however only one level of accountability. In the context of the aid relationship there are four main categories or levels of accountability on both donor and recipient sides. Each of these will impact on the set of incentives to improve the effectiveness of aid. The first level refers to the accountability of a donor government to its citizens in terms of the aid it provides to developing nations. In a similar way multilateral donors are accountable to member governments (which could include both donors and, as is the case of UN agencies, recipients) for effective use of resources. The second level refers to the accountability of the recipient government to its citizens. This could be through the democratic process or through specific accountability mechanisms (horizontal or vertical).<sup>111</sup> In this case the focus is on mainstream mechanisms not specifically for the use of donor money. This issue is addressed in the section on political governance. The third level concerns the accountability of recipient governments (and civil society organisations [CSOs] as appropriate) to donor governments/organisations. The final level is possibly the most important for aid incentives, which is the accountability of donor governments/organisations to recipient governments and civil society in terms of effective use of resources.

### **3.2 POOR DONOR PROGRAMME EFFECTIVENESS**

In 1985 Cassen responded to his own question about aid effectiveness in his report *Does Aid Work?*: ‘The answer given here is broadly positive. But aid, like most human endeavours, is far from perfect’ (Cassen and Associates 1985: p.1). The view from this global study is still broadly validated by the individual aid organisations. A small sample of three organisations (an IFI, a UN Agency and a bilateral donor) where the information was readily available reveals some disappointing statistics even if the trends are generally more positive. The World Bank reports that nearly 76 per cent of its projects were ‘satisfactory’ and nearly 73 per cent ‘sustainable’ for the fiscal years 2000-2004. This is up from 70 per cent and 50 per cent respectively for the period 1995-1999 (World Bank 2004a: p.62). DFID reports that nearly 70 per cent of its

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<sup>110</sup> Sometimes compliance becomes the core of an agency’s accountability strategy. For example, the ADB Accountability Mechanism was established ‘to provide better access to people adversely affected by ADB-assisted projects to voice and seek solutions to their problems and also report alleged violations of ADB’s operational policies and procedures’ (Asian Development Bank 2004a: p.1). It is interesting to note that even though the focus is on compliance the ADB information brochure from which this quote is taken is subtitled ‘Listening to Communities Affected by ADB-assisted projects and Enhancing Development Effectiveness.’

<sup>111</sup> Horizontal accountability is the capacity of state institutions to check abuses by other public agencies. Vertical accountability is the means through which citizens, mass media and civil society seek to enforce standards of good performance on officials.

projects are ‘successful’ in 2005-2006 in the sense that the purpose of the project is likely to be completely or largely achieved (DFID 2006: p. 247).<sup>112</sup> UNDP sets the bar lower with targets that are less ambitious and, at the same time, more ambiguous than those of the other two organisations. Of the evaluations its Evaluation Office received in 1999-2002, 84 per cent report ‘effective’ and ‘partially effective’ results (up from 56 per cent in 1992-1998); 93 per cent of its projects ‘have a positive impact on target groups’ in 1999-2003 (up from 70 per cent in 1992-1998), and; 87 per cent are ‘partially or fully sustainable’ in the same period (up from 74 per cent in 1992-98) (UNDP 2003a: pp.18-22). The degree of the ‘positive impact on target groups’ is unclear (a project with a slightly positive impact is captured in the same way as one with a large impact) as is the meaning of ‘partially’ with regard to ‘partially effective’ or ‘partially sustainable’ projects.

How would the implementation of the good aid relationship affect these disappointing results? The reason for entering partnership is often described in terms of efficiency and effectiveness, for example: ‘Partnership makes sense when it offers more and better results, better information, better skills and capacity and/or better risk management than the parties could achieve on their own’ (Ingram 2004: p.xiii). In other words partnership makes sense when there is value-added to the approach; when working together is more efficient than working separately. Ingram (2004) in an overview of the partnership dimension of evaluation and development sets out four categories for what partnerships can achieve ‘if done well’. First, partnerships ensure that things are done right and in so doing promote greater efficiency of resource use. Second, they ensure that the right things are done. Third, they offer a means for capacity building and institutional development. Finally, they provide for greater accountability for actions promised and resources used. But working in partnership is not the same as implementing the good aid relationship which requires a new set of theories as to why it is important to do so.

Much of the theory behind increased national ownership stems from the recognition of the failure of conditionality. There is less on why national ownership is good than on why conditionality is bad. For example, in his 1998 Prebisch Lecture, Joseph Stiglitz starts his section on participation, ownership and the role of outsiders with the sub-title “*Why imposing change from the outside cannot work*” (Stiglitz 1998: p.20). So rather than deciding that increased national ownership is good for theoretical reasons, many commentators point to the fact that it is the only alternative to the discredited idea of donor ownership. The general approach has been to use the following three stylised facts (World Bank 2001b: p.12). First, ‘it is generally agreed in this model that ownership by the country was essential for any development strategy to have

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<sup>112</sup> DFID also differentiates between projects at different levels of risk finding greater success among lower risk projects than higher risk projects as would be expected.

any modicum of success'. Second, 'the absence of such country ownership would severely undermine the commitment of the leadership of the country as well as ordinary citizens to the ideals of the strategy'. Third, 'some of the past development initiatives failed to achieve their objectives because they were seen, essentially, as being donor driven'. What is not often explained is why this failure occurs but it can be argued that the lack of choice that comes with a donor-driven approach might hinder development by narrowing the range of policy options and limiting the scope for creative and independent thinking.

While the introduction to this chapter illustrates that in the context of aid there are multiple definitions of effectiveness, even the most basic definition raises still further questions. For example: effectiveness of what? More specifically, does the same concept apply to an individual project, a component of that project, a donor's country programme, or the complete package of aid received by a country? At a micro or project level effectiveness may have a different meaning than for a donor's whole country programme. Equally the effectiveness for a country-level aid regime will be different from that of a donor's global programme. Mosley (1987) noted the paradox between seemingly effective projects and the lack of clarity about the effectiveness of aid as a whole. The idea of this micro-macro paradox, as it became known, has generated much research and debate but, whether the theory is accurate or not, there is inevitably the possibility that the degree of effectiveness of different categories of aid or aid at different levels of aggregation may vary, perhaps significantly. A second question concerns the nature of the objective that effective aid is reaching. Is it the 'likely or achieved short-term and medium-term effects of an intervention's outputs', in other words the *outcome* (OECD 2002: p.28) or the 'positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended', in other words the *impact* (OECD 2002: p.24)? These definitions are also not consistent among donors and recipients. Both these questions can be answered through greater clarity and more specifically through qualifying the relevant statement concerning effectiveness.

A third set of issues revolves around the questions: Is the objective appropriate? Is it developmental? Or is it something more ideologically driven, such as taking economic growth as a proxy for development? In order to answer these questions, the selection of outcomes becomes a major issue. Many studies of aid effectiveness, especially global econometric studies, choose economic growth as the main outcome related to aid and its effectiveness and ignore the complex linkages between income poverty, equality and growth, as well as the multi-dimensional nature of poverty. Few of these relate the degree of growth to improvements of the

well being of the population that aid is trying to help, simply assuming that such links exist.<sup>113</sup> This issue is equally important at the project or programme level: what if the donor's objectives are not developmental or simply misguided? Moreover, objectives may simply not be ambitious enough since there is also a tendency for donors and governments to set objectives and goals at a low level to ensure that they are achieved (UN Millennium Project 2005: p.55).

The nature of a project or programme's objective and its appropriateness will also depend on who chooses it. Have recipient governments played a role in setting the objectives? What about other stakeholders such as intended beneficiaries? If objectives are different then what may be effective for one person may not be for another. Establishing objectives is not a mechanical or value-free exercise and there may be significant differences in the values attached to an intervention by the donor, recipient government or intended beneficiaries. Assessment of effectiveness by a donor will usually use the objectives set by that donor, even if linked to a larger national objective. The question of *whose* goals cannot be addressed by a clear definition; it is fundamental to understanding the role played by aid in the development process and will be returned to in relation to the aid relationship and, specifically, national ownership. Similarly, in the context of a longer-term intervention, such as a project implemented over five years, the objectives may change over the life of the intervention and, as a result, what was understood as effective the beginning of the project may not be the same as the understanding at the project's end.

Within the good aid relationship the choice of objective is the government's and therefore greater national commitment becomes the key issue in this stylised argument. Allowing greater national ownership in decision making results in greater commitment and therefore a better chance that the intervention - be it investment, supporting capacity development or policy reform - will be successfully implemented. Such national ownership may also result in better, more appropriate design since there will be a greater national role in designing the intervention, ensuring it is based on local knowledge and needs. Broad ownership would go beyond various degrees of participation to empower local people to make decisions themselves and to be engaged in the implementation and evaluation of activities as appropriate. Donor ownership often results from a donor belief that the local people have not got the capacity to develop these things themselves (either policies or projects). Where capacity does not exist the donor would focus on supporting national capacity development efforts to allow the recipient to take on greater ownership. Foreigners parachuted into a country to design a project would no longer be

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<sup>113</sup> In discussing the suggestion that growth is good for the poor, a recent evaluation of the World Bank's research programme (Banerjee, Deaton *et al.* 2006) notes that there are serious questions about whether the conclusion is really supported by the evidence.

the norm and, at the local level, members of the urban elite would no longer decide on projects that directly affect local people. In terms of the quality of the projects the lack of ownership would simply lead to poor design because of lack of local knowledge systems, customs, cultures, etc. UNDP has noted that greater national ownership of projects can be seen to have a highly significant impact on the success of its projects with ‘sixty per cent of projects with very good levels of national ownership significantly achieved their immediate objectives, compared to under 5 per cent of projects with poor levels of national ownership’ (UNDP 2000a: p.12).

### **3.3 THE NEGATIVE IMPACT OF AID ON GOVERNANCE**

There is unquestionably a relationship between aid and governance and it takes a number of forms in any recipient country. First, aid effectiveness itself is affected by the governance of the recipient country. The most common interpretation of this, as established by the World Bank’s *Assessing Aid* (World Bank 1998), is that aid effectiveness is reduced by poor governance or conversely increased by good governance. Second, aid can support good governance through direct interventions, for example in projects ranging from anti-corruption to civil service reform and from public administration strengthening to election support. Third, much aid is about promoting good governance anyway even if not explicitly so. For example, capacity development efforts aimed at strengthening government organisations (e.g. in the health sector) may support better administrative governance. A water and sanitation project that includes community identification of priorities will strengthen the level of participation and transparency in the development processes. Finally, the element being examined in this thesis: that aid itself can harm the state of governance in a country.

As noted in the introductory chapter, the negative links between aid and governance have not gone unnoticed. Robert Chambers wrote about administrative capacity as a scarce resource that donors should take into account in 1969 (Chambers 2005: p.30).<sup>114</sup> By the mid-1980s, the potential for negative impact was clearer. Cassen (1985) recognised the so-called *systemic effects* of aid, an idea also used by Lipton and Toye (1990) in their study of aid in India (research originally undertaken as a constituent part of Cassen’s study). In line with the rapid increase in importance of the discourse on governance in the 1990s, the issue of aid impact on governance was explicitly and comprehensively examined in the World Bank’s *Assessing Aid*. While the focus of debate following the publication of this report has been on the impact of aid on economic growth, its impact on governance has also been high on the agenda. For example, a

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<sup>114</sup> In *Partners in Development*, Pearson and his fellow commissioners talk of the burden of foreign aid, but do so in relation to donors rather than recipients (Pearson 1969). There is no explicit reference to the relationship between aid and governance or, given that the term was hardly used in 1969, to any of the issues that today would be considered part of governance.

key element of the harmonisation and alignment agenda (as defined in the previous chapter) is the reduction of the administrative burden of aid.

The anecdotal and theoretical analysis of this relationship has led to limited empirical investigation and at a macro level only a few studies have tried to illustrate the linkage between aid intensity and the level of key governance indicators. A study by Knack (2000) used a set of regressions using OECD/DAC data on aid and the International Country Risk Guide index of governance quality for the years 1982 to 1995 as measured by indexes of bureaucratic quality, corruption and the rule of law. Knack's cross-country analysis finds that higher levels of aid erode the quality of governance and the result is robust to changes in sample and to several alternative forms of estimation. In particular, the analysis finds that the impact of technical assistance on the quality of governance is significantly higher than for aid overall. Although the results are crude, based on a limited definition of governance and an aggregated definition of aid, they indicate the overall direction of impact of aid on governance. Although Knack uses ODA as the measure of aid, he recognises that better results would be available if it were possible to disaggregate aid by source, such as multilateral or bilateral.<sup>115</sup>

### **3.3.1 The impact of aid on administrative governance**

The key to the aid and administrative governance relationship is the issue of transaction costs. Overall, the process of giving aid entails costs for the recipient: Aid, even in the form of grants, is not free. These costs may be measured in financial or in human terms. Often they relate to the opportunity costs of someone in the government doing something else with their time (although opportunity costs may be low in countries with extremely weak civil service). Much of the problem is due to the development of parallel systems of implementation and management. Countries trying to deal with low levels of efficiency in the public administration have the problem added to by donors who bring in programming missions, consultants and other individuals representing the basic cost of engaging with international aid. Kanbur (2000: p. 419) states that: 'In my view, the real cost to Africa of the current aid system is thus the fact that it wastes much national energy and political capital in interacting with donor agencies, and diverts attention from domestic debate and consensus building'. Knack and Rahman (2003: pp.3-4) distinguish between short-term costs that merely waste resources unnecessarily (for example through tied aid, or from multiple donor procedures) and the long term costs that undermine governance and retard the development of an effective public sector (for example, inappropriate use of expatriate workers or parallel implementation systems).

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<sup>115</sup> It would also be necessary to disaggregate even further by groups of type of donor/lender and by modality.

A relatively broad definition of transaction costs in terms of aid taken from UNDP/DFID (2000: p.7) is as follows: ‘the costs arising from the preparation, negotiation, implementation, monitoring and enforcement of agreements for the delivery of ODA’. In the context of aid, transaction costs take three general forms (*ibid*). First, there are direct or administrative costs which represent the actual inputs of resources into the transaction, for example administrative overhead or staff time. Second, there are indirect costs such as undermining government ownership and policy consistency of ODA. Third, opportunity costs which represent the benefits foregone from using the resources in an alternative manner, for example an official spending time on aid management will not be able to develop policies. Costs will be incurred by donors as well as recipients and a reduction in transaction costs could mean a more productive use of its resources. In this respect it should also be noted that simply reducing transaction costs is not the answer for effective aid. For example, it would be foolish to reduce transaction costs by foregoing adequate assessment or evaluation.

Transaction costs are especially high where parallel systems of aid management and project implementation are developed. Such parallel processes, procedures and systems are established in order to facilitate the effective delivery of aid (in terms of inputs and outputs) due to perceptions of inefficient government structures. Donor staff also face incentives to get results from their projects and ignore externalities (Knack and Rahman 2003). In so doing they attempt to by-pass mainstream public administration structures and civil service regulations. Sometimes donors have a choice between integrating project management into existing structures and administrative procedures, and establishing separate management units within government (for example UNDP has modalities to do both). Many donors opt for the parallel approach citing either insufficient capacity or inappropriate procedures. The reason for the choice is that the incentives are wrong. Instead of getting rewarded for the long-term capacity building process of working with government organisations until the weaknesses that encourage by-passing them are solved, the donor community wants quick results.

Brautigam and Botchwey (1999: p.11) illustrate the problem of the proliferation of projects by noting that Malawi experienced institutional destruction twenty years ago as it attempted to manage 188 projects funded by 50 donors.<sup>116</sup> They go on to compare this to more recent examples: Zimbabwe dealt with 91 aid agencies in 1996; Kenya with 2,000 donor funded projects in 1996; Tanzania with 1,800 in 1997; and Mozambique with 405 in the health sector alone. Van de Walle and Johnston (1996) take this analysis further and suggest that a conservative estimate of 600 projects in a typical African country translates into 2,400 quarterly

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<sup>116</sup> Brautigam and Botchwey refer to the 1984 paper by Elliot Morss ‘Institutional Destruction Resulting from Donor and Project Proliferation in Sub-Saharan African Countries’ *World Development* 12 (4) pp.465-470.

reports a year and more than one thousand missions. Not surprisingly they also note that the most common complaint voiced by recipient government officials is that aid ‘imposes too many administrative burdens’ (p.50).<sup>117</sup>

The large number of projects often comes with large numbers of donor organisations, usually with their own procedures and process, personnel and personalities that have to be understood and dealt with. Table 3.2 below illustrates the problem by indicating the large number of countries that had to deal with 20 or more donors. The average (mean) number of donors is 26 and a median of 23; 40 countries have to deal with between 30 and 39 donor organisations each.

Table 3.2: Distribution of Aid Recipients According to the Number and Type of Official Donors (total development assistance, 2000)

	Type of Aid Donor	
	Bilateral donors only (n=22)	Bilateral and multilateral donors (n=53)
Number of recipients with		
1-9 donors	34	13
10-19 donors	93	27
20-29 donors	22	69
30-39 donors	0	40
<b>Total Number of Recipients</b>	<b>149</b>	<b>149</b>
Average number of donors per recipient	14	26
Median number of donors per recipient	16	23

Source: Acharya, Lima *et al.* (2004)

Knack and Rahman (2003) have attempted to provide empirical evidence for certain aspects of the relationship between aid and the effectiveness of the public administration, specifically on the hiring of public sector managers to manage donor projects. Using a cross-country model they show that declines in bureaucratic quality are associated with higher donor fragmentation (reflecting the presence of many donors, each with a small share of aid). DAC has attempted to identify the key burdens of aid on recipient governments through undertaking a comprehensive needs assessment based on eleven country studies (DAC 2002). The synthesis study grouped the recipient’s responses into eight clusters of burden as illustrated in Table 3.3 below.

<sup>117</sup> Quoted in Club du Sahel (2000: p. 7).



(alignment of donors with government) and moving away from parallel processes and systems, transaction costs can be reduced. By increasing harmonisation of donor procedures the burden can also be reduced. Greater partnerships among donors and between donors and governments through new tools such as SWAs, General Budget Support (GBS) and pooling technical assistance interventions, would also lower the transactions intensity and reduce administrative burden.

### **3.3.2 Economic Governance**

Many, if not all, of the public administration problems raised in the previous section effect the organisation responsible for economic management and therefore the level of economic governance. The fact that aid can affect the economy is clear and often is designed to do so. The relationship between aid and the economy has been the subject of serious debate for some time but especially since the publication of the important *Assessing Aid* report by the World Bank in 1998. The economic impact of aid may be similar to that resulting from other flows such as from increased export earnings. The effect of the so-called *Dutch disease*<sup>118</sup> on the exchange rate and debt sustainability is an area where the impact of aid is widely discussed (Isard *et al.* 2006) even if there is no consensus on whether it really exists. Other areas include the relationship of aid to investment and savings or to capital flight (Collier *et al.* 2003). These issues will not affect all counties and all contexts, and actions can be taken to reduce or negate any adverse impact. The focus here is therefore not on the direct impact of aid on issues such as exchange rates or debt levels but on the ability of national authorities to manage the aid flows to ensure that these impacts on the economy can be offset or effectively insulated. In other words, it is the nature and quality of economic governance that is important. Clearly economic management is also affected by administrative, and indeed, political governance. None of the three categories of governance are completely distinct from the others, but the financial nature of much of aid has a specific impact on the management of the economy that deserves separate examination.

For example, traditional donor practices of aid management can cause serious problems for budget planning and management in a number of ways but are generally associated with high resource intensity of aid. Foster (1999) identifies four such areas. First, by negotiating directly with line ministries donors can undermine hard budget constraints through putting the Ministry of Finance in a difficult position (i.e. by possibly having to decline aid). Second, aid often leads to the external determination of recurrent cost commitments (i.e. through counterpart contributions). The third issue concerns the distortion of the capital budget. Donors are more

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<sup>118</sup> Concerns about Dutch disease centre on the potential for large inflows of aid to induce a real appreciation of the currency whether through inflation or nominal exchange rate changes.

likely to finance capital projects and not recurrent costs for fear of encouraging dependency and reducing the sustainability of the intervention. As a result the capital budget becomes too large in relation to the required recurrent costs. Fourth, donors can encourage unsustainable standards of service provision by establishing high standards that the government cannot afford on its own.

The uncertainty of aid flows and their volatility has drawn significant attention from the development research community. While these two concepts are related they are also significantly different. Aid can be volatile in terms of large movements around a trend but this does not necessarily imply uncertainty, for example if flows have been programmed from a longer-term perspective. Equally, flows could be uncertain but in fact follow a steady trend over time. Both have, however, been identified as a source of major problems for developing countries (Bulir and Hamann 2006) especially those with shallow financial markets since this leads to expenditure volatility, additional money creation or debt issuance (Isard *et al.* 2006: p.17). They can also lead to a reduction in the general discipline of the government since spending units without adequate resources cannot be held responsible for achieving their targets (Eifert and Gelb 2005). In terms of donor policy, the volatility and predictability issues are different from the other economic management challenges defined above as decisions concerning the flow of aid are often under the direct control of the donors.<sup>119</sup> Other issues are either exogenously determined e.g. private flows or commodity prices, or are controlled by the government e.g. offsetting exchange rate movements. The only thing a government can do with predictability is keep large reserves of foreign exchange in case promises or commitments are not met. Bulir and Hamann (2006) find that aid predictability, as measured by the difference between disbursements and commitments, has risen since the late 1990s. They show that at a global level, aid delivery is about 40 per cent lower than the levels promised by donors. Moreover, the predictability of aid declines with the level of development of the recipient country: the poorest countries that need aid the most are those that cannot predict if it will arrive.

The move towards national ownership of policy decisions and away from conditionality should result in a decline in volatility and unpredictability, often the cause of failure to meet policy conditions. Eifert and Gelb (2005) note that about half of volatility seems to be attributable to the recipient government's failure to meet donor imposed policy conditions. A significant reduction of, or even end to, conditionality would therefore significantly reduce the volatility of aid. In addition, increased government ownership of design and implementation of donor interventions would mean that donors would be more likely to align their programmes with

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<sup>119</sup> Commitments will be decided by donors but recipient actions will usually affect disbursements.

government budget cycles where possible, for example with a three-year rolling medium-term expenditure framework. The ability of the government to manage the economy (i.e. the degree of economic governance) would therefore be considerably enhanced.

### **3.3.3 Political Governance**

Political governance refers to decision-making and policy implementation of a legitimate and authoritative state. The state should consist of separate legislative, executive and judicial branches, represent the interests of a pluralist polity, and allow citizens to freely elect their representatives (UNDP 1997: p.10). Research into the impact of aid on political governance has most often identified a negative relationship, as summarised by Brautigam and Knack (2005: p.263):

High levels of aid can make it more difficult to solve the collective action problems that are inherent in reform efforts, create moral hazards for both recipients and donors, perpetuate both a ‘soft budget constraint’ and a ‘tragedy of the commons’ with regards to the future budget, and weaken the development of local pressures for accountability and reform.

Using the *natural resource curse* literature, Djankov *et al.* (2008) examine the windfall of foreign aid resources to see if it induces the same rent-seeking behaviour. Using data for 108 recipient countries over the period 1960-1999, the authors conclude that aid does indeed have a negative impact on democracy. Furthermore, its negative impact – or curse – is greater than that for a windfall from oil.

Aid clearly has an affect on political governance through a number of other channels. First, the existence of donor conditionality represents a loss of sovereignty of the state. Decisions are made by bodies outside the state that in turn are often directly controlled by a small group of developed nations. The Oxford English Dictionary defines conditionality as ‘something demanded or required as a pre-requisite to the granting or performing of something else: a stipulation’. In the context of political governance, the issue of conditionality goes beyond the effectiveness debate. It is not a question as to whether the conditions are effective in addressing poverty but rather that conditionality itself violates a country’s sovereignty or a people’s right to self-determination (Uvin 2004: p.170). Views differ widely among donors and other development stakeholders about the right approach to conditionality. On the one hand, some advocate abandoning it altogether, or removing conditions on particular areas of reform, such as privatization. On the other, some propose even tougher conditions in specific areas, for instance in relation to corruption, environment, and human rights (DFID 2004).

Conditionality also has an impact in relation to administrative governance. At a macro-level the public administration wastes much time pretending, or preparing the illusion, that the donor-

inspired policies are desirable and being implemented. This donor-recipient game wastes significant effort on both sides. The problem can be illustrated by the following example from the Economist newspaper<sup>120</sup> that was quoted in Svensson (1997: p.1):

Over the past few years Kenya has performed a curious mating ritual with its aid donors. The steps are: one, Kenya wins its yearly pledges of foreign aid. Two, the government begins to misbehave, backtracking on economic reform and behaving in an authoritarian manner. Three, a new meeting of donor countries looms with exasperated foreign governments preparing their sharp rebukes. Four, Kenya pulls a placatory rabbit out of the hat. Five, the donors are mollified and the aid is pledged. The whole dance then starts again.

While the example does suggest that Kenya is in control of the game, the energy wasted in maintaining that control could have been put to more developmental purposes.

Second, large flows of aid can reduce the degree of a recipient government's accountability to its citizens. This may occur if governments find they can get larger revenue flows from keeping donors happy than from obtaining public support or approval of their legislature to raise local revenues. This issue has been termed the 'moral hazard effect of aid dependence' (Moss, Pettersson *et al.* 2006: p.15). In a study of East African countries, Cooksey (2003: p.1) concludes that 'the perverse incentives and "moral hazards" inherent in aid more than cancel out the agencies' professed anti-corruption principles and support for anti-corruption activities'. At the same time there is evidence that donors, in general, do not offer less aid to more corrupt governments (Alesina and Weder 1999).

Parallel management mechanisms and wage differentials between government and project staff make project positions much sought after. Since they may not conform to national civil service regulations on recruitment they can, in these circumstances, encourage patronage by government officials in positions to recruit staff or influence that recruitment. An additional issue that can undermine the process of building state legitimacy stems directly from a skewed relationship between donors and recipients. The common practice of exempting high income foreign aid workers from income and consumption tax in the recipient countries where they work sends a signal that 'progressivity is not either feasible or desirable' and that 'regressivity is acceptable' (Di John 2009: p.29).

Aid can influence the voice of the population in decision-making and their participation in the political process. Once the donor community becomes more important than the local constituents then citizens, who believe that their government responds only to donor demands, will spend less time attempting to influence decision making. Rather they will see the local

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<sup>120</sup> 19 August 1995

legislature as the place for favours and patronage rather than for policy reform (Moss, Pettersson *et al.* 2006). Of course donors have actively tried to address some of these issues, explicitly promoting increased accountability, transparency and participation in low income countries through the PRSP process. But such a process, even if successfully implemented, 'cannot fundamentally replace government accountability towards its citizens in an equally legitimate way, no matter how well-intentioned or vigilant the donors' (*ibid*: p.16).

Implementation of the good aid relationship will have a significant impact on political governance. Greater national ownership of policy decision making is the antithesis of donor conditionality and directly addresses the problem of loss of national sovereignty. The good aid relationship also addresses some of the accountability issues, moving accountability away from the donor back to the citizens of the recipient country (as further discussed in Section 3.5). Greater participation is encouraged through the concept of a broad partnership and broad ownership, both of which go beyond simply giving a voice to a broader range of stakeholders towards empowering them to take more control. Implementation of the good aid relationship may not solve the problems of rent-seeking and corruption but a reduction in the number of projects and parallel implementation systems may help reduce them. Again, donors may suggest that increasing national ownership can provide more opportunities for graft where national administrative systems are weak but it could be argued that in such cases capacity building should be undertaken to strengthen administrative systems to empower national stakeholders to take control. Addressing the issues of capacity requirements, Whitfield and Fraser (2009: p.22) argue that for the country led model of the Paris Declaration to work recipient governments 'must have sound public finance and administration and they must have credible processes for strategy design, as judged by donors'. But they also conclude, however, that 'recipient agency is not something that donors can help bring about.'

### **3.4 PROBLEMS WITH EFFECTIVE EVALUATION**

Obtaining knowledge about what works and what does not is a challenge for the donor community and its national partners. This section looks at how knowledge can be influenced by evaluation. A key factor already raised is the lack of a single system in place for assessing the effectiveness of aid at the country level. While the OECD/DAC has a system in place for examining the effectiveness of its individual members through its peer review system there is no complementary system in place for doing so for all donors engaged in a single country. Some countries have undertaken such an exercise, most famously Tanzania and the Independent Monitoring Group studies of the partnership between the country and donors, but although such efforts were often successful they have not been systematically replicated.

The first of the general problems is the simplest – is evaluation happening enough? In an overview of the ‘seven deadly sins’ committed by donors, Birdsall (2004: p.3) identified number three, ignorance, as ‘the failure to evaluate’. She illustrated her presentation of the subject with the data reported in Table 3.4 below, noting that the incentives for donors to evaluate are weak since failures put aid budgets at risk politically.

Table 3.4: Spending on Evaluation in the World Bank and Inter-American Development Bank

	Annual Spending on evaluation as a share of total administrative spending	Annual Spending on Evaluation	Annual Total Spending on Administrative Budget
	(per cent)	(Millions of US\$)	
World Bank (OED)	1.29	19.8	1,531.8
Inter-American Development Bank (OEO)	1.3	4.7	360.2

Source: Birdsall (2004)

This problem is reflected by the willingness of donors to change policies based on little evidence. In 2004, as the package of donor policies under the umbrella of the so-called *new aid agenda* was adopted by the majority of key donors, Killick (2004) published an important paper on the use of evidence in developing the agenda in which he noted that although donors were enthusiastic about many, if not all, its elements, evidence was not being used to back up this enthusiasm. He illustrated this idea with three issues: first, in cases where there was evidence but no one was listening because of political reasons; second, where nobody was listening because of institutional factors and research time lags; and, third, that the evidence was simply missing.

An example of the sub-optimal use of evaluation comes from DFID with the adoption of a policy on Poverty Reduction Budget Support (May 2004) before the final synthesis report of the evaluation that it co-sponsored on General Budget Support was anywhere near completion (May 2006). Where evaluations do exist there is a problem of utilisation and ‘their results and implications are rarely immediately internalized in new decisions, especially if they challenge conventional wisdom or raise awkward questions regarding donors’ strategies’ (Birdsall 2004: p.17). The utilization issue also relates to the incentives donors face and, specifically, to the nature of donor accountability and the issues raised in the next section.

There are some technical problems with evaluation that need to be addressed. Caarlsson *et al.* (2002: p.16) note that quality of information from evaluations is often the key factor for providing new knowledge and learning, but that the information is regularly ‘(a) vague, (b)

unclear, (c) inconsistent, (d) incongruent and (e) scattered'. They point out a number of key issues related to the evaluation process: First, evaluations are donor-centric and are often used to advance donor's views on how things should be done. They also follow donor processes, methodologies and structures that may not be appropriate for other stakeholders. Second, evaluations are not always easily available for the local stakeholders. It may also be that they are not translated into the appropriate languages for all stakeholders to use. Third, they rarely provide information about impact and aid effectiveness and may be methodologically weak. Fourth, recommendations are often general and woolly. Fifth, there is often a lack of baseline data.

There are also other problems that are inherent in evaluation and more difficult to overcome. Evaluation is not simply a technical issue but one that is highly complex involving many methodological questions and requiring a series of value judgements. It can often be a highly political process, for example, in relation to the setting of goals or benchmarks, or even the selection of evaluators (Stewart 2005). Pitman *et al.* (2004: p. xiii) set out some key challenges related to development evaluation: First, moving from the project (micro) level to higher levels of aggregation such as the sector, country, agency or global levels. Evaluations, or other exercises in learning from aid, happen at a wide range of levels but even at a country level the ability to aggregate assessments of possibly dozens of small projects is challenging. Equally, at the global level, aggregating assessments of performance at the county level may be impossible. Second, the challenge of carrying out joint evaluations across development agencies and including recipient participants, government and CSOs in the process can be daunting. Joint evaluations of projects, programmes or even the whole aid regime would be more efficient. Third, clarifying the objectives of development interventions through the project cycle to facilitate more effective evaluation. As noted at the start of this chapter, the objectives in terms of aid effectiveness can be difficult to define and may not necessarily be appropriate, often depending on who defined them.

Two additional challenges can also be raised in relation to technical problems surrounding evaluation for greater aid effectiveness. The first concerns the issue of *attribution* and how to identify the contribution of the aid intervention to the development objective. To link an aid intervention with a single, or set of, development outcomes has its problems. Positive development change does not necessarily imply a positive contribution by one donor or another. Conversely, the most effective contributions of a donor on its own can have little effect if other important efforts and variables, over which the organisation has no control, do not materialize. Inevitably development change is the result of the combined effort of many partners, both national and international, government and civil society. It is generally not possible to attribute

development results to a single intervention, or even a set of interventions, because of the other factors related to obtaining the results and the numerous other organisations also involved in the process (National Audit Office 2002). The latter issue has gained importance as more and more aid efforts are undertaken within broad multi-organisation partnerships. The outcomes of aid are the result of a combined effort of many partners and achievement of goals does not necessarily imply a positive contribution by a single donor agency. On the other hand, even the most effective intervention of a single donor can have little effect by itself if other important efforts and variables, over which the organisation has no control, do not materialize.

The second additional challenge was also raised at the beginning of this chapter and that concerns the ability to capture the unintentional effects of aid and other externalities. Although moving the evaluation to the country level will bring these unintentional effects within the scope of the evaluation, the process is still fraught with technical difficulties. How the implementation of the good aid relationship would address these technical problems is unclear.

Greater national ownership of the evaluation process will address some of the key issues raised above. For example, ensuring that the evaluations are less donor-centric, that they ask the questions that national stakeholders want answered and are prepared in a style and languages they can understand. In so doing, national stakeholders will increase their utilization of the evaluations, especially by the recipient government in the reform of aid policies and related institutions. Equally important, and related to the administrative governance issues already raised in this chapter, greater alignment and integration of aid evaluation into national systems will also have the same impact and be less of a burden on the public administration.

At the same time harmonisation of donor processes may mean fewer, but more comprehensive, evaluations. To take this to one extreme, the focus of evaluation will change to one that looks at the aid regime as a whole rather than at individual projects or donor programmes. It will be on a single system of evaluating development effectiveness to which donors will examine their contributions. In the partnership approach this means one set of national objectives, for example, a nationally determined set of MDGs and one system of identifying progress towards them that is supported by all donors. Donor country programmes would therefore use the same set of national objectives.

### **3.5 WEAK DONOR ACCOUNTABILITY**

Clearly the issues of accountability and evaluation are closely connected. Accountability provides the incentives to undertake the learning activities and to utilise the knowledge gained

from the process of improving aid's effectiveness. Equally, learning exercises are important for providing information for accountability mechanisms such as performance management systems where results of the aid agencies activities are judged against pre-determined targets. Cracknell (2000: p.54) notes that ever since the start of aid evaluation in the 1960s there has been conflict between the accountability and lesson learning objectives of the exercise. Table 3.5 below illustrates some of the core differences between the two.

Table 3.5: Characteristics of Accountability and Lesson-learning as Objectives of Evaluation Activities.

	Accountability as the objective	Lesson learning as the objective
Basic aim	Finding out about the past	Improving future performance
Emphasis is on	Degree of success or failure	Reasons for success or failure
Favoured by	Parliament, treasury, media, pressure groups	Aid agencies, research institutes, consultants, developing countries
Selection of topics	Based on random samples	Projects selected for their potential lessons
Status of evaluation	Evaluation is an end-product	Evaluation is part of the project cycle
Status of evaluators	Should be impartial and independent	Usually include members of the aid agency staff
Importance of data from evaluation	Data itself relatively unimportant	Data valued for the planning and appraising of new projects
Importance of Feedback	Relatively unimportant	Vitally important

Source: Cracknell (2000: p.56)

Within this analytical framework two types of accountability challenges are important for ensuring that donors have the right incentives to develop effective aid policies. First, the challenge faced by donor governments and organisations of addressing weak accountability to recipient governments and other national stakeholders will be assessed. Second, the challenge faced by donor governments of addressing the weak accountability to their citizens (or, in the case of multilaterals, to their members) will be examined. Strengthening accountability in a number of its dimensions has been a major aim of the move towards a better aid relationship and this section looks at the theory behind the role of the aid relationship in addressing the challenge of improving these levels of accountability.

It has been assumed here that accountability is a good thing, in that it provides the incentives to improve the quality of aid and make it more effective. It is not, however, a panacea and can promote tensions within an organisation and between an organisation and its stakeholders. If established in an inappropriate manner it can even lead to worse outcomes. Kovach *et al.* (2003: p.4) identify three limitations to accountability. First, it may be impossible to please all the stakeholders and there is a risk that a body is held accountable to who shouts the loudest. This problem points to the need for a range of accountability mechanisms to be developed and

implemented. Second, the drive for greater accountability may make mechanisms overly bureaucratic, slowing down decision making processes. Third, accountability mechanisms can be expensive even though the costs of a lack of accountability can be much more. Costs become important when comparing the different resources available to donor and recipient.

### **3.5.1 Accountability of donors to recipients**

It has already been noted in the section on political governance that where aid flows are large, recipients may be more accountable to donors than to their own citizens. Significant efforts are made by donors to ensure the full accountability of the recipient to the donor in respect of the use of aid. Recipients are held accountable to donors for the spending of their funds even when the recipient has little control over the funds. This often manifests itself in the mass of reports produced by government as described in the earlier section on the negative impact of aid on administrative governance. The issue here is that the accountability of the donor to the recipient is often weak and that there is lack of mechanisms to ensure that donors are held accountable for their actions.

A major problem is the lack of transparency of the donors to the recipients, whether to the recipient government or directly to recipient citizens. In a study of IFI information disclosure in five middle-income countries Musuva (2006: p.34) found ‘a generally high level of opacity surrounding the disclosure of information related to IFIs, with poor disclosure of information’. More specifically the study found incomplete information disclosure, delays and other practical obstacles as well as inconsistencies in the interpretation and implementation of disclosure policies. Even in these middle income countries the use of *Freedom of Information* legislation faced domestic challenges when they offered an alternative route to obtaining information about IFIs. Recipients face the problem of the lack of enforceability in relation to donors or the existence of mechanisms for punishing poor performance or abuse of power (ODI 2006). While donors can enforce recipient accountability through a number of different types of sanctions such as slowing or stopping aid flows, there are few sanctions that recipients can use on donors.

A recent synthesis of research into mutual accountability started with the key message: ‘mutual accountability is considered to be a key determinant of aid effectiveness’ (De Renzio 2006: p.1). The issue of mutual accountability also raises questions about the nature and strength of national accountability mechanisms. Can mutual accountability mechanisms be effective where government to citizen accountability mechanisms are weak? Should donors introduce parallel mechanisms to ensure accountability directly to citizens even if the government does not? One of the most promising approaches has been the introduction of objective country-based monitoring instruments that help to establish and maintain mutual accountability between donor

and recipient partners. Tanzania has established a system of *independent monitoring* that has 'nurtured a solid basis of trust and which has now become an institutionalized feature' (UNDP 2005b: p.1). Moreover, the harmonisation and alignment agenda will support the increased integration of accountability mechanisms and alignment with a single national system of accountability as appropriate.

A move towards a good aid relationship will shift the share of accountabilities to the donor away from the recipient. At present much of the accountability runs from recipients to donors who are accountable for effective use of donor resources. Donors justify the importance of this through arguing that they are accountable to their taxpayers (or in the case of the multilateral donors to their Board and/or bilateral suppliers of financial resources). The accountability of donors to recipients is much weaker even where partnership agreements have been made. Very few donors have systems in place that require comprehensive reporting to recipient governments and, possibly more important, their citizens. A partnership by itself should determine the relative accountabilities of the partners and clearly set them out in explicit terms. Implementation of the good aid relationship should ensure that the lack of accountability of donors to recipients is addressed and should lead to mutual accountability mechanisms being put into place.

### **3.5.2 Accountability of Donor Governments to their Citizens**

The role of the general public in donor countries in determining aid policy and holding the donor government accountable for its actions is the first major type of accountability examined in this section. The major bilateral donor countries (DAC members) are all democracies and it is their governments that determine the policies of some of the major multilaterals. But an examination of the role of the public in setting the aid policy of a donor country, and in turn possibly policy in multilateral donors and development NGOs, requires examination of two key questions. First, what does the public really think about aid? Declining levels of aid have been attributed in part to the *aid fatigue* experienced by the public in donor countries who are increasingly opposed to government allocations for development assistance. Aid fatigue was identified in the Pearson Report of 1969 and has been examined at frequent intervals ever since. Results of opinion polls, however, show this to be untrue in two ways: there is support for aid, and; there is little understanding of aid.

UNDP's review of the available public opinion surveys in OECD/DAC countries (approximately thirty) revealed that public support for ODA among OECD/DAC countries averaged 80 per cent in 1995 - a slight increase over similar figures from 1983. Moreover, the review found that support for ODA varies widely among donor countries and that real *aid*

*fatigue* appears limited to a few countries (Stern 1998). Similar research undertaken by the OECD Development Centre (Smillie and Helmich 1998) covering studies in 22 countries revealed no evidence anywhere in DAC member countries of compassion fatigue. Annoyance with government mismanagement of aid monies in a handful of countries has led to some public disenchantment with development assistance,<sup>121</sup> but this is not the same as compassion fatigue. Concerning the latter, recent surveys note some alarming perceptions of government support for development assistance. Respondents to an opinion poll conducted in the USA in 1995 believed, on average, that federal government spending on development assistance was 18 per cent of the federal budget (Mc Donnell *et al.*2003). Given the gross overestimation of spending on official assistance, are the opinions on whether aid should be increased, decreased or remain the same valid? At the same time, if expenditure is overestimated, then is public support possibly even greater than originally believed? Given the size of official aid budgets, spending on public information about development and development assistance is almost scandalously low. Much more work is being done by NGOs to explain development and development assistance to the public than is being done by governments. Not surprisingly therefore, public knowledge about development and development assistance is shallow in most DAC Member countries (Smillie and Helmich 1998).

The second question is about the role of the public in setting what aid policy is - does it matter what the public thinks about aid? In answering this question it is first important to look at the relationship between the general public (the taxpayer) and the decision makers when it comes to aid. This relationship is different from other areas that involve government. In discussing this issue, Martens (2002: p.14) notes the following:

a unique and most striking characteristic of foreign aid is that the people for whose benefit the aid agencies work are not the same as those from whom their revenues are obtained; they actually live in different countries and different political constituencies.

The existence of this *broken feedback loop* results in stronger incentive biases in foreign aid in relation to other domestic areas of government expenditure. It explains why the domestic suppliers of aid goods and services (consultants, NGOs, consulting organisations, academia, etc) have a greater say in the decision making process as they are the main beneficiaries of the system. They have an information advantage over the intended beneficiaries of aid who are located far from the centre of policy making (politically as well as geographically), and they

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<sup>121</sup> A YouGov poll conducted for the UK Daily Telegraph in mid-2005 asked the following question: 'How confident are you that if outsiders donate more money to Africa, that money will be spent wisely rather than being wasted or finding its way into the pockets of criminals and corrupt governments?' 41% of respondents chose 'not very confident' and a further 42% chose 'not confident at all'. Only 10% were 'fairly confident' and 1% 'very confident' (7% chose don't know).  
[www.telegraph.co.uk/news/graphics/2005/06/04/naid04big.gif;sessionid=5SO1RSNWMYVY1QFIQMGSMS5WAVCBQWJVC](http://www.telegraph.co.uk/news/graphics/2005/06/04/naid04big.gif;sessionid=5SO1RSNWMYVY1QFIQMGSMS5WAVCBQWJVC) (downloaded June 2005).

form part of the constituency of decision makers in the donor country. The broken feedback loop in foreign aid is therefore a major shift from the neo-classical model of a perfect information loop which suggests a much stronger role for the taxpayer in the political process (Martens *et al.* 2002).

The layers of accountability are complicated by the fact that the donor community is not monolithic. While the above discussion refers to the accountability of donor governments to their citizens, multilateral donor organisations are accountable to their member governments. In this respect, a major problem is that accountability of many multilateral donors to their members is limited to a few dominant countries. The 2006 Global Accountability Report prepared by the One World Trust examined accountability in ten Inter-Governmental Organisations (IGOs)<sup>122</sup> and noted that all of them ‘face problems ensuring an efficient, yet still representative and accountable executive’, specifically a high discrepancy ‘between member control on the governing body and member control on the executive’ that would have a significant effect on the accountability of decision-making processes of IGOs (Blagescu and Lloyd 2006: p.8).

For example, at the World Bank, eleven member countries out of the 184 control just over 50 per cent of the votes and the USA, by itself, holds the veto power over any changes to the governing articles. Only the USA, UK, France, Germany, Saudi Arabia, Russia and China are directly represented on the World Bank’s Executive Board and therefore have one vote each. Other nations are grouped within constituencies, each of a different size and represented by one Executive Director with one vote. The result is that 46 African nations are grouped into two constituencies and therefore share only two representatives and have two votes between them (Blagescu and Lloyd 2006). Unlike the World Bank and the principle of voting power according to agreed shares in contributions, the UN agencies generally adhere to the principle that one country equals one vote. Some organisations such as the Global Environmental Facility use a double majority on the executive that blends the features of both these systems. Even for some UN agencies funded by voluntary contributions, however, greater power inevitably still remains in the countries that finance the organisations.

An improved aid relationship will not directly solve the accountability issue between donor governments and their citizens. Given the nature of aid and how its impact on donor country citizens is much less direct than for other issues of a domestic orientation (education, health, and so on) it may be that this is a problem that cannot be completely solved. Too few citizens may

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<sup>122</sup> Ten IGOs of which five could be classified as multilateral donors (World Bank, International Labour Organization, Global Environment Facility, World Health Organization, Food and Agriculture Organization).

be willing to hold the government to account for the use of its development assistance unless there is an increase in the recognition of the interdependence of the recipient and the donor worlds and that they recognize that aid can have a direct impact on them. This may be the case as witnessed by the public demonstration that took place around the time of the July 2005 G8 summit in Gleneagles or the growth of campaigns by organizations such as Jubilee 2000. While it may be possible to monitor a donor government's commitment to development by obtaining information on aid flows or debt relief, the direct link between a government's resources and policies and changes in the lives of people in developing countries needs to be made clearer.

## **CHAPTER 4: THE AID RELATIONSHIP IN THE LOW-INCOME POST-COMMUNIST COUNTRIES**

Western aid to the post-communist countries began soon after the collapse of the Berlin Wall in 1989 and increased significantly following the subsequent demise of the Soviet Union. The start of the post-communist transformation came with very little warning and required a response at a speed and on a scale that had not been encountered since the end of the Second World War. The donor agencies were faced with the enormous challenge of mobilising the financial resources and knowledge necessary to ensure provision of the required support for the transition process and address the negative impact of these events. At the same time there was little experience in dealing with the new set of countries that emerged or with the massive multi-dimensional transition. As one observer put it: 'In the early 1990s anyone who said they knew how to transform a centrally-planned economy and a one-party state into a market economy and democracy was lying' (Lines 1998: p.1). Moreover, the post-communist countries needed to develop a new set of relationships with a wide range of international organisations in a very short period of time. In broad terms, this chapter looks at how that aid relationship in the LIPCCs has developed. More specifically, it contributes to answering the question: Does the good aid relationship exist in the LIPCCs?

It has already been noted that members of the group of LIPCCs being examined<sup>123</sup> all suffered significant hardships since the collapse of the Soviet Union and the simultaneous move towards political, economic and social transition. The early 1990s witnessed rapid economic decline in most of the countries and by 2005 a few had still not achieved economic output near or above the levels found at the start of the transition process. Poverty rates increased significantly in the mid-1990s and by 2005 only some countries in the group show signs of sustainable reduction from very high levels (UNDP 2006). Moves towards democracy have been challenging even in those countries where they were accepted with more enthusiasm by those in power. It is in this context that the region has received significant levels of external assistance.

Although the above reasons led to a donor response, the early aid programmes in transition countries have not been without criticism. On the one hand some observers believed that aid reduced the incentive for post-communist governments to undertake the necessary reforms and in fact delayed the transition process. China is often given as an example of a country that managed to undertake considerable reform without the help of massive external assistance. On the other hand, it is argued that insufficient aid was given to the countries (and within them to priority sectors), aid that was needed to help reduce the negative social impact of the wide-

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<sup>123</sup> Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, and Uzbekistan.

ranging reforms (Burnell 1997).

While assistance for countries in transition has been compared to a new Marshall Plan<sup>124</sup> the comparison is only accurate in the broad sense of the scale of the job to be done.<sup>125</sup> The Marshall Plan<sup>126</sup> aimed to help developed nations rebuild rather than facilitate the comprehensive economic, social and political transformation that was required in the post-communist countries. Such a transformation was necessary even in those countries in Central Europe and the Baltic States that in 1992 had a memory of the type of system they now aspired to achieve, and were closer to achieving it compared to some of their more easterly neighbours.

The purpose of this chapter is not to assess whether the overall strategy was correct or not but rather to look at the specific issue of the aid relationship in the LIPCCs. As the first of three empirical chapters, this chapter starts by setting the context through examining the donor partners and the nature of aid in the LIPCCs. It goes on to use existing donor methods to examine the aid relationship itself and specifically to identify the extent to which the *good aid relationship* exists in the LIPCCs. Finally, the chapter examines the structural conditions that may determine the nature of the relationship between donors and LIPCC recipients.

Some issues related to aid data should also be noted here. The main source is from OECD DAC but the organisation relies on two separate sources of information. First is the DAC database of annual aggregates that provides comprehensive annual aggregated statistics: total volume, main categories, country totals, etc. Second, also managed by DAC is the Creditor Reporting System (CRS) which provides detailed information on individual aid activities: sectors, countries, descriptions, etc. The definitions between the two are consistent but the data are not. Both will be used in the research with the DAC data used for macro-level analysis and CRS when more detailed analysis is required. For each table a decision was made as to use gross or net, commitments or disbursements, constant or current prices and so on.

#### **4.1 BACKDROP TO THE TRANSITION**

Constitutionally, the Soviet Union was a confederation and each republic retained the right to secede from the Union. Until the late 1990s this right was considered to be meaningless but in 1991 it was used by Russia, Ukraine and Belarus to secede from the Union, effectively causing

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<sup>124</sup> For example, when the US Freedom Support Act was adopted in 1992, key members of Congress compared the vote to the congressional adoption of the Marshall Plan in 1948 (Tarnoff 2007).

<sup>125</sup> In discussing the Marshall Plan, Raffer and Singer (1996: p.59) note that: 'The initiative's original intention also included the [Soviet Union] but was soon strongly influenced by the new situation of East-West rivalry'.

<sup>126</sup> Officially known as the European Reconstruction Programme.

its dissolution. At the time of its collapse the Soviet Union officially consisted of fifteen Soviet Socialist Republics.

In practice, for much of its existence until the mid-1980s when Gorbachev's reforms unleashed political forces that would loosen central control and ultimately lead to its dissolution, the Soviet Union was a highly centralized entity. Each republic had its own unique set of state symbols including a flag, coat of arms and, apart from the Russian Soviet Federative Republic (RFSR), its own anthem. Soviets (Councils) of People's Deputies at all levels of the administrative hierarchy formed the political foundation of the Soviet Union and existed under the nominal control of the Supreme Soviet of the Soviet Union in Moscow. A parallel structure of party organizations allowed the centre, in the form of the Political Bureau of the Central Committee of the Communist Party of the Soviet Union (or Politburo), to exercise significant control over the republics. The party organs gave direction to the state administrative organs and central organs of the party approved the appointments of all party and state officials. From the mid-1950s to the late 1980s the Soviet Union was therefore a society with a single chain of command operated by the Communist Party (Hanson 2003).

The economic model was based on three principles (Lavigne 1995). First, the basic element of the model was a heavy industrial base developed to promote growth. Although the Soviet Union had become a major producer of industrial goods, production originally focused on providing capital goods and only after the death of Stalin was there a move towards consumer goods. Second, collectivised agriculture was developed as a source of surplus, through which exports would finance imports of capital goods. Third, a five-year planning system established as a mobilising force as well as an instrument to control the economy. Information was centralized and few feedback mechanisms were in place to help understand the needs of enterprises and the people.

The origins of the Soviet command economy can be found in the early days of post-revolutionary Russia and the period of War Communism (1917-1921) when the country experienced massive nationalization and introduction of state ownership, elimination of market relations in trade and industry, and forced acquisition of agricultural products. The experiment was unsuccessful and in 1921 Lenin introduced the New Economic Policy to address the key economic challenges through a move to denationalization/reprivatisation and the limited reintroduction of a market mechanism for resource allocation. The policy would be short-lived and at the end of the 1920s with the first Five Year Plan (1928/29-32), the basis of the Soviet economic system were established (Hanson 2003). Although Stalinism was officially abolished

after Stalin's death in 1956 the basic planning command economy system remained in place despite some attempts at reform.

Aid, in a very general sense, was not a new phenomenon for post-communist countries. Mongolia, lying outside the Soviet Union, had received vital economic assistance from the Soviet Union<sup>127</sup> but even within the Soviet Union, the Republics received quite significant direct and indirect subsidies from the central Soviet budget either (a) directly to the republican budget, (b) in the form of investments into large enterprises, or (c) channelled through subsidized prices of many important resources (fuel and transportation costs in particular). Following the dismemberment of the Soviet Union in late 1991 these transfers, investment and subsidies were to stop (Alymkulov *et al.* 2002).

In the 1980s, measures were introduced to revive the stagnant economy including those aimed at political liberalization. These reforms dramatically changed the political structure of the Soviet Union and by 1990 the Communist Party of the Soviet Union had agreed to give up the monopoly on power it had held for seventy years. Consequently elections were held in all fifteen republics and the Communist Party lost power in six of them, including the three Baltic States plus Moldova, Georgia and Armenia. This defined the beginning of the end and the Soviet Union was formally dissolved on 25 December, 1991 leaving the all fifteen Republics as independent sovereign states.

#### **4.2 DONOR ENGAGEMENT IN THE LOW-INCOME POST-COMMUNIST COUNTRIES**

The lack of experience of donors with the situation they found in 1992 cannot be over-emphasised. For example, at the start of the transition process knowledge about the post-communist countries in the World Bank was limited to Hungary, Poland and Yugoslavia, which were already members. The World Bank's own evaluation of its work in post-communist transition countries (World Bank OED 2004a: p.44) notes that 'Political imperatives put the Bank under pressure to move quickly and lend large amounts, and staff were frequently confronted with the need to act, often under difficult circumstances, in the absence of relevant experience, learning along the way'. The Bank and other aid agencies had to make the organisational arrangements, recruit technical and managerial staff as well as mobilise financial resources. It has also been noted that much of the World Bank's examination of the transition focused on economic approaches and less on political and institutional issues (Kogut and Spicer

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<sup>127</sup> Examined in more detail in Chapter 5.

2004). While such criticism is often aimed at the *development policies* promoted by the World Bank it also had an impact on the design of appropriate *aid policies* for the region.

The World Bank, IMF and other IFIs began intensive consultations with the authorities of the transition countries, even though they had no experience with dealing with many of the challenges they faced. The countries embarking on the path of transition were equally in the dark and together with the donors they were about to go on a blind date with neither party knowing much about the other. While issues of absorptive capacity are not unique to post-communist countries, the rapid disbursement of large sums to countries with little or no experience of the practices and procedures of donor organisations or international financial institutions was likely to have an important impact on the effectiveness of developmental interventions and policy dialogue. In the words of a UN official in Moldova in the mid-1990s, representatives of external agencies, insulated from the effects of the collapse, were 'like the first class passengers of the Titanic in their lifeboats [who] could only look on as their fellow voyagers sank in the abyss' (quoted in Cornia *et al.* 2005: p.6). Yegor Gaidar, who served as Minister of Finance and Economy and Deputy Prime Minister of the Russian Federation in the early 1990s noted: 'The transition was a unique experiment: no one had ever confronted the collapse of a socialist system. So while we could make assumptions, we could not have clear knowledge. And as it turned out, the economic and political results of this experience were unexpected – and unpleasant' (Gaidar 2005: p.63).

The dominant aid policy was consistent with the development policy envisaged by much of the donor community, and especially the IFIs and the USA, for a rapid transition to democracy and a market economy. Although arguments for a slower process of reform were made, for example by the UN Economic Commission for Europe (Jolly, Emmerij *et al.* 2004: pp. 156-7), it was the promoters of the *big bang*, *shock therapy* or *one leap* policy that won, if not the debate, then the power to impose such a process on the post-communist countries. At the beginning of the transition process there was a honeymoon period when there were strong expectations from, and enthusiasm for, western assistance and the ambitious projects that would supposedly result in rapid transformations and instant results. Such enthusiasm soon evaporated as the realities of the transition set in and with the recognition that the complexities, duration and difficulties of the transition project had been underestimated (Emmerij *et al.* 2001).

Partly as a result of their shorter history of Communism, at the start of the transition it was likely that the process would be easier in some countries of Central and Eastern Europe than for some of the more remote republics of the former Soviet Union. Although many of the Central and Eastern Europe countries suffered serious economic downturns, most managed to recover.

By the start of the new millennium, eight of them had embarked on the process of joining the EU and many others had ambitions to do so as well. On the other hand there were low income countries within the broad group of post-communist countries that were neither proximate to the EU nor to other international markets and were seemingly isolated from the benefits of the transformation strategy that had been adopted. In recognition of the special problems faced by the group of seven low-income CIS countries,<sup>128</sup> bilateral donors, neighbouring countries and four IFIs officially launched the CIS-7 initiative during the Ministerial meeting held in Washington on April 20, 2002. These organisations and countries ‘have come together to launch a collaborative international effort to enhance the economic growth and poverty reduction prospects of the CIS-7 through greater ownership of development and reform efforts in the individual countries, with the continued strong support of the international community’.<sup>129</sup> Preparation for the launching of the CIS-7 initiative coincided with a change in the geopolitical importance of the region following the terrorist attack on the USA of September 11, 2001. The implications of this in terms of the aid relationship within the region are examined in Section 4.4.

#### **4.2.1 Who are the donors?**

At the July 1989 G-7 Summit in Paris a decision was made to help Hungary and Poland in their economic and political transformations. The European Commission was to coordinate the assistance of the group of twenty-four OECD members (G-24) engaged in the process through the PHARE<sup>130</sup> programme. Later, during the collapse of the Soviet Union in 1991, the EU established the complementary *Technical Assistance to the Commonwealth of Independent States* (TACIS) programme.<sup>131</sup> The United States had initially responded to events in the region in an *ad hoc* manner but in 1992 passed the *Freedom Support Act* which authorized a broad range of humanitarian, technical assistance, non-proliferation, and other activities for the former Soviet Union (Tarnoff 2007). Other DAC donors also started to engage: for example, Germany opened an office of its technical cooperation organisation *Gesellschaft für Technische Zusammenarbeit* (GTZ) in the Kyrgyz Republic and Uzbekistan as early as 1992 (Kausch 1996). Non-DAC donors also joined, with Turkey among the first bilateral donors to provide assistance to the newly independent states due to ‘ethnic linguistic and cultural affinities with several of these new republics’ (Raffer and Singer 1996: p.121).

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<sup>128</sup> Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, Uzbekistan.

<sup>129</sup> Joint Press Release of the World Bank, Asian Development Bank, European Bank for Reconstruction and Development, and the International Monetary Fund. Press Release No. 02/23, April 20, 2002. <http://www.imf.org/external/np/sec/pr/2002/pr0223.htm>. (downloaded May 2003).

<sup>130</sup> Originally a French acronym for *Pologne, Hongrie, Assistance à la Restructuration Economique*.

<sup>131</sup> In addition to members of the CIS, Mongolia also received assistance under TACIS from 1991-2003.

All countries in the group being examined were quick to become members of the international community and, apart from Mongolia which had been a member since 1961, joined the UN in 1992. At the same time they entered into agreements with the major IFIs, joining the World Bank and IMF in 1992 (apart from Tajikistan which joined the following year and Mongolia which joined a year earlier). By 2005, all had undertaken stabilisation programmes with the assistance of the IMF (although Uzbekistan not since 1997) and all eight countries borrowed from the World Bank through the IDA on concessional terms (with Armenia and Moldova borrowing on slightly less-concessional *hardened terms*). Moldova, Uzbekistan and Azerbaijan were *blend countries* in that they also borrow at commercial rates through the other major lending window of the World Bank, the International Bank for Reconstruction and Development.<sup>132</sup> By 1998 Mongolia and the Central Asian LIPCCs had joined the ADB and by 2005 Azerbaijan and Armenia were also members as the ADB's interests expanded westwards. Moldova is now the only LIPCC not to be a member. From the other direction, all LIPCCs joined the EBRD<sup>133</sup> at the same time in 1992 apart from Mongolia, which joined in 2006. The UN was also represented in each country with UNDP taking the lead coordination role within the Resident Coordinator system. The number of agencies represented in each ranges from 14 in Tajikistan to 6 in Uzbekistan and is broadly in line with other countries.<sup>134</sup> All countries had prepared an integrated UN Development Assistance Framework<sup>135</sup> and most occupied official UN Houses.<sup>136</sup>

Overall, for the period 1990-2005, the share between bilateral and multilateral donor flows to the countries being examined has been quite even (table 4.1 below). Only in Mongolia, Moldova and Uzbekistan has bilateral aid dominated, most importantly in the latter where bilateral assistance accounted for 87 per cent of ODA over this period. The relative proportion of multilateral aid is, however, quite high compared to global and regional averages (apart from Uzbekistan). The global average is only 27 per cent multilateral compared to 42 per cent for LIPCCs while in Sub-Saharan Africa (SSA) and Asia the levels for multilateral aid are 26 per cent and 28 per cent respectively.

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<sup>132</sup> Blend and hardened-term borrowers also pay no interest and have a ten year grace period but the instruments have shorter maturities (35 and 10 years respectively versus 40 years for IDA-only).

<sup>133</sup> Unlike the World Bank and the ADB, the EBRD does not have a concessional lending window although it does provide technical cooperation grants, usually from pooled funds from bilateral donors.

<sup>134</sup> For example, Tanzania, Viet Nam and Bolivia have UN Country Teams (UNCTs) of 13, 12 and 7 members respectively.

<sup>135</sup> The UNDAF is the strategic programme framework for the UN country team and describes the collective response of the team to the priorities in the national development framework.

<sup>136</sup> A UN House is a building shared by the four Executive Committee (ExCom) Agencies (i.e. UNDP, UNFPA, UNICEF and WFP), that has been designated as such by the Secretary-General. However, in cases where there are less than four ExCom Agencies in a country, UN Houses have been designated with as many of the ExCom Agencies as are working in the country.

Table 4.1: Types of Donor, as a Percentage of Total Net ODA (1990-2005)

	IDA	Multilateral			Total	DAC	Bilateral		Total
		ADB	EU	Other			Non-DAC		
Armenia	26	0	12	11	49	51	0	51	
Azerbaijan	20	0	15	13	48	42	10	52	
Georgia	21	0	12	12	45	52	3	55	
Kyrgyz Republic	19	16	7	10	52	42	7	49	
Moldova	16	0	15	8	39	56	5	61	
Mongolia	9	17	2	6	34	63	4	67	
Tajikistan	17	6	15	16	54	44	2	46	
Uzbekistan	1	1	6	5	13	72	15	87	
LIPCCs mean	16	5	11	10	42	53	6	59	
SS Africa mean					36			64	
Asia mean					28			72	
All recipients					27			73	

Source: Author's calculations from OECD/DAC development database on aid (dataset 2a)

The large proportion of non-DAC aid in Uzbekistan (15 per cent) and to a lesser extent Azerbaijan (10 per cent) is interesting as on a global level such assistance accounts for only 3 per cent of total aid. The other implication is that this figure could be considerably higher especially given the interest of China and the Arab states in the region and the difficulty DAC had in capturing the aid figures from these two sources.

#### 4.2.2 Donor Concentration

The high relative importance of a small number of donors was a key feature of the aid regimes in the LIPCCs. Table 4.2 below clearly indicates the dominance of the United States and Japan among not only the bilateral donors but also in comparison to the multilateral donor organisations as well. In Armenia, Mongolia and Uzbekistan one or the other had provided more than 30 per cent of ODA over the period 1990-2005. Only the Kyrgyz Republic had no donor accounting for more than 20 per cent of aid over the period 1990-2005.

Table 4.2: Major Multilateral and Bilateral Donors (1990-2005) by Relative Size of Aid Disbursement

	More than 30% of total net ODA	Between 20% and 30% of total net ODA	Between 10% and 20% of total net ODA	Between 5% and 10% of total net ODA
Armenia	USA	IDA	EU	
Azerbaijan		IDA	EU, Japan, USA	Germany, Turkey
Georgia		IDA, USA	EU, Germany	
Kyrgyz Republic			ADF <sup>137</sup> , IDA, Japan	EU, Turkey
Moldova		IDA, USA	EU	Netherlands
Mongolia	Japan		ADF	EU, IDA, USA
Tajikistan		USA	EU, IDA	ADF
Uzbekistan	Japan		Germany, USA	EU, Turkey
LIPCC total		USA	Japan	

Source: Author's calculations from OECD/DAC development database on aid (dataset 2a)

This indicates a high level of concentration of power among a few donors. Table 4.3 shows that over the period 1990-2005, the largest two donors have been responsible for more than half of all ODA in Armenia, Mongolia and Uzbekistan. In the rest of the countries these two donors have been responsible for more than one-third of all ODA, often closer to half. Moreover, in the LIPCCs it is the same four donors that make up the two top positions in all countries, namely, the bilateral USA and Japan and the multilaterals World Bank (IDA) and ADB (through its concessional lending window, the Asian Development Fund - ADF).

Table 4.3: Largest and Second-largest Donors (1990-2005)

	Largest donor		Second largest donor		Total #1 and #2
	% of total	Name	% of total	Name	
Armenia	33	USA	26	IDA	59
Azerbaijan	20	IDA	17	Japan	37
Georgia	27	USA	21	IDA	48
Kyrgyz Republic	19	IDA	16	ADF	35
Moldova	28	USA	16	IDA	44
Mongolia	39	Japan	17	ADF	56
Tajikistan	25	USA	17	IDA	42
Uzbekistan	36	Japan	29	USA	65

Source: Author's calculations from OECD/DAC development database on aid (dataset 2a)

From 1990-2005 the USA and Japan provided 20 per cent and 15 per cent of the ODA to the LIPCCs versus their share of 16 per cent and 14 per cent respectively of global ODA (Table 4.4 below). Where the global pattern is different in the LIPCCs is the engagement of EU member states<sup>138</sup> who are responsible for 34 per cent of global ODA and yet only 14 per cent of the ODA to LIPCCs. Even more marked is the difference in the level of relative engagement of the EU donors in Africa compared to LIPCCs; almost thirty percentage points. Although the EU has

<sup>137</sup> Asian Development Fund, the concessional lending window of the Asian Development Bank.

<sup>138</sup> Those that are also DAC members.

been a significant donor, it is clear that, with the exception of Germany, individual European donors have played a relatively minor role in providing aid to the region. For many of the smaller donors, some or all of the countries will not have a formal programme. In such cases the resources may be provided to co-finance programmes executed by other organisations (such as UN development agencies).

Table 4.4: Share of Selected Donors in Aid (Global; to Africa, Asia and LIPCCs) 1990-2005

	(A) % of Total ODA	(B) % of Africa ODA	(C) % of Asia ODA	(D) % of LIPCC ODA	LIPCCs- Global difference (D) - (A)	LIPCCs- Africa difference (D) - (B)	LIPCCs- Asia difference (D) - (C)
USA	15%	13%	15%	20%	5%	7%	5%
Japan	13%	5%	25%	15%	2%	10%	-10%
IDA	8%	11%	11%	17%	9%	6%	6%
EU	8%	11%	4%	10%	2%	-1%	6%
EU Donors	34%	41%	21%	14%	-20%	-27%	-7%

Source: Author's calculations from OECD/DAC development database on aid (dataset 2a).

Note: EU donors are EU member states that are also members of DAC.

Turkey is the only non-DAC bilateral captured by the DAC database that provides ODA of more than five per cent of the total. Other non-DAC aid was, however, extremely important for a number of LIPCCs in the early years of the transition process (1992 and 1993). Aid from Arab countries has increased significantly since 2000 in line with the region's large increases in oil revenues (Villanger 2007). Examination of the data available from the institutions that publish it regularly indicates a continued increase in lending to the LIPCCs. Moreover, while the Arab Aid<sup>139</sup> data indicates no support for Armenia and Moldova, since 2000 both countries have received assistance (the OPEC Fund for International Development and the Kuwait Fund respectively). China was also an important partner although, as already noted, data on its ODA is difficult to obtain.

#### 4.3 AID FLOWS AND AID INTENSITY IN THE LIPCCS

In the early 1990s, it was widely expected that the collapse of the Soviet Union and the end of the cold war would result in a peace dividend of additional resources, a part of which could be used to support the post-communist countries (Raffer and Singer 1996: p.212). The addition of more countries into the official list of donor recipients coincided with the start of a long downward trend in development assistance and there were fears from developing countries,

<sup>139</sup> Established in 1975, the Arab Aid Coordination Group consists of eight institutions, five of which are multilateral aid institutions: the Islamic Development Bank (IsDB), the OPEC Fund for International Development (OFID), the Arab Fund for Economic and Social Development (Arab Fund), the Arab Bank for Economic Development in Africa (BADEA), the Arab Gulf Programme for United Nations Development Organizations (Agfund). The other three are bilateral aid institutions: Abu Dhabi Fund for Development, the Saudi Fund for Development, and the Kuwait Fund for Arab Development.

especially in Africa, that transition countries would divert resources away from traditional recipients.<sup>140</sup> While it is impossible to say if this was the case, it should be noted that the total resources going to post-communist countries were significant in terms of total developmental financial flows. While ODA receipts to post-communist countries represented less than 3 per cent of total ODA receipts in the late 1990s,<sup>141</sup> the ODA figures do not include developmental assistance to all transition economies. Some of them are included in what was known until 2005 as Part II of the DAC List of Recipients – Countries and Territories in Transition<sup>142</sup> (Table 4.5 below). These include the more-developed countries in Central and Eastern Europe. In 1998, OA to countries on Part II of the DAC list receipts were approximately 11 per cent of total ODA receipts.<sup>143</sup>

Table 4.5: Former Soviet Bloc Countries by DAC Classification (1 January 2003<sup>144</sup>)

Part I: Developing Countries and Territories (ODA)		Part II: Countries and Territories in Transition (OA)	
• Armenia	• Kyrgyz Republic	• Belarus	• Lithuania
• Albania	• Moldova	• Bulgaria	• Poland
• Azerbaijan	• Tajikistan	• Czech Republic	• Romania
• Georgia	• Turkmenistan	• Estonia	• Russia
• Kazakhstan	• Uzbekistan	• Hungary	• Slovak Republic
		• Latvia	• Ukraine

Source: OECD/DAC Development Cooperation Report 2005

### 4.3.1 The Nature of Aid Flows

Prior to 1991 flows of ODA were negligible in most of the LIPCCs with only Mongolia receiving significant amounts in the pre-transition period. Overall, during the years 1990-2005 Armenia, Azerbaijan, Georgia, the Kyrgyz Republic and Mongolia received between US\$ 2 and 3 billion each in the form of ODA.<sup>145</sup> During the same period, Moldova received just over US\$ 1 billion and Tajikistan and Uzbekistan closer to US\$ 2 billion of ODA each.

<sup>140</sup> For some former Soviet allies (for example Cuba, Vietnam, Afghanistan) this initially resulted in a *double squeeze* on development aid with increased in the demand side from the former Soviet Union and Eastern European countries in transition and also decreases on the supply side as these countries could no longer support some of their old partners (Pronk 2004: p.119).

<sup>141</sup> OECD/DAC Development Cooperation 1999 Report.

<sup>142</sup> The title of the OA group is misleading as it includes other non-transition countries (e.g. the Bahamas and, since 1997, Israel) that receive development assistance but are too rich for it to be classified as ODA.

<sup>143</sup> OECD/DAC Development Cooperation 1999 Report.

<sup>144</sup> Moldova was on Part II of the list used for 1996 flows but removed the following year.

<sup>145</sup> Chapter 1 included discussion of (a) why DAC data may vary from nationally produced numbers, and (b) why the ODA measure may not capture much development assistance that is non-official or from non-DAC members.

Table 4.6: Basic Aid Indicators for LIPCCs (1990-2005)

	Net ODA, US\$ million (Disbursements)	Grant as % Total Net ODA	% Technical Cooperation	% Humanitarian Assistance
Armenia	2,809	61%	30%	5%
Azerbaijan	2,377	60%	21%	7%
Georgia	3,160	60%	27%	8%
Kyrgyz Republic	2,905	47%	22%	2%
Moldova	1,027	76%	40%	7%
Mongolia	2,958	59%	29%	2%
Tajikistan	1,735	67%	17%	16%
Uzbekistan	1,918	54%	32%	1%
LIPCC Mean		61%	27%	6%
SS Africa		83%	21%	6%
Asia		68%	24%	5%

Source: Author's calculations from OECD/DAC development database on aid (dataset 2a)

Given the predominance of loans in the portfolios of the multilateral donors and of grants in those of the bilateral donors, it is not surprising that the relative amounts of grants and loans to the region largely reflect the relative positions of multilateral and bilateral donors. It also shows that levels of grants were lower than the averages for SSA and Asia. Conversely, the percentage of technical cooperation was higher than the averages for SSA and Asia. Only a small part of the ODA was used for humanitarian assistance, mostly focussed on Tajikistan as the result of its civil war that only ended in 1997.

Chapter 3 noted that the predictability of aid can have an impact on economic governance. Methods to measure predictability have largely focussed on the ratio of disbursements (the amount actually spent in a year) to commitments (the amount the donor stated it would spend in that year) (Bulir 2006: p.208). Examination of DAC aid data presented in Table 4.7 reveals that aid in the LIPCCs is more predictable on an annual basis than global aid or aid to any other regions. The mean disbursement-commitment ratio<sup>146</sup> for the LIPCCs for the ten years 1996-2005 was 0.94 versus 0.82 for aid globally and 0.91 and 0.72 for sub-Saharan African and Asia respectively.

<sup>146</sup> A simple ratio of disbursements divided by commitment.

Table 4.7: Disbursement/Commitment Ratios (1996-2005)

	Total ODA			Technical Cooperation 1996-2005
	1996-2005	1996-2000	2001-2005	
Armenia	0.9	0.9	1.0	1.7
Azerbaijan	1.0	0.7	1.2	1.3
Georgia	0.9	0.8	1.1	1.3
Kyrgyz Republic	1.0	0.8	1.2	1.2
Moldova	0.8	0.6	0.9	1.1
Mongolia	1.0	1.0	1.1	1.1
Tajikistan	0.9	0.9	0.9	1.2
Uzbekistan	1.0	1.2	0.8	1.2
LIPCC Mean	0.9	0.9	1.0	1.3
All Dev Countries	0.8	0.8	0.8	1.1
SS Africa	0.9	0.9	0.9	1.1
Asia	0.7	0.7	0.7	1.1

Source: Author's calculations from OECD/DAC development database on aid (datasets 2a and 3a)

In examining the predictability of budget aid in eight African countries, Celasun and Walliser (2008) note that the OECD DAC data includes neither separate data on project and budget aid nor provides a direct measure of aid expectations, because aid commitments reported by donors do not necessarily correspond to the amounts of aid expected by recipients. Also, OECD-DAC data do not include detailed fiscal data to evaluate the impact of unpredictable aid on government spending.<sup>147</sup> In addition, the crude measure used in Table 4.7 fails to identify the complex causes behind the difference between the two, or really show how predictable aid is to the recipient authorities. For example, if donors consistently disburse the same proportion of the aid they committed, then aid flows may be predictable for the recipient. It also assumes that disbursement is a decision made by the donors and not something that may equally be determined by the recipient. Moreover, it fails to distinguish between commitments made some years in advance as part of a medium-term programme of assistance and those made on an annual basis. Finally, analysis of commitments and disbursements at an aggregate level fails to distinguish between different types of aid. For example, lack of predictability of budget support may have different implications than unpredictable assistance aimed at infrastructure development. It was also argued that volatility of aid has potential impact on macro-economic governance even though volatile aid could still be predictable.

<sup>147</sup> Celasun and Walliser (2008) also use a second, new data set—derived from IMF-supported programs—that can be useful in answering some questions about predictability but it has limited country and time coverage. Both data sets have advantages and disadvantages in addressing different research questions (see Table 2).

### 4.3.2 The Intensity of Aid<sup>148</sup>

While information on flows of external development assistance is important at the country level it is also necessary to see how intensive this external assistance is or, in other words, how it relates to certain other aggregated indicators (usually macro-economic). For example O'Connell and Soludo (1998: p.1) define intensity as: 'the size of these [aid] flows relative to the categories of economic activity they are designed to support'. Although the most common measures of resource intensity are ODA as a percentage of Gross National Income (GNI)<sup>149</sup> and ODA per capita, resource intensity should also be examined in relation to different types of aid. Given the fact that aid is not homogenous, it may be more appropriate to link the type of aid to a closely related indicator. For example, it may be more effective to examine the relationship between government expenditure and programme aid such as budget support rather than aid in general, or between large scale investment projects and the public investment programme.

In terms of the resource intensity of aid there is a significant range across the group of eight LIPCCs. Using the ODA per capita measure, the values of net ODA per capita (disbursements) range from US\$ 108 for Mongolia in 1997 to only US\$ 9 per capita in Uzbekistan (Table 4.8 below). A similar pattern emerges when using the measure of ODA as a percentage of GNI, especially when examining the peaks of resource intensity in the region. The values range from 29 per cent in the case of Mongolia in 1994 to consistently less than one per cent for Uzbekistan since 1992. The Kyrgyz Republic, Mongolia and Tajikistan have had consistently high levels of resource intensity over ten years or more with ODA at rates higher than 10 per cent of GNI. To put this in perspective, this puts these countries in the same league as Uganda and Tanzania, which, over the same period, have also had similar high resource intensity rates of over ten per cent of GNI.<sup>150</sup>

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<sup>148</sup> The intensity of aid (amount of aid in relation to certain national aggregated indicators such as GNI) is different from concentration of donors which tries to indicate the relative shares of donors in supplying aid.

<sup>149</sup> Or some other national income aggregate, for example Gross Domestic Product (GDP).

<sup>150</sup> Authors calculations from same DAC source as Table 4.8.

Table 4.8: Key Indicators of Resource Intensity in LIPCCs

	Net ODA per capita (disbursements)					Net ODA as % GNI (disb.)			
	Peak					Peak		2005	Years > 10%
	Current prices		Constant 2005 prices		2005	%	Year		
US\$	Year	US\$	Year						
Armenia	96	2002	106	1996	64	18%	1996	4%	1993-02
Azerbaijan	43	2002	51	2002	27	6%	2002	2%	-
Georgia	70	2004	82	2001	69	10%	1996	5%	1996
Kyrgyz Republic	62	1995	68	1999	52	24%	1999	11%	1994-05
Moldova	46	2005	46	2005	46	9%	2000	6%	-
Mongolia	108	1997	123	1997	83	29%	1994	12%	1993-05
Tajikistan	38	2004	39	2004	37	16%	2001	11%	1996-05
Uzbekistan	9	2004	9	2004	6	2%	2004	1%	-

Source: Author's calculations from OECD/DAC development database on aid (dataset 2a)

O'Connell and Soludo (1998) also distinguish between *resource intensity*, the intensity of the flow of financial resources described above, and *transactions intensity*. The transaction intensity of development assistance is the impact of aid on the institutions of development and their effective functioning. Both resource and transaction intensity can relate to non-concessional flows as well as flows that fall into strict definitions of ODA. The level of transactions intensity depends largely on number of donors, number of projects, type of assistance, and the coordination and management systems in place. In general, the more individual projects or programmes there are in a country, the more transaction intensive the relationship will be. Other factors such as the type of aid and modalities are also important. For example, a large number of small technical assistance projects may have greater transaction intensity than a single, large investment project of the same value. Different types of aid will also have different institutional/organisational effects. For example, programme aid may require more policy dialogue and monitoring of policy implementation than a capacity building project. Finally, the aid management systems, including overall programming and planning framework as well as coordination mechanisms, will influence the level of transactions intensity.

Chapter 3 clearly revealed the importance of the aid relationship in terms of recipient governance but one of the main problems of taking the analysis forward using the transactions intensity concept is the lack of a suitable framework for measuring it. At the simplest level the number of transactions will vary with the number of donors and the number of projects. These can be measured using national sources, such as an aid coordination database, but these numbers may not be comparable across countries. For example, some databases may use standard DAC definitions of aid while others may include NGO projects which can be small but numerous. Others may only include credits rather than small technical cooperation grants while some may completely miss out key donors who are not able to provide the data in the appropriate format,

or who do not provide it on time. For comparative purposes, a more appropriate method is to find a common database of project statistics that, even if flawed in one or more respects, will at least be consistent across countries. One such source is the Accessible Information on Development Activities (AiDA) initiative, which includes historical and current information on activities of the major international development donors and some civil society organisations and private foundations.<sup>151</sup> Over 130,000 ongoing or planned activities worldwide are listed in AiDA, plus 400,000 archived projects and programs. Table 4.9 sets out the number of projects implemented (ongoing or planned) for the group of countries being examined.

Table 4.9: Measures of Bureaucratic/Transaction Intensity

	Population, millions (2005)	Total Ongoing Projects	
		Total Number	Per 100,000 population (2005) <sup>152</sup>
Armenia	3.0	674	22
Azerbaijan	8.4	676	8
Georgia	4.5	1113	25
Kyrgyz Republic	5.1	824	16
Moldova	4.2	698	17
Mongolia	2.5	853	33
Tajikistan	6.5	772	12
Uzbekistan	26.2	838	3
LIPCC mean score			17
LIPCC (less Uzbekistan) mean score			19
Sub-Saharan Africa mean score			25
SS Africa (population < 10 million) mean score			47
SS Africa (population <10 million, >1 million) mean score			22

*Source:* Authors calculations from the AiDA Project Database <http://aida.developmentgateway.org/> (downloaded June 2007)

While the mean score for LIPCCs is seventeen projects per 100,000 population, that for SSA is twenty-five. What is clear from examination of the SSA data, however, is a bias dependent on the size of population. Countries with very small populations (less than 0.5 million) tend to have extremely high scores. The Seychelles (population 84,497), for example, has 156 projects per 100,000 population and São Tome and Principe (population 156,523) has 303. Removing the large and small countries to leave a group of countries with a population between one million and ten million (the same as seven of the eight LIPCCs) the average score is reduced to 22, only slightly higher than for LIPCCs. If Uzbekistan (population 26 million) is removed then the average for LIPCCs is 19, even closer to the corresponding SSA mean. Comparing Mongolia

<sup>151</sup> As the AiDA website notes, 'The information may not reflect all activities or most recent activities of these donors. AiDA should be considered a starting point for reviewing aid and development activities but not a comprehensive source'. <http://www.developmentgateway.org/programs/aida.html>

<sup>152</sup> It would also be useful to compare projects to number of bureaucrats but it is impossible to find comparable data across the region.

and the Kyrgyz Republic, two countries popular with the donor community, the number of projects is very similar but, with half the population, Mongolia's score is twice as high.

For some bilateral donors, the UN provides an opportunity for engaging in a country without the problem of establishing a formal programme. A UNDP country office, for example, would expect to mobilise resources from bilateral donors and in some countries these can be quite significant. In Mongolia the resources mobilised from third parties are twice as large as the core resources and over four times as large in Tajikistan. This is important as it can distort measures of donor concentration since bilateral donors report their ODA to a country but put the money through UNDP or other options described below. At the same time donors without country programmes can provide funds directly to development NGOs (international or national).

Another way of looking at this issue is through donor fragmentation, the opposite of the donor concentration discussed earlier in this chapter. While concentration focuses on the relevance of significant power in the hands of a small number of donors, fragmentation focuses on the impact on public administration of a large number of donors and donor projects. Again, at an aggregate level, it is difficult to estimate the degree of fragmentation from quantitative data since the link between fragmentation and public administration is more complicated. For example, it is possible to compare a situation where there are 10 donors with one project each, and five donors with two projects each. In such a case the importance of fragmentation would depend on how they are concentrated within the government. If the ministry of health has all 10 projects from the five donors this may be more of a burden than the 10 projects from 10 donors spread across the administration.

#### **4.4 ENGAGEMENT AND PARTNERSHIP WITH KEY DONORS**

The issue of partnership can best be illustrated by examining the changing partnership between the countries in the group being examined and their donor organisation partners. Examples of specific relationships among the LIPCCs will be used to illustrate the complexities of the relationships and how these vary over time.<sup>153</sup> Four relationships or sets of relationships have been selected to provide examples based on the importance of these organisations in overall aid flows and their role in guiding the transition process. The first two sections examine the major bilateral donors in the region, the USA and Japan followed by a section covering the role of the EU. The final section focusses on the MDBs, which includes the World Bank and the ADB.

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<sup>153</sup> Examples of donor relationships with Mongolia are not included here as they are examined in more detail in the next chapter.

#### 4.4.1 United States Assistance to the Region

ODA from the USA accounted for 20 per cent of the total to LIPCCs in the years 1990-2005. Over the same period it was the largest donor in four of the seven countries being examined (Armenia, Moldova, Georgia and Tajikistan). Among DAC bilateral donors the USA faced some of the most difficult capacity constraints in terms of facilitating the establishment of the good aid relationship, specifically in relation to its practices and procedures. A major issue has been the ability to make firm commitments to multi-year funding agreements because of the need to get Congressional approval of all expenditures on an annual basis. Inevitably Congress's annual budget appropriations combined with changes in Administration policy and priorities weakened predictability at the country level. Congress also set very high accountability standards for use of public money which means that integration into national systems also required recipient standards at a similar level (OECD DAC 2006b). At the same time compared to other DAC donors, the USA has had different values to share with its recipients. For example, it was only in 2002 that poverty reduction became an explicit foreign policy priority (Riddell 2007: p.57).

United States assistance to the region deserves attention as it illustrates how broad the issue of shared values can be and how the importance of a hierarchy of values needs to be taken into account when establishing and developing a relationship. When the 1992 *Freedom Support Act* allowed the use of United States funds to support the former Soviet Union, a White House Press Release noted at the time 'The collapse of the Soviet Union provides America with a once-in-a-century opportunity to help freedom take root and flourish in the lands of Russia and Eurasia.'<sup>154</sup> In 1999, congressional concerns led to passage of the *Silk Road Strategy Act* authorizing language calling for enhanced policy and aid to support conflict amelioration, humanitarian needs, economic development, transport and communications, border controls, democracy, and the creation of civil societies in the South Caucasus and Central Asia<sup>155</sup> (Nichol 2006b).

Aid to the former Soviet Union has always come with conditions. Both the Freedom Support Act and annual foreign operations bills contain general and specific conditions that all the states of the former Soviet Union were expected to meet in order to receive assistance (Tarnoff 2007).<sup>156</sup> The United States needed to share values with its partners but its hierarchy of values is different from many other bilateral donors and focussed much more on commercial (especially

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<sup>154</sup> The White House, Office of the Press Secretary, April 1, 1992, Freedom Support Act of 1992 Fact Sheet.

<sup>155</sup> In 2006 the act was updated to modify targeting of assistance in order to support the economic and political independence of the countries of Central Asia and the South Caucasus in recognition of political and economic changes in these regions since enactment of the original legislation.

<sup>156</sup> The same source notes that the majority of specific restrictions have been aimed at Russia with as much as 60 per cent of planned US assistance to the federal Russian government being withheld in most years. In 2007, the most difficult conditionality issue arises with respect to human rights and democracy in Central Asia.

energy) and security considerations. The following examples of its relationship with Azerbaijan, Armenia and Uzbekistan illustrate this point.

Starting with the Western LIPCCs, the USAID partnership with the states in the Caucasus region was determined by a mixture of, *inter alia*, serving the interests of the domestic Diaspora, anti-terrorism and energy concerns. Since 1988, the separatist conflict in Nagorno Karabakh resulted in thousands of casualties and hundreds of thousands of refugees and displaced persons in Armenia and Azerbaijan. The UN High Commissioner for Refugees reported that at the end of 2005, there were still about 581,500 people considered refugees or displaced persons in Azerbaijan and 219,550 in Armenia. Although the 1992 *Freedom Support Act* authorized support to the Eurasian states, Section 907 of the act explicitly prohibited most United States government-to-government aid to Azerbaijan until it ceased blockades and other offensive use of force against Armenia.

Before the September 11, 2001, terrorist attacks on the United States, this provision was altered only to permit humanitarian and democratization aid, as well as limited assistance in some other areas, many commercially oriented.<sup>157</sup> In the aftermath of the September 11 attacks, and in the context of Azerbaijan's support to the international coalition to combat terrorism, the Bush Administration appealed for a national security waiver for Section 907. As a result, in December 2001, the United States Congress approved foreign appropriations for Fiscal Year (FY) 2002 that granted the President authority to waive Section 907, renewable each calendar year under certain conditions.<sup>158</sup>

Although the United States official observers found problems with the 2005 parliamentary elections in Azerbaijan and although abuses of human rights were reported<sup>159</sup> the United States maintained a strong relationship with the country. In response to criticism of such an approach, Deputy Assistant Secretary of State Bryza stated in June 2006:

just because Azerbaijan hasn't gone as far as we would like on democracy doesn't mean we're going to ignore our energy interests or our military interests. That's not to say that our energy interests or our military interests or our counterterrorism interests are driving us to ignore democracy.... We have to pursue a balance (Nichol 2006a: p.13).

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<sup>157</sup> For example, border security and customs support to promote non-proliferation, Trade and Development Agency aid, Overseas Private Investment Corporation insurance, Export-Import Bank financing, and Foreign Commercial Service activities.

<sup>158</sup> President Bush exercised the waiver again in February 2006 and Azerbaijani troops participated in stabilization efforts in Afghanistan and Iraq (Nichol 2006a).

<sup>159</sup> The NGO Human Rights Watch regularly reports on such abuses (<http://www.hrw.org/>).

Further east, the USA's relationship with Central Asia was also to change in the aftermath of 9/11, no more so than with Uzbekistan, the most populated and among the least democratic<sup>160</sup> of the LIPCCs. In March 2002 United States President Bush and Uzbek President Karimov met in Washington, DC and the two countries signed the *Declaration of Strategic Partnership*. Relations were further boosted by high-level visits to Uzbekistan since September 11, 2001, including that of the then-United States Secretary of Defense Donald Rumsfeld, then-United States Secretary of State Colin Powell, and numerous congressional delegations. According to the United States Department of State website:

The US believes that the development of an independent, stable, prosperous, and democratic Central Asia is vital for the inhabitants of Central Asia and the entire world. As the most populous country in Central Asia and the geographic and strategic center of Central Asia, Uzbekistan plays a pivotal role in the region. The United States accordingly has developed a broad relationship covering political, human rights, military, non-proliferation, economic, trade, assistance, and related issues.<sup>161</sup>

Uzbekistan was the only Central Asian state to join the group of countries that endorsed the prospective United States-led coalition military operations in Iraq - the *coalition of the willing* - in February-March 2003 but later decided not to send troops to Iraq (Nichol 2006b). The cosy post 9/11 relationship was not to last long and the USAID Annual Report for Uzbekistan for the FY2005 noted that 'While Uzbekistan remains a strategic partner of the United States in the global war on terrorism, strains developed in the relationship in 2004' (USAID 2005: p.3). It went on to explain why:

Following the 'Rose Revolution' in Georgia, Uzbekistan implemented new registration and monitoring requirements for international technical assistance organizations in an effort to control their activities and prevent a similar scenario in Uzbekistan. Organizations working to develop democratic principles and rule of law have been affected to the greatest extent. Bureaucratic obstacles and the subsequent refusal to re-register the Open Society Institute, along with the Government's failure to register any true opposition political parties in advance of the December 2004 parliamentary elections and stagnation in economic reforms resulted in the Secretary of State not certifying Uzbekistan as required by Section 568 of the Foreign Assistance Act.

The result of non-certification was for FY2004 assistance to Uzbekistan to be reduced by approximately US\$18 million. Uzbekistan subsequently made attempts to address some of the issues raised above. Again the USAID/Uzbekistan Annual Report for FY2005 notes:

Since non-certification took effect, Uzbekistan has made some very positive dramatic steps in the human rights arena. Specifically, due to USAID programs, dialogue opened between the Ministry of Interior and human rights defenders. And, the Government invited Freedom House, Human Rights Watch, and the US Embassy to participate in an investigation into a death-in-custody (*ibid*: p.3).

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<sup>160</sup> According to annual Freedom House surveys (<http://www.freedomhouse.org>).

<sup>161</sup> US Department of State <http://www.state.gov/r/pa/ei/bgn/2924.htm> (downloaded January 2007).

But once again, the roller-coaster relationship between the United States and Uzbekistan was about to change. It became even more strained over the Uzbek government's actions in Andijan in May 2005<sup>162</sup> when the United States condemned President Karimov's actions following the tumultuous events and in June 2005, Karimov refused United States demands for a formal investigation into the massacre.<sup>163</sup>

Inevitably a system of aid allocation that depended on annual congressional approval of country allocations or other interventions, such as a Presidential waiver, was be subject to political pressure. But in addition to USAID (as well as other types of assistance through other United States government agencies), the United States government used the MCA (as described in Chapter 2), a more rule-bound instrument that is likely to be less subject to political manipulation (although not totally immune from it). By the end of 2005 seven of the eight LIPCCs had engaged in the process. Georgia was deemed eligible for the MCA in the 2004 and 2005 selection rounds, and signed a US\$ 295.3 million compact in September 2005. Mongolia was eligible since 2004, and submitted a proposal for a US\$ 322 million MCA Compact in 2005. Armenia was also eligible and also submitted a proposal the same year. The Kyrgyz Republic and Moldova both participated in the Threshold Program.<sup>164</sup> Azerbaijan and Tajikistan were candidate countries but did not achieve adequate scores to become eligible for MCA assistance or even to enter the Threshold Program. Uzbekistan was not a candidate country, since in addition to having low per capita income, candidate countries must be eligible for assistance from the World Bank's IDA and not be otherwise ineligible to receive United States assistance (Nowels 2005).<sup>165</sup> It should also be noted that this cross-conditionality was quite strong as both MCA (Georgia and Armenia) compacts emphasised consistency with the PRSP and both noted the use of PRSP structures and process for undertaking consultation in the development of national proposals.

#### **4.4.2 Japan – the other major bilateral**

Japan was the second largest bilateral donor to the LIPCCs over the post-Soviet period up to 2005, supplying approximately 15 per cent of aid during this time. It was the largest donor to Mongolia and Uzbekistan accounting for over 30 per cent of total ODA in each. Like the United States, it has also been an outlier when it comes to aid policy and did not conform to the euro-centric policies followed by many other DAC donors. As Jerve and Hansen (2008: p.15) have

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<sup>162</sup> In May 13, 2005 Uzbek troops fired on demonstrators in the eastern town of Andijan killing by some accounts dozens, by others hundreds, of civilians. The protest took place to demand the end of a trial of twenty-three local businessmen charged with belonging to an Islamic terrorist group.

<sup>163</sup> US Department of State <http://www.state.gov/r/pa/ei/bgn/2924.htm> (downloaded January 2007).

<sup>164</sup> The objective of the Threshold Program is to assist a country in becoming compact eligible by supporting targeted policy and institutional reforms.

<sup>165</sup> Specifically, the US Secretary of State did not certify Uzbekistan as required by Section 568 of the Foreign Assistance Act (USAID 2005).

noted 'Reading the literature relevant to Japanese aid practice, one gets the feeling that the mainstream concepts of ownership and partnership do not completely capture the understandings with which the Japanese aid authorities view these subjects'. This is not to say that national ownership in its mainstream understanding is rejected; rather Japanese aid focuses on supporting the self-help efforts of developing countries, an approach that stems from its own experience in reconstructing the nation following the Second World War (*ibid*). Like USA, Japan's aid has been overtly political in nature. Until 2003, the core objectives of Japanese aid were to 'contribute to the peace and development of the international community and thereby help to ensure Japan's own security and prosperity' (Riddell 2007: p.59).

As early as 1992, Japan was laying the groundwork for taking a leading role in Central Asia. Politically hamstrung in terms of providing assistance to the Russian Federation due to territorial disputes,<sup>166</sup> the Japanese response was partly due to Western demands to share the burden of supporting the newly established countries that formed following the collapse of the Soviet Union. Even at this stage Japan recognised the importance of the region as a source of instability and a threat to Japan's oil shipments from its major source of oil in the Gulf (Brull 1992). Moreover, Tokyo was behind two other initiatives that were to help shape development assistance in the region. First, it overcame French and United States opposition to put the five newly established Central Asian states on the OECD DAC list of developing countries, an important step as it would then allow any assistance to be officially defined as ODA. Second, it led the drive to admit the five Central Asian states to the ADB even though they were already members of the EBRD and there was no precedent for belonging to more than one regional development bank (*ibid*).

#### **4.4.3 The European Union – a different approach?**

The EU was an important donor over 1990-2005 supplying approximately 10 per cent of total ODA over this period. Moreover, EU donor countries have supplied approximately 14 per cent of total ODA making the combined total of 23 per cent, an important ODA bloc for the region. The EU is a strong proponent of the aid effectiveness agenda aiming to implement the Paris Declaration and improve the quality of its own aid programmes. Moreover, it plays a leadership role in encouraging the EU Member States to put the Paris Declaration into practice and improve their aid effectiveness (OECD DAC 2007: p.53). But even before 2005 and the enthusiasm with which the donor community embraced the Paris and related agendas, the EC was pushing for reforms in line with them. The 1998 DAC Peer Review noted that for the

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<sup>166</sup> Specifically a dispute between Japan and Russia over sovereignty over the southernmost Kuril Islands currently under Russian administration but claimed by Japan.

Commission a key objective of donor co-ordination was to reduce the administrative burden on beneficiary countries. Another was to ensure complementarity of the co-operation activities of the Union and its Member States within the framework of a single strategy developed by the beneficiary country itself. The review also notes that the Commission asked for continued and increased efforts to gradually involve the governments in major co-ordination activities, especially at sectoral level, by establishing better links with the governments' own donor consultation mechanisms (OECD DAC 1998: p.42).

As with the USA and Japan, the EU had commercial interests in Central Asia that were largely related to energy. Specifically, EU members were interested in the supply of gas and the opportunity to diversify supply away from reliance on Russia. In addition to the energy issue, the EU's proximity to the region meant that it had some different concerns to other donor partners. For example, the potential spill-over effects of epidemics such as HIV/AIDS and drug-resistant tuberculosis presented long-term threats (International Crisis Group 2006: p.5). At the same time 90 per cent of the EU's consumption of heroin originated in Afghanistan, and Central Asia was a major transit route in its journey to Europe (*ibid* p.9).

TACIS was the main channel through which assistance was provided by the EU to the LIPCCs.<sup>167</sup> Established in 1991 and based on the EU's experience with its assistance programme to Central and Eastern Europe, TACIS was intended to promote the transition to a market economy and to reinforce democracy and the rule of law in the partner states. Originally the programme focussed on five areas identified as priority for the region by the EU<sup>168</sup> but these began to reflect specific country priorities following the negotiation of Partnership and Cooperation Agreements (PCAs) in relevant countries. Introduced in 1995, PCAs helped the EU formalise the bilateral relations between the EU and individual partner countries through legal frameworks negotiated with partner countries and based on the respect of democratic principles and human rights. Each PCA is a ten-year bilateral treaty signed and ratified by the EU and the individual state, setting out the political, economic and trade relationship between the EU and the partner country. Nonetheless, the EU's own evaluation of TACIS<sup>169</sup> found that there was 'a need to tailor assistance programmes better to country needs (through greater differentiation between country programmes)' implying limited national ownership. In addition, it found that the focus on technical assistance (with only limited investment) limited its ability to support poverty reduction.

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<sup>167</sup> The TACIS programme ended in 2007.

<sup>168</sup> Training, energy (including nuclear safety), transport, support for industrialised and commercial enterprises, and food production and distribution.

<sup>169</sup> Lessons from Past Experience with TACIS

[http://ec.europa.eu/external\\_relations/consultations/cswp\\_tacis.htm#II.%20Lessons%20from%20past%20experience%20with%20Tacis](http://ec.europa.eu/external_relations/consultations/cswp_tacis.htm#II.%20Lessons%20from%20past%20experience%20with%20Tacis) (downloaded February 2007).

The EU's development engagement went beyond TACIS to include other appropriate programmes as well as regional interventions. Examples of the latter include major infrastructure planning efforts such as the *Transport Corridor Europe-Caucasus-Asia* project which envisaged the construction of a vast east-west corridor linking the EU to the three South Caucasus and five Central Asian states. The EU also had humanitarian aid programmes through the European Commission Humanitarian Office (ECHO) and the Food Security Programme which provided budget support to participating governments. Although efforts were made to facilitate coordination between these different elements, the EU evaluation of TACIS noted that despite these efforts 'EC aid to the region remains fragmented which reduces impact and visibility'.

The EU's relationship with the Western LIPCCs changed when, at a stroke, the 2004 enlargement brought these countries much closer to the EU border. The European Neighbourhood Policy (ENP), developed in the same year, aimed to avoid new dividing lines between the enlarged EU and its neighbours to the east and on the southern and eastern shores of the Mediterranean, reflecting the fact that relations with its neighbours had become one of the EU's main external priorities.<sup>170</sup> These new (and not so new) neighbours, were invited to participate 'on the basis of a mutual commitment to common values, to move beyond existing cooperation to deeper economic and political, cultural and security cooperation - strengthening stability, security and well-being for all concerned' and included Armenia, Azerbaijan, Georgia and Moldova.<sup>171</sup> The new partnership clearly set out the values that it expected participants to share as well as the possible extent and scope of the partnership:

The EU offers our neighbours a privileged relationship, building upon a mutual commitment to common values (democracy and human rights, rule of law, good governance, market economy principles and sustainable development). The ENP goes beyond existing relationships to offer a deeper political relationship and economic integration. The level of ambition of the relationship will depend on the extent to which these values are effectively shared.<sup>172</sup>

The EU and each ENP partner reached agreement on reform objectives across a wide range of fields within certain common areas (from cooperation on political and security issues, to economic and trade matters, common environmental concerns, integration of transport and energy networks, scientific and cultural cooperation). The EU provided financial and technical assistance to support the implementation of these objectives, in support of partners' own efforts.

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<sup>170</sup> The idea of 'Building Security in our Neighbourhood' was a key theme of the EU's 2003 European Security Strategy 'A Secure Europe in a Better World' (European Union 2003).

<sup>171</sup> Other participants include Algeria, Belarus, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, Syria, Tunisia and the Ukraine.

<sup>172</sup> [http://ec.europa.eu/world/enp/policy\\_en.htm](http://ec.europa.eu/world/enp/policy_en.htm) (downloaded 26 July 2006).

With respect to the aid relationship, joint ownership was seen as a strength of the ENP process. The operational tool of the policy – the ENP Action Plan – was fully negotiated, tailor-made for each country and mutually agreed at political level. They were based on the country's needs and capacities, as well as their and the EU's interests. They jointly defined an agenda of political and economic reforms by means of short and medium-term (3-5 years) priorities. It was not an imposition by either side, but an agreed agenda for common work. Nonetheless, there were clear incentives on offer in return for progress on relevant reforms, including greater integration into European programmes and networks, increased assistance and enhanced market access. All four LIPCC ENP partners have started implementation of their plans..

#### **4.4.4 Multilateral Development Banks and the PRSP**

As noted there were three major MDBs operating in the LIPCCs, the World Bank and unusually two regional MDBs, the ADB and EBRD. Given that the EBRD is a minor actor when it comes to ODA (its loans are at commercial rates and therefore do not qualify) this section will look at ADB and the World Bank only. These two organisations accounted for approximately five per cent (ADB) and 16 per cent (World Bank) of ODA over the period 1990-2005. IDA was the largest or second largest donor in all but one LIPCC (Uzbekistan). The World Bank was both at the forefront of the good aid relationship (through the CDF as noted in Chapter 2) while at the same time bearing the brunt of extensive criticism in relation to the use of conditionality. The PRSP was an important example of the principle of universality that the World Bank used towards recipient countries, not just in terms of the aid relationship but beyond it as well. The fact that all IDA borrowers had to prepare a PRSP is an example of this principle in action.<sup>173</sup>

While all the countries being examined had to engage with the PRSP initiative, the degree to which they did, and the extent to which they embraced the other elements of the planning framework, has varied considerably. Unlike many other developing countries embarking on the same process, the LIPCCs have not had a comprehensive post-colonial planning framework with which the new poverty reduction strategy framework would compete. All of the countries abandoned the centralised planning system of the Soviet Union and, until the PRSP, did not replace it with a system more appropriate to a market economy. The annual budget remained the centre of the planning process, as it existed, with a number of other tools being introduced sporadically and often as the result of pressure from donors. Public investment programmes were established throughout the region and later medium-term expenditure frameworks were promoted although few were fully developed or completely integrated into the budget process. Some sectoral and thematic programmes were established with donor support. It is in this environment that the countries started the PRSP process.

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<sup>173</sup> There are exceptions including China and India.

Tajikistan, which presented its PRSP to the World Bank and IMF Boards in October 2000, was the first country in the former Soviet Union, and indeed amongst the first countries outside Africa, to develop and submit a PRSP. Armenia, Azerbaijan, Georgia and the Kyrgyz Republic soon followed and by the end of 2003 all five countries had formulated full PRSP documents. By the mid-2000s, some of the aforementioned Central Asian and Caucasus countries were preparing second-generation PRSPs. Tajikistan, for instance, prepared a second-generation PRSP in 2006. Table 4.10 below looks at the region's participation in the initiative. The Kyrgyz Republic also enthusiastically embraced the CDF concept and became a pilot country in 1999. The CDF formed the longer term framework within which the medium-term PRSP sits.

Table 4.10: Status of PRSP Process in the LIPCCs (October 31 2006)

Country	I-PRSP	PRSP	Progress Report 1	Progress Report 2
Armenia	22 May 01	30 Nov 03	12 May 05	3 Aug 06
Azerbaijan	5 June 01	27 May 03	10 Sep 04	25 Aug 05
Georgia	11 Jan 01	6 Nov 03	13 Jun 05	21 Sep 06
Kyrgyz	4 Dec 01	27 Feb 03	29 Jun 04	4 May 06
Moldova	19 Dec 00	11 Nov 04	8 May 06	-
Mongolia	27 Sep 01	9 Sep 03	26 Sep 05	-
Tajikistan	31 Oct 00	5 Dec 02	29 Jun 04	11 Nov 05
Uzbekistan	24 May 05	-	-	-

Source: World Bank (<http://siteresources.worldbank.org/INTPRS1/Resources/boardlist.pdf>)

Uzbekistan has had shorter engagement with the PRSP process. Previously a borrower of non-concessional World Bank loans, Uzbekistan only became eligible for concessional IDA lending in 2001 and only from 2004 did it have access to IDA credits only. Uzbekistan has not had an IMF financing program since the mid-1990s. It presented its Interim PRSP (I-PRSP) to the World Bank and IMF Boards in mid-2005 and the full Uzbekistan PRSP, the Welfare Improvement Strategy Paper (WISP), was due to be completed in 2006 but only finalised in 2007.

The technocratic manner in which the World Bank attempted to engage with its partner countries was not without its problems. Within the LIPCCs the most glaring example was that of Moldova which was designated a middle-income country when it joined the World Bank and IMF in 1992. As such it was not eligible for concessional financing from IDA and consequently borrowed at market rates from the Bank's non-concessional window, the International Bank for Reconstruction and Development.<sup>174</sup> It later became clear that this was a mistake, a fact implicitly conceded by the World Bank and rectified only in 1999. In an analysis of the implications of assigning Moldova middle-income status, Weeks (2007) notes that the

<sup>174</sup> Such is the power of the Bank's designation that it also meant non-concessional terms from other donors and IFIs.

development and welfare costs of the mistake were extremely high. He goes on to note the cruel irony that ‘had Moldova been designated a low-income country in the early 1990s, it would have been by the mid-2000s a middle-income country instead of remaining the poorest country in Europe’.

#### **4.5 HAS THE *GOOD AID RELATIONSHIP* BEEN ESTABLISHED IN THE REGION?**

This section specifically addresses the first research question: has the good aid relationship been established in the LIPCCs? As noted in chapter 2, the good aid relationship is based on increased national ownership of the development process. With the good aid relationship it was suggested that certain areas are more important than others. In identifying the extent of the good aid relationship in the LIPCCs greater emphasis will be given to these dimensions summarised in Box 4.1 below.

##### Box 4.1: Summary of the *Good Aid Relationship*

**Who is the owner?** Strong government ownership (with the participation of national civil society) especially in terms of control with some increases in donor ownership in areas such as risk and accountability.

**What is owned?** All elements of the relationship apart from costs where the largest share will be borne by the donors. Mostly commitment and control by the recipient.

**When it is owned?** At all stages of the engagement but the emphasis is on identification and design (alignment) plus implementation (harmonisation).

Answering the above three questions is not easy. For the first, in a context of a wide variety of donors it is difficult to generalise about an aid relationship at the country-level. As seen in the previous section there is a wide variety of partnerships that exist in the region, some of which may not be conducive to the establishment of good aid relationship. Moreover, the nature of these partnerships may also change over time, for example from a change in government. At the same time while it is possible to measure ownership for a narrow range of interventions or over a narrow stage of the programme cycle, it is far more difficult to gauge the level of ownership for aid as a whole at the country level, let alone a region. What is clear is that developing a thorough understanding of the aid relationship through appropriate indicators is extremely hard on a number of levels. First, it is necessary to clarify and agree the definition of the different elements of the relationship as was attempted in Chapter 2. What this showed is that there are a number of variations for each element, at least in the way the concepts are used by the

international donor community. Second, the development of indicators that are appropriate and also easily measurable is a problem that would have to be overcome.

This section will identify some of the problems in the context of the region for each of the main elements. First, it examines the efforts to put the policies, practises and tools in place that support the approach towards a good aid relationship. Second, it draws on World Bank work in this area largely in the frame of the CDF. The World Bank's recent CDF Progress Reports 'Getting Serious About Meeting the Millennium Development Goals' (World Bank 2003b) and 'Enabling Country Capacity to Achieve Results' (World Bank 2005a) included measurement of the CDF principles across a range of countries implementing the CDF or something similar. The 'CDF Implementation and Tracking and Assessment Methodology' has been developed to track and assess countries' progress in implementing CDF principles and can be useful in providing an overview of some elements of the donor-recipient relationship. It divides the five CDF principles into between three and six dimensions and allocates a score of between 1 and 5 for each country for each dimension of each principle.

#### **4.5.1 Have the complementary tools been put in place?**

All LIPCCs (or more accurately the donors working in them) embraced a greater focus on poverty through the PRSP process (sometimes unwillingly) but by the end of 2005 it was still too early in many cases to ascertain the extent of national commitment to their implementation. The important role of the PRSP process can be illustrated by the example of Azerbaijan where through the PRSP, for the first time, the existence of poverty was mentioned or officially acknowledged (UNDP 2003c: p.16). It also opened the way in parts of the region to greater consultation with civil society. In addition to the PRSPs, a number of countries were considering longer-term frameworks along the lines of a CDF (for example, in the Kyrgyz Republic). Medium-term expenditure frameworks were also the norm in the region. Tajikistan had started along the path of developing an MDG-based National Development Strategies as envisaged by the UN, specifically its Millennium Project.

Efforts to introduce new donor modalities designed to support the development of a better aid relationship were less successful. There were few SWAs in the region and other new initiatives such as technical assistance pooling or use of GBS have not been widely used (at half the rate of Sub-Saharan Africa - Table 4.11 below).<sup>175</sup>

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<sup>175</sup> An ADB staff member who had previously worked for the African Development Bank noted that this situation may be due to the dominance of the ADB in the region with its lack of experience with the instruments commonly used in Africa.

Table 4.11: GBS Provided by DAC Donors (as a Percentage of Total Net ODA)

	1990-05	2000-05
Armenia	10%	10%
Azerbaijan	7%	6%
Georgia	9%	4%
Kyrgyz Republic	4%	6%
Moldova	12%	6%
Mongolia	5%	3%
Tajikistan	6%	8%
Uzbekistan	1%	1%
Ave LIPCCs	7%	5%
SSA	12%	10%
Asia	6%	5%

Source: Author's calculations from OECD/DAC Creditor Reporting System

The harmonization agenda was also implemented in a piecemeal fashion. According to the World Bank Country Implementation Tracking Tool (CITT),<sup>176</sup> by early 2004 specific efforts were only made within three countries of the region. Table 4.12 below reveals that it was a largely IFI-driven process in the region with only one bilateral partner, the UK, in the overall harmonization programme in Tajikistan.

Table 4.12: State of Harmonization in Selected LIPCCs

Country	Area of Harmonization	Donors
Kyrgyz Republic	Procurement	World Bank/ADB
	Financial Management and Accountability	World Bank /ADB
	Environmental and Social Impact Assessments	World Bank /ADB
	Non-financial Reporting and Monitoring	World Bank /ADB
Mongolia	Harmonization Programme	ADB/IMF/ World Bank
	Analytical and Sector Work	ADB/Gov./IMF/ World Bank
	Financial Management and Accountability	ADB/Gov./IMF/ World Bank
	Procurement	ADB/Gov./IMF/ World Bank
Tajikistan	Harmonization Programme	ADB/EU/UK/ World Bank
	Assistance Strategies and Portfolio Performance Reviews	EU/ World Bank
	Environmental and Social Impact Assessments	ADB/ World Bank

Source: <http://www.aidharmonization.org/ah-cla/secondary-pages/cla-donors> (downloaded January 6, 2004)

#### 4.5.2 The Good Aid Relationship in the LIPCCs using other surveys and case studies

An early review of the CDF approach by the World Bank (World Bank 2005a) categorized the Kyrgyz Republic as one of the countries where good progress was being made. This is not surprising given that the Kyrgyz Republic was one of the seven original pilot countries for the CDF exercise. At the same time, the other LIPCCs were placed in the bottom category,

<sup>176</sup> The [www.aidharmonization.org](http://www.aidharmonization.org) website states: 'The CITT is an up-dated catalog of detailed information on country-level harmonization initiatives and activities. For each country a brief overview of donor coordination and harmonization activities is followed by details on government-donor activities around agreed focus areas/components of the country harmonization program. The CITT also integrates action plan data including, progress monitoring indicators, timeframes, and list of partners involved.' (downloaded February 2004).

indicating little or no progress was being made. While the CDF principles do not correspond directly with the concept of the aid relationship used in this thesis<sup>177</sup>, assessment of the implementation of elements of the CDF approach can be used in assessing the existence or not of the good aid relationship in the LIPCCs. Specifically, it can be used to examine “country-led partnership” and “country ownership”, using data collected between September 2004 and March 2005. The key results for seven of the eight LIPCCs (Uzbekistan did not participate) are provided in Table 4.13.

Table 4.13: Implementation of Key CDF principles (2005)

(a) “Country-Led Partnership” Principle

	Arm.	Aze.	Geo.	Kyr.	Mol.	Mon.	Taj.
1. Government leadership and coordination	■ ■	■ ■	■ ■	■ ■ ■ ■	■ ■	■ ■ ■ ■	■ ■ ■ ■
2. Partners assistance strategy alignment	■ ■ ■ ■	■ ■	■ ■	■ ■ ■ ■ ■	■ ■ ■ ■	■ ■ ■ ■	■ ■ ■ ■
3. Financial and non-financial support alignment	■ ■ ■ ■	■ ■	■ ■	■ ■	■ ■	■ ■	■ ■
4. Coherent capacity support	■ ■	■ ■	■ ■	■ ■	■ ■	■ ■ ■ ■	■ ■
5. Harmonisation of policies and procedures	■ ■	■ ■	■ ■	■ ■ ■ ■	■ ■	■ ■	■
6 Appropriate partnership behaviours	■ ■	■ ■	■ ■	■ ■ ■ ■	■ ■	■ ■ ■ ■	■ ■ ■ ■

(b) “Country Ownership” Principle

	Arm.	Aze.	Geo.	Kyr.	Mol.	Mon.	Taj.
1. Government initiative	■ ■ ■ ■	■ ■	■ ■ ■ ■	■ ■ ■ ■	■ ■ ■ ■	■ ■	■ ■
2. Institutional mechanism for stakeholder involvement	■ ■ ■ ■	■ ■	■ ■ ■ ■	■ ■ ■ ■	■ ■ ■ ■	■ ■ ■ ■	■ ■
3. Civil Society involvement	■ ■ ■ ■	■ ■ ■ ■	■ ■ ■ ■	■ ■ ■ ■	■ ■ ■ ■	■ ■ ■ ■	■ ■
4. Private Sector involvement	■ ■ ■ ■	■ ■ ■ ■	■ ■	■ ■ ■ ■	■ ■	■ ■	■ ■
5. Parliamentary involvement	■ ■ ■ ■	■ ■ ■ ■	■ ■	■ ■ ■ ■	■ ■ ■ ■ ■	■ ■ ■ ■	■ ■ ■ ■ ■
6. Capacity to formulate strategy	■ ■ ■ ■	■ ■	■ ■	■ ■ ■ ■	■ ■	■ ■	■ ■

Source: World Bank (2005a) Key:

- Little or no Action
- ■ Elements exist or are being considered
- ■ ■ ■ Action had been or being undertaken
- ■ ■ ■ ■ Largely developed
- ■ ■ ■ ■ ■ Substantially in place

Table 4.13 illustrates the limited implementation of the country led-partnership principle across the region towards the end of the period being examined in this thesis, with ‘elements exist or are being considered’ the most common rating. The assessment of ownership was slightly stronger with the rating ‘action had been or being undertaken’ far more common across all countries in the region. The ownership ratings are useful in that they answer the question of who is the owner, disaggregating the results by different elements of society and the state. But it uses the criteria of involvement (even weaker than participation) as a proxy for ownership. Pretending that participation is the same as ownership has been considered an example of sloth; one of the seven deadly sins of aid (Birdsall 2004).

<sup>177</sup> In addition to covering the issues of partnership and ownership, the other two CDF principles are long-term holistic vision and results focus.

Table 4.14: Implementing the Paris Declaration: Challenges and Priority Actions (2006)

## (a) Kyrgyz Republic

Dimensions	Baseline	Challenges	Priority Actions
Ownership	Moderate	Budget execution is insufficiently focused on priority areas.	Revise the Medium Term Budget Framework as part of the National Public Finance Management Action Plan.
Alignment	Low	Capacity constraints hinder implementation of plans to strengthen country systems.	Donors should provide technical assistance in a manner that strengthens capacity.
Harmonisation	Moderate	Use of programme-based approaches limited.	Increase coordination of donor missions.
Managing for results	Moderate	There is no transparent and monitorable performance assessment framework.	Implement the Statistical Master Plan.
Mutual accountability	Low	There is need for mutual assessments of progress in implementing agreed aid effectiveness commitments.	Ensure that the Harmonization Action Plan delivers on mutual accountability and assessment.

## (b) Moldova

Dimensions	Baseline	Challenges	Priority Actions
Ownership	Low	Fragmentation across ministries.	Revise and consolidate European Union-Moldova Action Plan and Economic Growth and Poverty Reduction Strategy Paper.
Alignment	Low	Weak country systems.	Increase technical assistance, maintain support to capacity building and gradually begin using country systems.
Harmonisation	Moderate	Limited use made of common procedures.	Implement an closely monitor the actions proposed in the Development Partnership Framework.
Managing for results	Low	Poor quality of somewhat limited availability of poverty-related information.	Make extensive use of the existing Millennium Development Goals and Economic Growth and Poverty Reduction Strategy Paper monitoring system, and draw on the data and indicators in policy making.
Mutual accountability	Moderate	Partial mutual assessments of progress in implementing agreed commitments on aid effectiveness.	Ensure that the Harmonisation Group and Development Partnership Framework work together to deliver mutual assessments.

Source: OECD DAC (2006d)

Initial DAC efforts to monitor the Paris Declaration have already been described as weak, largely due to the selection of inappropriate indicators.<sup>178</sup> The 2006 survey OECD DAC (2006d) was the baseline for DAC monitoring of the implementation of the Paris Declaration in the future, but for this thesis it provided an important snapshot of the situation at the end of the period being examined. It is therefore worth having an overview of how the survey presents the

<sup>178</sup> For example, the main indicator for ownership is simply “Partners have operational development strategies”.

implementation of the Paris Declaration in selected LIPCCs (the Kyrgyz Republic, Moldova and Mongolia were covered).<sup>179</sup>

Table 4.14 summarizes the findings of the survey and the case studies for Kyrgyz Republic and Moldova. Mongolia is examined in the next chapter (Table 5.4) Ownership in the Kyrgyz Republic is ‘moderate’ and in Moldova and Mongolia it is ‘low’. Alignment, an important part of the ownership concept used in this thesis<sup>180</sup>, is ‘low’ in the Kyrgyz Republic and Moldova but ‘moderate’ in Mongolia.<sup>181</sup> In both countries, the priority actions proposed to strengthen the implementation of the Paris Declaration often involved implementation of donor driven tools and strategies (medium-term expenditure frameworks, PRSPs, etc.).

In 2006 the World Bank undertook an Aid Effectiveness Review based on the CDF analysis and DAC 2006 Survey discussed in this section.<sup>182</sup> The case studies reports are more descriptive (for example, describing reforms underway) than analytical. They also address national ownership in a narrower way than used in this thesis (for example, focusing on alignment to national plans and less on ownership of the design of the intervention). Evidence from these studies is nonetheless used in the next section.

#### **4.6 STRUCTURAL CONDITIONS AFFECTING THE AID RELATIONSHIP IN THE LIPCCS**

In Chapter 2 the issue of shared values was discussed in terms of establishing a partnership. This section examines some of the contextual factors that can determine the nature of that relationship. From the donor side it looks at political, policy and institutional factors and from the recipient side it looks at the core issue of dependency.

Stefes and Wooden (2009: p.249) note that the disintegration of the Soviet Union certainly was a critical juncture – a dramatic event that made following existing paths difficult or impossible – but not a historical rupture; ‘in, other words, post-Soviet societies did not start from scratch. Instead their transitions from Communism were embedded in numerous social, economic, and political legacies. These legacies of the Soviet and pre-Soviet past have continued to shape developments of the post-Soviet present.’ The importance of the Soviet legacy on the aid

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<sup>179</sup> Other DAC surveys on the Paris Declaration were conducted in 2008 and 2011 and an evaluation of the Paris Declaration was undertaken in 2011. Case studies from these cover too many years after the end of the period being examined in this thesis and are therefore not included in the analysis here. The evaluation is nonetheless included in some of the analysis on methodological issues in Chapter 7.

<sup>180</sup> Interpreted in the Paris Declaration as: ‘donors base their overall support on partner countries’ national development strategies, institutions and procedures’.

<sup>181</sup> The equivalent table for Mongolia is found in Section 5.3 of the next chapter)

<sup>182</sup> Available at <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:22284087~pagePK:41367~piPK:51533~theSitePK:40941,00.html> (last downloaded December 2012)

relationship will also be examined in the next chapter in the context of Mongolia but in some cases it is difficult to distinguish the legacy from the factors that would affect any newly independent country trying to find its place on the global stage.

The traditional reasons why donor countries provided aid, directly or indirectly through multilateral agencies, apply to the post-communist countries. First, it was clear in the early post-Soviet years that the transition process would inevitably result in high social costs that could be alleviated through external assistance. As noted in Chapter 1 the initial impact of the post-communist transformation was severe in all eight LIPCCs. Related to this moral problem, it was feared that the negative social impact would result in lack of public support for the reform process and/or lack of political will to undertake it in an effective manner (Nelson *et al.* 1997). Second, commercial reasons; a rapid transition would have positive impacts on the global economy, especially in terms of demand for the goods produced by donor countries by a region of over 400 million people.<sup>183</sup> In addition, the region has an abundant supply of natural resources, especially oil and gas. Many of the aid initiatives from bilateral donor agencies explicitly developed commercial contacts and opportunities for trade (Burnell 1997). Table 4.10 below indicates the size of the production and proven reserves of oil and natural gas for the major producers in the Central Asia Caucasus region (named here the CIS4) as at end-2005. Clearly with four per cent and five per cent of global proven reserves in oil and natural gas respectively the region was, and continues to be, important in the context of increasing demand for energy and concern about future energy security. Moreover, estimates from the United States government's Energy Information Agency<sup>184</sup> indicated possible reserves nearly four times as large as proven reserves.

Table 4.15: Oil and Gas Production and Reserves of the Main CIS Producers (end-2005)

	Oil		Natural Gas	
	Proven Reserves Thousand million barrels	Production Thousand Barrels Daily	Proven Reserves Trillion cubic metres	Production Million tonnes oil equivalent
Azerbaijan	7.0	452	1.35	4.8
Kazakhstan	39.8	1356	3.00	21.0
Turkmenistan	0.5	192	2.86	52.9
Uzbekistan	0.6	126	1.85	49.5
Total CIS4	47.9	2126.0	9.1	128.2
Global	1209.0	81250	180.20	2510.0
CIS4 as % global	4.0%	2.6%	5.0%	5.1%

Source: BP Statistical Review of World Energy 2007

Third, following decades of tensions, the need to increase the security of the region was

<sup>183</sup> 1990 data from the World Bank's World Development Indicators. This includes all 15 former-soviet republics plus the countries of central, eastern and south-east Europe.

<sup>184</sup> <http://www.eia.doe.gov/emeu/cabs/Caspian/Oil.html>. Downloaded September 2007.

extremely important. At the time of its break-up it is estimated that the Soviet Union had amassed 45,000 nuclear warheads and aid could be exchanged for some of this stockpile. Furthermore, post-communist countries with strong economies integrated into the West would be more stable and possibly deliver a *peace dividend* following the abandonment of superpower rivalry (Burnell 1997: p.214).

Fourth, while the region's importance in terms of energy security had been recognised for some time, its strategic relevance reached new levels of importance in the wake of the 11 September 2001 terrorist attack in the USA (Giragosian 2006). Historically in Russia's zone of influence but also geographically proximate to China in the East (the Kyrgyz Republic and Tajikistan share borders with China), the LIPCCs became increasingly important both in terms of support to military action in Afghanistan and also in terms of the efforts to contain the spread of what was perceived by some to be Islamic fundamentalism. Since the latter issue is as much a concern for the countries themselves as for their neighbours and other interested parties, the leaders of the Central Asian States and Azerbaijan were considered natural allies in the GWOT. Nonetheless, the LIPCCs found themselves in a competitive environment for influence and regional groupings were established to facilitate cooperation of different types.<sup>185</sup> The existence of competing interests in the region led to talk of a *New Great Game*, referencing the nineteenth century rivalry between the British and Tsarist Empires for influence in Central Asia (Kleveman 2004) but now referring to a game between a larger group of players, including the United States, Russia, EU, Japan, China, Iran and India. Examples of how such a situation impacts aid and the aid relationship are examined in Section 4.5.

#### **4.6.1 Political, policy and institutional conditions**

In Chapter 2 it was made clear that the common political values important to bilateral donors concerned, in very broad terms, human rights and the movement towards democracy. The Cingranelli-Richards (CIRI) Human Rights Dataset contains standards-based quantitative information on government respect for thirteen internationally recognized human rights for 195 countries, annually from 1981-2004.<sup>186</sup> The CIRI is not useful for assessing overall human rights conditions in a country but concerns the human rights practices of governments (UNDP 2004). In terms of developing partnerships with governments this is a far more useful measure. Instead of using all thirteen measures of human rights collected by CIRI, two aggregated indexes are used here. First, the Physical Integrity Rights Index (an additive index constructed

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<sup>185</sup> For example the Shanghai Cooperation Organisation established in 2001 by Kazakhstan, China, the Kyrgyz Republic, Russia, Tajikistan and Uzbekistan to promote cooperation in a wide range of political, economic, cultural and security areas or the Economic Cooperation Organisation, an intergovernmental regional organisation established in 1985 for the purpose of promoting economic, technical and cultural cooperation among the Member States (the five Central Asian states, Afghanistan, Azerbaijan, Turkey, Iran and Pakistan).

<sup>186</sup> <http://ciri.binghamton.edu/index.asp>. (downloaded May 2007).

from the Torture, Extrajudicial Killing, Political Imprisonment, and Disappearance indicators) which ranges from 0 (no government respect for these four rights) to 8 (full government respect for these four rights).<sup>187</sup> Second, the Empowerment Rights Index (an additive index constructed from the Freedom of Movement, Freedom of Speech, Workers' Rights, Political Participation, and Freedom of Religion indicators) which ranges from 0 (no government respect for these five rights) to 10 (full government respect for these five rights).

Table 4.16: Summary of Human Rights in LIPCCs (1992-2004)

	Physical Integrity Rights Index (1992-2004) Mean	Empowerment Rights Index (1992-2004) Mean
Armenia	5.6	2.8
Azerbaijan	3.8	2.8
Georgia	2.8	6.1
Kyrgyz Republic	6.3	4.5
Moldova	5.7	6.0
Mongolia	6.8	9.0
Tajikistan	1.8	4.0
Uzbekistan	3.2	2.1

Source: Cingranelli-Richards (CIRI) Human Rights Dataset plus author's calculations

Although there have been some high scores (mostly in the early 1990s), of LIPCCs, only Mongolia score very high on average for the period 1992-2004. Moreover, some countries have also showed a serious decline in the values since the start of the transition process in 1992 (Armenia, Kyrgyz Republic, Mongolia and Uzbekistan).

Common values in terms of policies and institutions can be captured by the CPIA described in Chapter 2. Of course this reflects a neo-liberal interpretation of what a "good policy" is (especially in the category B "structural policies") but nonetheless it is a useful guide to the state of the values of a country. It plays an important role in the performance based allocation system of IDA and is also used by some regional development banks as well as bilateral donors. The CPIA rating thereby strongly influences how much support individual developing countries receive.<sup>188</sup>

In 2000, the Bank began disclosing the CPIA ratings in an aggregated format that revealed little about the differences between individual countries, why those differences existed, or how the ratings were calculated. Recognizing that this secrecy would leave the Bank open to criticism, the Bank's board members urged full disclosure of the rating system in 2002. Although it is reported that some directors 'were concerned that disclosure of IDA's ratings could have a negative effect on foreign investment' a 'large number of speakers' argued that disclosure

<sup>188</sup> <http://www.gppi.net/consulting/cpia/> (downloaded June 2008).

should be delayed until the ratings had been improved (Powell 2004). As Powell (2004) notes, ‘this frank admission raises serious questions about the legitimacy of the Bank's past allocation decisions’. Following a review by an external panel in 2006, the CPIA ratings and methodology were reformed and full disclosure of the ratings started in 2006. The table below illustrates the basic rating by LIPCC for the year 2003.

Table 4.17: 2003 IDA Performance Country Rating

	Overall rating	Cluster A: Economic Management	Cluster B: Structural Policies	Cluster C: Policies for Social inclusion/ Equity	Cluster D: Public Sector Management and Institutions	Governance Rating
First Quintile	Armenia	Armenia, Azerbaijan	Armenia			
Second Quintile	Azerbaijan			Armenia, Georgia, Kyrgyz Republic	Armenia	Armenia, Azerbaijan
Third Quintile	Kyrgyz Republic, Georgia, Moldova, Mongolia	Kyrgyz Republic, Mongolia	Azerbaijan, Moldova, Mongolia	Moldova, Mongolia, Uzbekistan	Azerbaijan, Mongolia	Kyrgyz Republic, Moldova, Mongolia
Fourth Quintile	Tajikistan	Georgia, Moldova, Tajikistan	Georgia, Kyrgyz Republic	Azerbaijan, Tajikistan	Kyrgyz Republic, Moldova	Georgia, Tajikistan
Fifth Quintile	Uzbekistan	Uzbekistan	Tajikistan, Uzbekistan		Georgia, Tajikistan, Uzbekistan	Uzbekistan

Source: [www.worldbank.org/ida](http://www.worldbank.org/ida)

Most of the LIPCCs have national developments strategies in place and this can be considered a key factor is supporting national ownership at a macro level. The case studies from the 2006 World Bank review of aid effectiveness<sup>189</sup> can add some more insights into other factors that affect the relationship. First, while the national development strategies may exist, many were not aligned to the national budgeting and planning systems, for example a medium-term expenditure framework or public investment programme (Azerbaijan, the Kyrgyz Republic, Moldova, Mongolia, Tajikistan). Second, in some countries the donors have aligned their programmes with the national development strategy (Armenia, Azerbaijan, Georgia, the Kyrgyz Republic and Tajikistan) while in others they have not or were only in the process of doing so at the end of the period being examined by this thesis (Moldova and Mongolia). In some LIPCCs, the government was not taking full responsibility for aid coordination (Armenia and Azerbaijan) or had fragmented systems in place to do so (Moldova)

<sup>189</sup> The review was introduced in Section 4.5.2 where it was noted that Uzbekistan is not covered by this analysis.

In terms of capacity, the World Bank review also noted that in some LIPCCs, donors still largely provided support through PIUs (Armenia, Azerbaijan, the Kyrgyz Republic and Tajikistan). The World Bank CDF review (World Bank 2005a) described in the previous section (Table 4.14) indicates the generally below-average score for ‘capacity to formulate strategy’ combined with very weak scores for ‘coherent capacity support’. This is an example of the capacity trap that countries find themselves in; limited capacity (as perceived by donors) to take on full ownership combined with limited success of donor capacity development efforts, often as a result of weak national ownership.

#### 4.6.2 Dependency

On the recipient side the key factor affecting the aid relationship is dependency. Chapter 3 suggested that dependency was as much a psychological issue as one explained by more tangible factors (for example, the amount of aid per capita). The existence of different definitions of dependency – *limited* (will do less well without aid) and *fundamental* (will be in serious trouble without aid) – also makes measurement more challenging. Furthermore, Chapter 2 suggested that dependency should go beyond the national level to recognise that other organisations and individuals can also be aid dependent. This fact was especially important when looking at why certain policy changes are not made and, when others are made, why they are not implemented. Measuring the degree of organisational or individual dependency provides further problems. It is possible, however, to measure some of the factors that make the environment more or less likely for dependency to occur, for example the complements and near-substitutes for aid such as private resource flows. Issues such as the type of aid which could have a major impact on the degree of dependency are also included.

Table 4.18: Key Indicators of Dependency (percentage of GDP, average annual indicator 1995-2005)

	Net ODA	Net Other Official Finance	Net Private Flows	Foreign Direct Investment (Net inflows)	Workers' remittances + compensation of employees, received
Armenia	10.7	0.3	0.2	4.9	9.9
Azerbaijan	3.5	3.0	6.2	20.1	1.6
Georgia	7.3	0.6	2.4	5.2	6.4
Kyrgyz Republic	13.9	0.5	0.4	3.3	3.0
Moldova	5.3	0.7	1.3	4.3	14.7
Mongolia	19.3	-0.1	3.7	4.8	4.0
Tajikistan	11.0	0.3	-0.2	2.8	4.4
Uzbekistan	1.3	0.8	0.2	0.6	0.0

Source: Author's calculations from DAC2a (ODA, OOF and Private flows) plus World Bank World Development Indicators (Foreign Direct Investment and Remittances)

Table 4.13 illustrates the level of various resource flows as a percentage of GDP. Clearly countries relying on ODA equivalent to more than 10 per cent of their GDP will do less well if the aid is stopped. Such a shock would be substantial but equally dramatic shocks could occur from changes in other flows, for example a reduction in worker remittances in the case of Moldova or Armenia or a decline in foreign direct investment in the case of Azerbaijan. Even for countries with lower resource intensity a sudden collapse of aid would mean they do less well. But if dependency is psychological, as already suggested, then identifying the degree of dependency of a country would be extremely difficult. Not only would it require an alternative approach using methods such as surveys or interviews but it would need to identify the individuals or groups of individuals who make decisions. More likely, the degree of dependency can be estimated using the willingness of governments to comply with conditions they do not favour. This is equally difficult to measure as it is impossible to say for each decision if they favour it or not. What we are left with at this multi-country level of analysis is a broad approximation of the degree of dependency a country faces and the possibility of ranking or classifying the countries according to their dependency. At the same time it is very difficult to capture the other dimensions of organisational and individual dependency at this level. In addition, both of these dimensions of dependency could relate as much to donor organisations as to recipients.

## ***CONCLUSIONS***

The desire of the national authorities in the LIPCCs to take control over their development is partly determined by the recent history and the relationship with the Soviet Union and especially Russia. As Allworth (1994: p.603) notes, 'Central Asians could feel some dismay in the circumstance that the end of the Soviet era, like its beginning on November 17, 1917, came about almost entirely without their direct participation'. The region's engagement with the international donor community is relatively recent and that in the first decade both donor and recipient were learning as they went along. But the main conclusion of this chapter is that assessing the extent to which they were in control, in the sense of degree to which the good aid relationship was in place, presents significant problems. Existing measures of partnership and ownership (such as CDF) are inadequate largely because of the narrow conceptual approach that fails to capture all the dimensions of the aid relationship. Even future assessment using the DAC Monitoring of the Paris Declaration may not be so useful. For example, in the first round of monitoring, the main indicator for measuring the level of ownership in a country was simply the existence of a poverty reduction strategy.

It has been argued that partnership is the platform for developing a good aid relationship and that partnership requires common objectives, shared values, a long-term perspective and clarity of the relationship. By examining these we can assess if the context for a good partnership (and therefore a good aid relationship) was in place. It is worth focussing on the four most important donors especially since aid is so concentrated in their hands, namely the multilateral World Bank and ADB and the bilateral donors, Japan and the United States. While the United States appoints the head of the World Bank and is its largest shareholder, it should also be noted that Japan has the same relationship with the ADB. The dominance of these two bilateral donors is therefore a key factor in understanding the aid relationship in the region. What is clear, however, is that the partnership is not consistent across the region, over time or between donors. While it is possible to conclude, for example that the stop-go-stop relationship between the United States (and to some extent the World Bank) and Uzbekistan is an example of a poor partnership, Japan and the ADB have stayed with Uzbekistan when other donors were pulling out. This suggests that there may not be an easy way of summarising the aid relationship for a country.

Although the LIPCCs had similar beginnings they have very different relationships. A number of factors play a role, for example geography: Moldova is close to Europe; Central Asia is close to Afghanistan. Natural resources are clearly another factor that has not been denied by major bilateral donors. Political rivalry and protection/expansion of zones of influence affect relationships with key interested powers (Russia, China and the United States with roles also played by the EU, India, Iran, etc). The idea that partnerships are not always developmental may not be original but the implications for the aid relationship are important and even though this is widely suspected, even proven, the fact does not seem to have been taken into account in the rhetoric of the good aid relationship.

Beyond examination of the existence of partnerships two other methods were used to identify the existence of the good aid relationship. First, the examination of the manifestations of a poor relationship as identified in Chapter 2. High transaction dependency in some countries is indicative of a poor relationship but to be useful, the data would need to be disaggregated to a degree not possible from existing sources. Second, there is limited evidence of a great effort by donors to promote the good aid relationship. The use of GBS is limited compared to SSA but about the same as for Asia. Some countries have made greater efforts to introduce the tools aimed at better relationship but these vary considerably and may not capture the efforts made by donors on a micro-scale. Overall, the challenge of aggregating these relationships makes it extremely difficult to summarise the state and nature of the relationship among a group of countries. The complexity of the situation and the myriad factors that affect the relationship

means that only an approximate assessment can be made of the aid relationship. This is why the research design set out in Chapter 1 recognizes the need to continue the analysis by examining the aid relationship in more detail through a single national case study. The following chapter applies this approach by looking in more detail at the aid relationship in Mongolia.

## **CHAPTER 5: THE AID RELATIONSHIP – FURTHER INSIGHTS FROM MONGOLIA**

Writing about the donor meeting held for Mongolia in Tokyo in 2003, the United States Ambassador to Mongolia, Pamela J Slutz, noted that ‘while Mongolia is one of the best endowed – in terms of foreign assistance on a per capita basis – aid recipients in the world; it is also among the “least efficient” in terms of the return on assistance. It has not yet achieved significant or sustainable development. Today, Mongolia remains among the “poorest” of the developing world’ (Slutz 2005: p.10). Within this context, Chapter 5 builds on the previous chapter and looks at the aid relationship in the context of a single country. In so doing it attempts to deepen the analysis undertaken in Chapter 4. It also recognises that some areas of analysis are not best addressed at the national level and that these will be left for the programme-level analysis in the next chapter.

The National MDG Report for Mongolia prepared by the government with the support of UNDP in 2004 set out similar perceptions to those of Ambassador Slutz, stating that: ‘Mongolia is among the most aid dependent countries in the world. Over the 1990s, ODA averaged around 20 per cent of GDP, or twenty times the average of low-income countries. The fact is that the very high levels of foreign aid have not translated into appreciably higher rates of economic growth or poverty reduction. The situation calls for raising aid effectiveness’ (Government of Mongolia 2004: p.55).<sup>190</sup> Fieldwork in Mongolia in 2000-2004 indicated that this perception of the ineffectiveness of aid in Mongolia is supported by almost all those interviewed and cuts across government, civil society, and the private sector. The general response of interviewees was that aid could have been better. At best, there were some good examples of success. At worst, it had been perceived as a disaster, mainly an exercise in financing the relatively large number of international development specialists passing through the country. Apart from some interviewees from aid organisations and government units responsible for aid coordination, there was general ignorance about where the aid was being spent. Among members of the donor community, the feelings about overall aid performance were mixed but donor representatives often revealed quite negative concerns about the efforts of their sister organisations.

The debate on effectiveness in Mongolia largely reflected the debate at the global level: the meaning of effectiveness remained elusive. The basic concept as generally understood in Mongolia was simple and in line with the statement of Ambassador Slutz, namely that aid was

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<sup>190</sup> According to DAC data the average annual percentage of GDP represented by ODA over the seven year period 1993-1999 was about 22 per cent. In 2000 ODA to Mongolia was 22.4 per cent of GDP (one of a dozen countries with a rate over 20 per cent) but by 2005 the rate had fallen to 11.3 per cent of GNI (one of nearly 40 countries with a rate over 10 per cent) (UNDP 2007: Table 18; UNDP 2002b: Table 16).

not effective because of the existence of two factors: first, the country had received a significant amount of aid (it was a resource intensive aid regime as measured by aid per capita or as a percentage of GDP) and, second, it was still poor. At first glance this is not unlike the definitions of Chapter 2 and is actually just a broader and more aggregated repetition of one of the simplest definitions: effective aid is aid that achieves its objectives. The donor community has reached a consensus on the need to alleviate poverty and, therefore, if Mongolia is still poor, it not effective. Of course this simplistic version did not take into account the fact that a timeframe for the objective of poverty reduction was never established by the donors. The government did establish some poverty reduction objectives in the mid-1990s but these were largely based on limited data and guesswork.<sup>191</sup> It was only in 2004 that the Mongolian government prepared its first report on the MDGs using nationally-adapted goals for 2015 and decided to monitor progress towards achieving them every two years.

This chapter examines the evolution of the Mongolian aid regime from the start of the transition process and goes on to examine Mongolia's aid partners in more detail. Using the analytical framework developed in Chapter 2 it attempts to identify the structural conditions of the aid relationship and specifically the extent to which the good aid relationship was established. It addresses the research question: does the good aid relationship exist or not? In other words, it identifies some of the factors that have determined the development of this relationship.

Evidence on the state of national ownership was gleaned from country programme evaluations (i.e. Section 5.3.2) but beyond this, for example linking ownership or other aspects of the good aid relationship to effectiveness, there was little evidence from which to reach any conclusions at the country level. It is clear from a meta-analysis of the relatively small group of country programme evaluations undertaken in the period being covered that the issue of the aid relationship is not integrated into these evaluations, either in the evaluation questions or in terms of the issues to examine within the exercise. Based on a sample of project evaluations, the same is true. It seems that the theoretical and empirical work summarised in Chapter 3 was not used in a meaningful way by the donors when it came to evaluation. As such, a key lesson is that the project and country-level evaluations, as undertaken in Mongolia, did not contribute in a comprehensive manner to the body of evidence about the aid relationship. Given the emphasis placed by the donor community on the importance of the aid relationship it is important to note the weak attention paid to this issue when it comes to evaluation.

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<sup>191</sup> Poverty reduction objectives in the context of the Mongolian National Poverty Alleviation Programme will be discussed further in the next chapter.

## 5.1 THE EVOLUTION OF THE AID REGIME IN MONGOLIA

To understand the evolution of the aid regime it is important to note the key elements of Mongolia's pre-transition international relations and especially its relations with its powerful neighbours. From Mongolia's *de facto* independence from the Republic of China in 1921, Soviet Russia became not only its chief benefactor but also 'the model of revolution, social transformation and modernisation for Mongolia's revolutionaries' (Atwood 2004: p. 513). The Soviet Union would shape all aspects of Mongolia life right up to its own demise in 1991.

Proclaimed a Republic in 1924 initially it was only recognized by the Soviet Union.<sup>192</sup> It was not until a referendum conducted in 1945 that the Mongolia People's Republic was recognized by the Republic of China, with mutual recognition reconfirmed in 1949 with the People's Republic of China. Integration into the Soviet economy started immediately and in 1924 a national bank was established jointly with the Soviet Union as well as a state trading company. Following the Second World War, the shift towards the command economy intensified, central control tightened and development proceeded on the basis of five year plans. The integration process continued and by 1960 Comecon members accounted for 94 per cent of its exports and 76 per cent of Mongolia's imports (Milne *et al.* 1991). Mongolia's 1962 entry into the Comecon marked further integration into the Soviet economy and the broader integration into the Soviet Union's Eastern European satellite states.

In 1966 Mongolia and the Soviet Union signed a 20-year Treaty of Cooperation Friendship and Mutual Aid. The Mongolian People's Revolutionary Party's (MPRP) Fourth Programme, adopted the same year declared that 'the MPRP's main task for the sake of world peace was to strengthen the unity, friendship and cooperation of the countries world socialist system' (Sanders 1996: p.219). This was to remain the case until reforms in the Soviet Union in the late 1980s promoted similar moves in Mongolia. Following mass demonstrations in early 1990 the MPRP began to loosen controls of the political system and the Politburo resigned soon after opening the way for opposition parties, creating a standing legislative body and establishing the office of the President. The summer of 1990 witnessed Mongolia's first free, multiparty elections and although the MPRP won 85 per cent of the vote, a coalition government was established with the main opposition forces. The Soviet period was over but the legacy remained. Atwood (2004 p. 518) summarises the Soviet influence as follows:

Given its pervasive character, it is difficult to separate the Soviet legacy in Mongolia from that of post-1921 Mongolia as a whole. The most important aspect of Soviet influence on Mongolia was the degree to which its advocates, both Soviet and

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<sup>192</sup> Also by the People's Republic of Tuva, a Soviet satellite that existed between 1921 and 1944, when it was absorbed into the Soviet Union.

Mongolian, fused independence from China, modernisation, Communist ideology and Soviet-Russian culture into one inseparable package, insisting that rejecting one would lead to rejecting all four.

### **5.1.1 Aid and international cooperation before the start of the transition**

Although not considered ODA in the strict sense of the DAC definition, Mongolia received significant assistance from the Soviet Union and its satellites.<sup>193</sup> Among the recipients of Soviet external assistance it received the largest proportion, equivalent to approximately 25 per cent of the total (Cuba was second with 20 per cent of the total) (Bach 2003: p.101). Although only representing about four per cent of total Soviet aid projects in the 1970s, turnkey projects were the dominant form of assistance in Mongolia from the 1960s (Feinberg and Avakov 1991: p.111). Moreover Soviet assistance also financed part of Mongolia's trade imbalances, until 1981 on grant terms.

Support went beyond financing projects, however, and included direct technical support from Soviet advisors and other personnel. The *Far Eastern Economic Review* reported in early 1990 that there were 50,000 Soviet technicians and experts in the country (Jeffries 2007).<sup>194</sup> Those in Ulaanbaatar were kept almost completely isolated from the Mongolian people through a network of special apartments, stores, restaurants, buses and clubs. This significant external assistance was summarized by one observer of Soviet-Mongolia relations as follows (Rahul 1989: p.51):

[The Soviet Union] trained Mongolia's first engineers and machinists and physicist and chemists. It established institutes where mechanics and technicians were taught the skills. It trained the laboratory workers, the linguists, the philologists, the archaeologists, the botanists, the doctors, the teachers. Soviet experts helped to design the schools, the nurseries, the kindergartens in Mongolia.

The flow of people was not one way and by 1981-82 over 10,000 Mongolian students were studying in Soviet research institutes, universities, colleges, professional middle schools and technical schools (Atwood 2004: p. 516). Knowledge of Russian became essential for almost any kind of responsible position and by the time of de facto independence almost the entire ruling class of Mongolia had received education in the Soviet Union or in Eastern Europe. Ginsburg (1999: p.248) points out that 'top cadres and urban intellectuals shared a common cosmopolitan orientation and common formative experiences in the [Soviet Union]'. This exchange of people had become an essential part of the Soviet-Mongolian relationship.

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<sup>193</sup> Estimates of the significance of Soviet aid in terms of Mongolia's GDP in the period just before the start of the transition vary from approximately 25 per cent of GDP to over 50 per cent (Jeffries 2007).

<sup>194</sup> Estimates of the number of advisors vary. For example, Atwood (2004) notes that in the 1980s an estimated 32,000 Soviet civilians lived in Mongolia in addition to the 75,000 military personnel stationed there.

Mongolia also gave aid in the 1980s to recipients including Afghanistan, Cambodia, Laos and Vietnam. As an example, in 1988 it contributed to the Armenian earthquake relief fund and provided 300,000 tons of canned meat (Library of Congress 1991: p.160-161).<sup>195</sup> It has also been suggested that during the Soviet period ‘for ideological and political reasons, Mongolia cut itself off unnecessarily from financial and economic aid offered it on favourable terms by developed countries’ (Bruun and Odgaard 1996: p.219). Mongolia is now considered to have been an isolated country (Bruun 1996: p.1) that had little to do with the outside world beyond the Soviet Union before *de facto* independence. Mongolia applied to join the UN in 1946, eventually doing so in 1961. The UK was the first Western country to afford diplomatic recognition (1963)<sup>196</sup>, followed by France (1965), Japan (1972) and the USA (only in 1987).

According to official DAC data, foreign aid to Mongolia started in 1976 (from non-DAC donors including Poland) but picked up in the mid-1980s with the start of ODA from DAC counties (in 1984) and multilateral donors including the UN (in 1985). It is unclear if the DAC data captures all ODA during the Soviet period. For example, Sanders (1987) notes that the Government of Japan signed cooperation agreements with Mongolia and started providing ODA in the 1970s. At the same time it began to engage with the UN. In 1965 an ESCAP ‘International seminar of women’s participation in the life of society’ was held in Ulaanbaatar (Academy of Sciences People's Republic of Mongolia 1990: p424). UNDP opened an office in Mongolia in 1973 and started a small programme of assistance. Javier Pérez de Cuéllar, then Secretary-General of the UN, visited Mongolia in 1989 (*ibid*). By 1990 it was playing a role in a number of UN bodies including the United Nations Conference on Trade and Development (UNCTAD) and United Nations Environment Programme (UNEP) but especially with the UN specialised agencies, International Labour Organisation (ILO), Food and Agriculture Organization (FAO), Educational, Scientific and Cultural Organization (UNESCO) and the United Nations Industrial Development Organization (UNIDO).

This openness and the start of internal reform in Mongolia was inspired by Perestroika. Gorbachov’s 1986 Vladivostok speech to improve relations with China was extremely important for Mongolia’s relations with its southern neighbour. The eventual collapse of the Soviet Union meant that its relationship with its Northern neighbour was also to change dramatically. In 1992 Moscow claimed that Mongolia owed a huge debt for Soviet construction projects and balance of payments support under 34 treaties agreed since 1949 (Sanders 1996: p.240). Brezhnev’s belief that Mongolia would eventually join the Soviet Union meant that

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<sup>195</sup> Mongolian government officials also indicated that Mongolia provided aid to North Korea in 1998 and 2003, the former being aid in the form of canned meat.

<sup>196</sup> The first non-communist country to recognize the MPR was India (1955).

repayment was not seriously expected (Attwood 2004: p.516). At the same time Mongolia started paying for Soviet advisors and moved to paying world prices, effectively removing the subsidy of administratively determined prices.

Soon after “independence” talks between Mongolia and the Soviet Union began at the highest level on trade and aid issues and agreement was made to review all Mongolian-Soviet treaties signed since 1921. According to Sanders (1996) the Mongolian Prime Minister called for more talks on the debt issue noting that some of the Soviet projects in Mongolia were priced too high and were very inefficient. At the same time opposition parties pointed to the damage done by the Soviet army in terms of polluting and despoiling the Mongolian countryside, suggesting that the payment of damages would more than offset the debt. Mongolia entered the transition process with the debt issue unresolved, an issue that would keep Mongolia vulnerable and ultimately affect the aid relationship (as is examined in later sections).

### **5.1.2 Aid in the Early Years of the Transition Process**

The early years of transition process and the rapid scaling up of external assistance set the tone of the aid regime and the aid relationship for many years to come. Mongolia’s split from the Soviet Union in 1990 was not ignored by the international community. The then-United States Secretary of State James Baker visited Mongolia in 1990 and again in 1991. Toshiki Kaifu, then Prime Minister of Japan, visited in August 1991, the first visit by a leader of an industrialised democracy. In October the same year Michel Camdessus, then Executive Director of the IMF, made a visit (Batbayar 2003). Such international interest is quite remarkable for a small country with difficult transport links and is indicative of the geo-political importance of Mongolia.

Unlike other LIPCCs where the non-developmental reasons for donor engagement are more blatant (oil, proximity to perceived terrorist hot-spots, etc) in Mongolia they are more subtle. Mongolia is endowed with some strategic natural resources, most notably copper but also gold, coal and oil among other extensive mineral deposits. Its proximity to China, even with only rudimentary transport facilities, has meant that demand has been high for its mineral output. Its geo-political significance was obvious: wedged between two extremely large and powerful countries, following the final withdrawal of Soviet troops in 1992 it became a ‘buffer state’ and part of a game of superpower rivalry and fighting for influence. In addition, as a sovereign nation and member of many international organisations it had the ability to vote on issues of importance to some of its partners (as examples in Section 5.2.1 illustrate).

The non-violent nature of the system change in 1990/91, and the enthusiasm with which the first coalition government seemed to embrace democracy and the market economy, made Mongolia

attractive to the international community. Moreover, Mongolia was considered by many as an example from which other poor countries entering the transition process could learn.<sup>197</sup> The eagerness to support Mongolia and the rush to supply aid were not, however, without problems.

In 1993 UNDP published a critical study of technical cooperation in Africa (Berg 1993): anyone from the international community working in Mongolia at the time who came across the book would find the problems identified in this volume familiar. Within two years of supplying Mongolia with the kind of standard technical cooperation that was being supplied around the world, the donor community had produced a system of donor cooperation that would be found in some countries only after decades of engagement. Richard Mallon, a Harvard professor from the then-prestigious Harvard Institute for International Development<sup>198</sup> and a UNDP consultant, set the scene in his memoirs (Mallon 2000: p.102):

This was the first of three trips I made to Mongolia in 1992, all of them having to do with planning technical assistance for the country. The situation reminded me of Bangladesh – foreign assistance organisations and government agencies both were scrambling for a piece of the action, each trying to establish influential relationships and to promote their own interests. The Japanese wanted to develop strong trading ties, the Germans were trying to take advantage of former East German connections, Americans were promoting private business interests etc. The UNDP therefore adopted a strategy called NaTCAP (national capacity building) intended to help the Mongolian government “articulate its own priorities and institute its own procedures for technical assistance”.

In the early 1990s technical cooperation was considered important for Mongolia, a country that had just embarked on the simultaneous political, economic and social transition to a democracy and market-oriented economy of which it had no experience. UNDP was arguably the most important provider of technical assistance in Mongolia (although not the largest) and, due to its physical presence in the country, a dominant member of the donor community. From 1991 it had tried to persuade the government to develop a technical cooperation framework so that the typical problems associated with technical cooperation would not occur or that, if they did, could be addressed. A NaTCAP (an abbreviation for National Technical Cooperation Needs Assessment and Programming) exercise was started but had limited success. Ironically for an exercise that was to ‘contribute to the early establishment of an indigenous capacity to programme and manage [technical assistance]’ (Government of Mongolia and UNDP 1992) the main problem was lack of ownership by the government of the time. The report of the exercise was one of the supposedly government documents that were presented at the 1992 Donor

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<sup>197</sup> In the early 1990s many donors thought that Mongolia would be a model for the newly-independent republics of the Soviet Union (Asian Development Bank 1992). Even more recently the idea of Mongolia as a model of reform has been acknowledged (e.g. Slutz 2005: p.8).

<sup>198</sup> From 1974 to 2000, HIID was Harvard University's multidisciplinary centre for coordinating development assistance, training, and research on Africa, Asia, Central and Eastern Europe, and Latin America. Although its demise was officially linked to the need to integrate its functions into schools within the University it was also related to the 1997 imbroglio involving violations of HIID rules by project staff in Russia.

Consultation meeting in Ulaanbaatar but were largely written by international consultants.<sup>199</sup> Moreover, the sections setting out the problems of the technical cooperation were written entirely by international consultants with no input from the Mongolia side whatsoever. As Mallon notes (2000: p.102):

NaTCAP seemed to make a lot of sense under the circumstances but it soon became painfully clear that the Mongolian Government did not yet have the capacity to strengthen its capacity for managing technical assistance. There was no one in the government who had ever dealt with international aid donors except the Soviet Union, which of course had its own priorities and procedures. Very few officials could understand a foreign language except Russian, and no one was even responsible for obtaining information on the technical assistance currently received, much less for coordinating it. Worst of all, government officials had only the foggiest idea of what was needed to manage a modern market economy.

Mallon's suggestion that Mongolia had no experience with donors at the time is not totally accurate since, as noted already, UNDP had been undertaking projects in Mongolia since it opened a representative office in Mongolia in 1973 and while they were not traditional technical assistance projects they nonetheless meant that a few government officials had some experience with multilateral donors as well as with bilateral donors such as Japan. At the same time Mallon's comments reflect the general arrogance of international consultants towards the Mongolian officials who could not understand a foreign language apart from Russian but had to deal with international consultants who spoke no Mongolian or Russian.

Another set of problems related to the visibility of the assistance, especially in the early years. The US\$ 90 per head of aid that Mongolia received in the mid-1990s was equivalent to a month's salary of a government employee. It is unlikely that people felt better off to this extent as all major indicators of well-being were in decline.<sup>200</sup> The majority of the early assistance was balance of payments and budget support. USAID launched its first program in Mongolia in November 1991 with a grant of US\$ 10 million to provide emergency supplies and spare parts to maintain the country's power plants. Two major loans from the World Bank and ADB (US\$ 30 million each) were provided at the same time for emergency imports in response to the move from subsidies to world prices for imports from the Soviet Union and its successor states. Other donors would follow with similar support. These loans and grants allowed the import of oil and essential parts that kept the coal mines and power stations operational. It would be no exaggeration to say that they prevented the capital Ulaanbaatar from freezing over during the difficult winters of the early 1990s.<sup>201</sup> So while these loans were quite effective<sup>202</sup> their results

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<sup>199</sup> The author of this thesis was one of the consultants.

<sup>200</sup> A 1998 UNDP survey indicated that only ten per cent of the population felt they were better off since 1990, while almost one third felt they were worse off (reported in World Bank OED 2004b: p.15).

<sup>201</sup> The loans also facilitated the importation of other essential good such as wheat and medicines.

<sup>202</sup> The ADB evaluation of its Special Assistance Project notes that although disbursement was slow due to lack of experience on the side of the Mongolian government, the project achieved its objectives.

were not very transparent for the ordinary citizen. Outside of the central government, and specifically a small group of people involved with the Ministry of Finance and the Central Bank, it would seem that large amounts of aid were being spent in Mongolia while at the same time the situation of the average citizen was getting worse. There was little time or capacity to examine the counterfactual and identify where Mongolia would be without the external assistance, especially the emergency balance of payments support.

In the years before the start of the transition the special privileges of the Soviet citizens in Mongolia contributed to hostility from the Mongolian elite (Rossabi 2005: p.33). This hostility was subsequently transferred by many of the new elite to international staff of the international donor organisations and their consultants.<sup>203</sup> While Mongolians queued to enter government buildings and were put through rigorous security checks, foreigners could enter most government buildings, even the central bank, quite freely in the early 1990s. There were very few private cars on the road and the even fewer non-Soviet cars largely belonged to foreign embassies and organizations. Representatives of foreign aid organisations had fine cars, admission to diplomatic stores and therefore access to goods not available to most Mongolians who were, at the time, still on rations for basic supplies including meat and, for a period, bread. Not unusually, the international salaries were also significantly higher. Over time this differential was reduced but as one government official asked of a particularly weak consultant she worked with in the early 1990s: ‘Was he really worth 1,000 times more than me?’ referring to the difference between her salary of approximately US\$ 100 per year and the annual budget for the consultant of US\$ 100,000 (which would include salary, living allowances, flights home and other expenses).

### **5.1.3 The Development of Aid Management**

Since the early 1990s, the Government made numerous efforts to better manage aid and assistance provided by the international donor community. As a first step, a special government council headed by the Deputy Prime Minister was established in 1991. From 1993-1996, the function of aid coordination and management was taken by a cross-cutting planning organisation, the National Development Board. In 1996, an independent unit was established under the direct supervision of the Prime Minister following transfer of functions for aid coordination and management to the Ministry of External Relations. Changes in government in 1996 and 2000 also resulted in significant changes in personnel at all levels of the central public administration, including those responsible for aid management.

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<sup>203</sup> This is a consistent message from interviews with Mongolian donor and government officials.

One of the key drawbacks of these efforts was the lack of an efficient legal and administrative framework to clearly define the roles and functions of various Government agencies with respect to aid co-ordination and management matters. Following the Parliamentary elections in 2000, the newly established Government undertook a series of measures to optimize aid coordination and management including moving responsibility for collecting and integrating information, concluding contracts and agreements, and conducting overall management of ODA to the Ministry of Finance and Economy. In addition it established the Aid Coordination Council (based on the existing Foreign Investment and Aid Coordination Council) and in 2003 the Government passed the Law on Coordination of Foreign Loans and Grant Aid. Donors also provided substantial assistance to the Mongolian Government aid coordination and management entities including several efforts to establish and strengthen databases of external assistance and build capacity of staff. UNDP and the ADB were active in this area and the World Bank and Japan provided additional support for donor meetings and associated documents.<sup>204</sup>

Beyond government mechanisms, donors started to open representative country offices and place representatives in country. Although in 1991 only UNDP had a representative presence among the multilateral agencies, it was joined by the World Bank and the ADB in 1998 and 2001 respectively. The European Commission officially inaugurated its Technical Office in Ulaanbaatar only in mid-2006.<sup>205</sup> Bilateral donors also expanded their in-country presence. USAID and JICA established offices in 1991 and 1997 respectively. GTZ first set up an office in Ulaanbaatar in 1999<sup>206</sup> and other bilateral donors had either a small presence or were represented by embassy staff.

Donor meetings were held since 1991 (many in Tokyo) leading to the tenth World Bank-sponsored Consultative Group Meeting held in Ulaanbaatar in 2003. Since then the government has taken greater control of the donor meeting process and in February 2005 it organised (in collaboration with the World Bank) an *External Partners Technical Meeting* in Ulaanbaatar to bring together the collective donor community.<sup>207</sup>

Until the preparation of the *Economic Growth Support and Poverty Reduction Strategy* (Mongolia's PRSP) in 2003, Mongolia had no comprehensive national development plan. It had prepared government plans of action as well as political programmes at each election but these

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<sup>204</sup> For example, the ADB project 'Improving Aid Coordination and Management' (TA 3811-MON) approved in 2001. The World Bank and Japan supported the Consultative Group meetings held in Tokyo between 1991 and 2003.

<sup>205</sup> The Office has no diplomatic status and is managed by the EU Delegation in Beijing under the responsibility of the Ambassador.

<sup>206</sup> This was followed in 2006 by the establishment of a *Deutsches Haus*, a joint development cooperation office.

<sup>207</sup> A second such meeting was held in October 2006 and a third in April 2007.

were not effective development planning instruments. Donor alignment was therefore made more difficult and relied on sectoral and sometimes thematic strategies to facilitate alignment.<sup>208</sup>

## 5.2 MONGOLIA'S AID PARTNERS

Since the early 1990s, Mongolia has pursued an open and non-aligned foreign policy, seeking supportive friendships around the world and taking a more active role in international organisations, particularly in the United Nations. It embraced a wide range of donors but, in a similar way to the other LIPCCs, there was a high concentration of ODA among a small number of bilateral and multilateral donors over the fifteen year period being examined (as illustrated in Table 5.1).

Table 5.1: Importance of five largest donors to Mongolia 1990-2005

	Total ODA (US\$ million)	% of total ODA	% of total bilateral ODA
Germany	275.61	9%	14%
Japan	1146.68	39%	58%
United States	168.09	6%	9%
ADB	493.54	17%	-
World Bank	270.82	9%	-
Total 5 Largest donors		80%	81%

Source: OECD/DAC database on Aid (2a)

As in most other LIPCCs, Japan and the USA were key bilateral donors but in the case on Mongolia, Germany was also a major donor in the country. These three countries accounted for more than 80 per cent of bilateral aid to Mongolia over the period 1990-2005, at times accounting for more than 90 per cent (in six out of the 16 years 1990-2005). It is also important to note that the number of bilateral partners has increased over time. According to DAC data in 1992, 13 of the 22 DAC countries supplied ODA to Mongolia but by 2005 only two, Portugal and Greece, had not become a donor to the country.<sup>209</sup> Of the eight non-DAC donors<sup>210</sup> captured in DAC statistics, only Korea and Turkey supplied aid in 1992. By 2005 seven of them provided ODA to Mongolia (all apart from Iceland).<sup>211</sup>

Mongolia's main multilateral partners were the ADB and World Bank, who provided the bulk of their assistance through their concessional lending windows, the ADF and IDA respectively. These two organisations accounted for 17 and nine per cent of total ODA disbursements between 1990 and 2005. Much smaller in terms of ODA, but nonetheless important in terms of

<sup>208</sup> Only in 2008 did Mongolia finally approve a long-term National Development Strategy (to 2021), which is based on achieving its MDGs and sets the framework for the development and implementation of consecutive medium-term PRSPs.

<sup>209</sup> Greece had only supplied a very small amount in 2001 (US\$20,000).

<sup>210</sup> Seven countries (Czech Republic, Hungary, Iceland, Korea, Poland, Slovak Republic, Turkey) plus the *Arab Countries* treated as a group.

<sup>211</sup> Although the Iceland Red Cross has committed funds for humanitarian assistance.

partnership, are the IMF, EU and UN family of agencies (the latter representing just under four per cent of total ODA 1990-2005).<sup>212</sup>

### 5.2.1 Key Bilateral Partners

Diplomatic relations between Japan and Mongolia were established in 1972 but the relationship was not developed until the moves towards democratization and the transformation to a free-market economy. High-level exchanges of government officials, including at prime-minister level, resulted in the accelerated development of relations between the two countries. The *Asian Times* reported on an opinion poll conducted in late 2004 by the Japanese Embassy in Ulaanbaatar through the National University of Mongolia that found more than 70 per cent of the Mongolian people polled said they felt an affinity with Japan. In addition, the largest percentage (37.4 per cent) of those polled cited Japan as a foreign country with which Mongolia should have the most intimate relations.<sup>213</sup> While Japan has been by far Mongolia's largest donor, the relationship has been both ways. Mongolia has been a firm supporter of Japan in the United Nations, other international organisations, international conferences and international committees. Specifically, Mongolia has also been a steadfast supporter of Japan's strong desire to become a permanent member of the United Nations Security Council.<sup>214</sup> Mongolia has also worked with Japan in pursuit of the peace and stability of the northeast Asian region and, unlike Japan, Mongolia has diplomatic relations with North Korea. Initially, economic cooperation was principally in the form of humanitarian aid but gradually it came to be focused on the development of infrastructure.

Table 5.2: Japan's economic cooperation with Mongolia (million yen)

Fiscal year	1990	1991	1992	1993	1994	1995	1996	1997	1999
Grant aid	494	3,308	3,908	4,535	5,905	5,825	4,803	4,298	29,987
Loan assistance	0	4,836	2,458	3,321	4,753	4,493	5,827	5,046	49,583
Technical cooperation	151	402	681	1,810	2,272	2,337	1,813	1,933	16,108

Source: JICA

The USA recognised Mongolia in 1987 (five years before the collapse of the Soviet Union) and since 1991 has become an important partner in the country's transition to a democratic country with a market-oriented economy. Given its geographical location, it is not surprising that land-locked Mongolia maintains good relations with its two giant neighbours, Russia and China. But

<sup>212</sup> In addition, Mongolia later joined the EBRD (2006) and also accessed funds from the Nordic Development Fund (NDF).

<sup>213</sup> "The great Japan-Mongolia love affair" by Hisane Masaki (*Asian Times* February 28, 2007)

<sup>214</sup> Mongolia was also quick to provide a special airlift of relief supplies to Japan at the time of the Great Hanshin-Awaji Earthquake in 1995.

as a new democracy, Mongolia also places a high priority on cultivating good relations with the United States, which government officials in Ulaanbaatar have referred to as Mongolia's *third neighbour*<sup>215</sup> (Dumbaugh and Morrison 2007: p.8). The United States actively supported Mongolia's membership of the IMF, World Bank and ADB. It has also developed strong commercial ties. A trade agreement was signed in January 1991 and a bilateral investment treaty in 1994. Mongolia was granted permanent *normal trade relations* status and *generalized system of preferences* eligibility in June 1999. In July 2004, the United States signed a Trade and Investment Framework Agreement with Mongolia to promote economic reform and more foreign investment. At the time, the United States was Mongolia's third largest trading partner after Russia and China.

Mongolia was also an early political supporter of the United States in the GWOT and has contributed troops, engineers, and medical personnel to *Operation Iraqi Freedom* since April 2003. Mongolian forces participated in training artillery units of the Afghan National Army.<sup>216</sup> The United States showed its appreciation through visits to Mongolia in 2005 by then-Secretary of Defence Donald Rumsfeld (in October) and President George Bush (in November). President Bush's visit resulted in a joint statement reaffirming the 'comprehensive partnership between their two democratic countries based on shared values and common strategic interests' (*ibid* p.10).

According to DAC data the United States supplied more than US\$ 168 million of assistance to Mongolia between 1990 and 2005 making it the third largest bilateral donor, accounting for about six per cent of total ODA and nine per cent of bilateral ODA over this period. It supplied the assistance largely through USAID but also through the Department of Food and Agriculture (commodity aid). In addition, it provided development support through other channels including Peace Corps,<sup>217</sup> Fulbright Scholarships, and projects implemented by Army Corps of Engineers.<sup>218</sup> USAID's support to Mongolia has

focussed on two inter-related goals designed to help Mongolia create the conditions for "graduating" from assistance: building a private sector-led market based economy and strengthening democracy, rule of law, and good governance. From our perspective, good governance and a strong private sector are key ingredients to Mongolia's quest for sustainable development and prosperity. Research shows that where good governance and sound economic policies are in place, each dollar of foreign aid attracts two dollars of private investment. (Slutz 2005: p.10)

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<sup>215</sup> Mongolian officials have also used the term for Japan and the EU.

<sup>216</sup> Military cooperation also includes a joint US-Mongolia peacekeeping exercise called *Khan Quest* organised every year since 2001.

<sup>217</sup> The Peace Corp programme started in 1991 and there are approximately 100 volunteers in Mongolia (end-2006).

<sup>218</sup> Plus official cultural and scientific ties the American Museum of Natural History, the USA geological Survey, NASA and the National Oceanic and Atmospheric Administration in association with the National Science Foundation.

Unlike some other bilateral donors, USAID’s support does not go directly to the host government but is tendered to international NGOs who then recruit and train Mongolian staff to run the programmes. ‘We feel this approach ensures accountability, performance-based results, and sustainability’ (*ibid* p.11).

In most years since 1993, the United States Department of Agriculture has provided food aid to Mongolia under the Food for Progress<sup>219</sup> and 416(b)<sup>220</sup> programmes. The monetized proceeds of the food aid (US\$ 4.2 million in 2006) were used to support programmes bolstering entrepreneurship, herder livelihood diversification, and better veterinary services.<sup>221</sup> In 2004 Mongolia became eligible for United States assistance through the MCA (one of the first countries to do so) and work started on preparing a proposal.<sup>222</sup>

Table 5.3: Total US Economic Assistance 1991-2005 (current US\$)

	US\$	Percentage of total
USAID	161.4	60%
Dept of Agriculture	83.9	31%
Peace Corp	18.2	7%
Other	7.6	3%
Total	271.1	100%

Source: USAID

Germany has a special partnership with Mongolia that dates back to the Soviet period. In the wake of German unification, the Federal Republic of Germany took over the many development projects of the German Democratic Republic (mainly in agriculture) as well as the supervision of hundreds of Mongolian scholarship-holders in the new German federal states. United Germany is by far Mongolia's biggest European development cooperation partner and, as noted, is the second-largest donor country after Japan. Between 1990 and 2005 it provided over US\$ 275 million equivalent to over nine per cent of total ODA or 14 per cent of bilateral ODA. GTZ worked closely with other German development cooperation institutions, such as the German Development Service, the Kreditanstalt für Wiederaufbau development bank, Konrad Adenauer Foundation, Hans Seidel Foundation, InWEnt GmbH (Capacity Building International),

<sup>219</sup> This program authorizes the US Government’s Commodity Credit Corporation to finance the sale and exportation of agricultural commodities on credit terms, or on a grant basis, to support developing countries and countries that are emerging democracies and have made commitments to introduce or expand free enterprise elements into their agricultural economies.

<sup>220</sup> This program provides for overseas donations of surplus commodities owned by the Commodity Credit Corporation to carry out assistance programs in developing countries and friendly countries.

<sup>221</sup> Although this section is describing the types of development engagement Mongolia has with the US, including food aid, it should be noted that there is a comprehensive literature critiquing US food aid (Barrett 2005).

<sup>222</sup> In 2007, at a White House signing ceremony, President Bush and President Enkhbayar signed a Millennium Challenge Compact for Mongolia that calls for \$285 million to be spent on four projects over a five-year period beginning in September 2008.

Centrum für Internationale Migration und Entwicklung, the Senior Expert Service and the Federal Institute for Geosciences and Natural Resources.

Apart from Germany most EU donors have not had a substantial programme with Mongolia, often preferring to provide support through multilateral organisations. The UK's engagement with Mongolia is typical of this approach. In a written response to a parliamentary question on the UK's aid to Mongolia, the Secretary of State for International Development stated (14 March 2001):

In 2000, we contributed nearly £200,000 to an IFRC [International Federation of Red Cross and Red Crescent Societies] appeal aimed at 35,000 of the most vulnerable Mongolian herders. We also provide a Small Grants Scheme allocation (currently £225,000) to Mongolia. Activities funded through multilateral channels to which we contribute include support to the World Bank's sustainable livelihoods programme and to the UN programme supporting national development priorities such as reproductive health care, distance learning and institutional capacity building. DFID also participates in the thematic donor meetings in Mongolia and will continue to work to ensure that the multilateral donor agencies remain poverty-focused in Mongolia.<sup>223</sup>

Similarly, the approach has been to state the UK's development assistance in terms of its proportion of EC assistance to the country. In a written response dated 26 October 2006 the Parliamentary Under-Secretary, Department for International Development stated: 'DFID does not have a bilateral aid programme with Mongolia. However, DFID does contribute to the European Commission's development assistance to Mongolia. In 2005 the EC contribution was €1.12 million, of which the UK's contribution was some £615,000'.<sup>224</sup> Other donors have gone through bilateral counterparts. For example, since 2003 the Dutch representation in Beijing has been engaged in intensive collaboration with GTZ within the scope of five co-financing projects.

The nature and amount of China's aid to Mongolia is unclear. The Mongolian economy has become increasingly oriented toward its southern neighbour and China has been Mongolia's largest trade partner since 1999, with Chinese investors accounting for more than 40 per cent of foreign direct investment flowing into the country by 2005. In June 2003, Chinese President Hu Jintao visited Ulaanbaatar and offered a US\$ 300 million aid package (Jeffries 2007: p.67). Although the Mongolian government did not originally accept the offer it has since started to draw down the unconditional loan.<sup>225</sup>

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<sup>223</sup> Daily Hansard, <http://www.publications.parliament.uk> (downloaded March 2007).

<sup>224</sup> *ibid*

<sup>225</sup> [http://www.atimes.com/atimes/China\\_Business/II01Cb02.html](http://www.atimes.com/atimes/China_Business/II01Cb02.html) (downloaded February 2010)

The key features of bilateral aid to Mongolia are the high degree of concentration among a small number of donors and the dominance of Japan among them. This has implications for the aid relationship but the importance of China as a potential donor points to the complexity of analysing the relationship with data of existing aid flows. Moreover, the bilateral relationships go beyond aid and, as shown in the previous chapter, still may have as much to do with political and commercial concerns as developmental ones.

### **5.2.2 Key Multilateral Partners**

Mongolia became a member of the World Bank Group in 1991 and initially received emergency transition support before moving to a new phase of support for longer-term structural reforms and investments in 1996 (World Bank OED 2004b). The major objectives of this emergency phase were to: (i) support short-term macroeconomic stability through balance of payments lending; (ii) support essential public services and industries through import financing and technical assistance; and (iii) build public capacity to manage a market economy by financing training and external advisors. Since 1996 there has been a gradual shift to longer-term structural reforms and investments with the Bank providing investment financing, balance of payments support, and technical and advisory services. Over the period 1990 to 2005 the World Bank disbursed over US\$ 270 million through its IDA window, of which about 85 per cent was investment lending.

The ADB provided Mongolia with approximately US\$ 493 million of loans and grants between joining the bank in 1991 and 2005 (DAC data on ODA disbursements) making it Mongolia's largest multilateral donor (seventeen per cent of total ODA over this period).<sup>226</sup> The bulk of the assistance was through forty concessional loans and, of the amount delivered through loans, approximately one third was programme/policy based lending.<sup>227</sup> In 2000, the Government of Mongolia and the ADB signed a Poverty Partnership Agreement, which set out a long-term vision and agreed targets for poverty reduction. It also incorporated mechanisms to review performance and highlighted key indicators and institutional milestones necessary to monitor progress. In this way the allocation of ADB resources can be linked to the achievement of progress agreed upon under the agreement. The Mongolia Resident Mission was opened in 2001 and provided the primary operational link between ADB and the government, private-sector, and civil-society stakeholders in its activities. The mission also engaged in policy dialogue and acted as a knowledge base on development issues in Mongolia.

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<sup>226</sup> According to ADB data the amount of approved loans and grants was US\$ 666 million as at end-2006 (in other words total commitments).

<sup>227</sup> [http://www.adb.org/Documents/Fact\\_Sheets/MON.pdf](http://www.adb.org/Documents/Fact_Sheets/MON.pdf). (downloaded end-2006).

Diplomatic relations were established between the EC and Mongolia 1989 which led to the accreditation of the Mongolian Ambassador to Brussels in 1990 and the accreditation of the EC Head of Delegation in Beijing to Ulaanbaatar in 1991. In 1991 Mongolia was granted preferential access to European Community markets via the Generalised System of Preferences<sup>228</sup> and two years later in 1993 a Trade and Co-operation Agreement entered into force. It was initially concluded for a period of five years and then tacitly renewed every year. The two parties accorded each other's exports the most-favoured-nation treatment, and agreed to examine appropriate measures to foster trade and economic relations. The Agreement also included a commitment to protect human rights. The EU was Mongolia's fourth largest trading partner. The EU-Mongolia relationship was consolidated in the early 2000s and developed further as a consequence of the enlargement of the Union to the East. Several of the new Member States and EU Candidate Countries traditionally maintained close relations with Mongolia and were represented in Ulaanbaatar.<sup>229</sup>

Between 1990 and 2005 the EC provided more than US\$ 46 million ODA to Mongolia, focusing mainly on support for rural development under the TACIS programme and since 2004 under the Asian and Latin American (ALA) programme. In addition, the EC Humanitarian Aid Office (ECHO) provided aid to alleviate the consequences of harsh winters ('*Dzud*') and droughts. Assistance was then reoriented towards supporting Mongolian efforts for better disaster-preparedness.

Although the combined flow of ODA by the two MDBs is still dwarfed by that of Japan, the two banks played an extremely important role in Mongolia largely through their influence in setting the policy agenda, often derived from the PRSP process and cross-conditionality with the IMF and some of the bilateral donors. At the same time, even though the EU played a relatively small role in ODA, it represented significant commercial power as a key trading partner with Mongolia.

### **5.3 IS THE GOOD AID RELATIONSHIP IN PLACE?**

Initial DAC efforts to monitor the Paris Declaration have already been described in section 4.5.2 and are a useful starting point for this section. Overall the situation found by the 2006 DAC Survey (OECD DAC 2006d) is clearly poor with limited implementation of the various

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<sup>228</sup> The EU's Generalised System of Preferences grants products imported from GSP beneficiary countries either duty-free access or a tariff reduction, depending on which of the Generalised System of Preferences arrangements a country enjoys.

<sup>229</sup> In 2006 an EC Technical Office opened. The first ever EU-Troika (a group that represents the European Commission and the current and future Presidencies of the European Council, on behalf of the European Union as a whole) mission to Mongolia on 8-9 June 2006 provided another sign of how the relationship had intensified towards the end of the period being examined.

elements of the Paris Declaration (Table 5.4). Ownership at the end of the period being examined is considered to be low and the priority action to improve it is to complete the National Development Strategy. The rest of this section examines the existence of partnership and ownership according to the aid relationship framework established in Chapter 2 and looks beyond the narrow scope of the DAC survey.

Table 5.4: Implementing the Paris Declaration: Challenges and Priority Actions (2006)

Dimensions	Baseline	Challenges	Priority Actions
Ownership	Low	Relationship between planning and budgeting remains weak.	Complete the National Development Strategy
Alignment	Moderate	Little aid is recorded in the national budget.	Improve recording of aid in the budget.
Harmonisation	Low	Minimal proportion of donor missions are coordinated.	Encourage harmonisation
Managing for results	Moderate	Limited public access to information, especially on poverty data	Build a country-level monitoring and evaluation system.
Mutual accountability	Low	Lack of a single platform for mutual reviews of progress.	Establish a mechanism for joint assessment of progress in implementing commitments on aid effectiveness.

Source: OECD/DAC 2006 Survey on Monitoring the Paris Declaration (Volume 2: Country Chapters)

### 5.3.1 Partnership

The basic unit for assessing the degree of partnership is the donor programme. At this level it is possible to assess the pre-conditions for a good partnership even though the actual partnership may vary from donor to donor. It was noted that, among the countries being examined, Mongolia, with its rapid move to democracy and steady move to a market economy, probably had one of the highest degrees of shared values with the bilateral donor community as indicated by the high proportion of bilateral ODA (representing 63 per cent of total ODA 1990-1995). Certainly Mongolia moved rapidly to a market oriented economy and multi-party democracy and had a relatively sound record on promoting human rights (see Table 4.11).

In terms of commitment to poverty reduction this also changed significantly in the post-transition period up to 2005. There was not much interest in poverty reduction in the early 1990s and even though the National Poverty Alleviation Programme existed from 1994 it was largely donor driven (an issue that is examined in more detail in Chapter 6). And while donor pressure may have forced the government to put poverty alleviation on its agenda, the 2002 evaluation of the ADB programme in Mongolia notes that after 2000 the government became ambivalent about making poverty reduction a priority. In the early days of donor engagement there was also a lack of consensus on the importance of poverty reduction. For example, when Mongolia started to address multi-dimensional poverty issues with the support of UNDP in the

early 1990s, one senior World Bank official was concerned at this time about the possibility of the preparation of a poverty alleviation programme sending the wrong signals to foreign investors.<sup>230</sup>

Were these values shared because they had to be? In other words did government officials, perceiving dependence on aid, say what they thought the donors wanted to hear? Generally, the pragmatic governments followed a course aligned to the donors in order to receive significant levels of aid rather than pursue an alternative course that they were not sure was any better. There have been cases, however, where issues have been sensitive and where the government was willing to argue its case and resist change. Land reforms are an example of such an issue where, as early as 1994, the ADB reportedly complained that ‘currently there is no private ownership of land. As a consequence, land tenure insecurity causes disincentives to invest in land improvements’ (Upton 2008: p.1402). Although the 1992 Constitution gives Mongolian Citizens the right to own land, because of political sensitivity it was only in 2003 that the necessary legislation came in to place.

Partnership in Mongolia has also been quite broad since there was a relatively vibrant civil society and a private sector that became more active over time. There is a distinction between the “inheritor” NGOs and the newly-established NGOs. The inheritor NGOs were the organisations formed out of the public organisation that existed during Soviet times. These covered women, elderly, the disabled, children, and youth. Many NGOs, new and old, were also quite entrepreneurial in their dealing with the donor community. The nature of the government relationship with the NGOs, and to some extent the donor relationship, varied with the political party in power. The Mongolia Peoples Revolutionary Party, in power 1992-1996 and 2000-2004, tended to work much closer with the inheritor NGOs than with many of the new ones that it saw as being closely aligned with the opposition. The democratic parties that came into power in 1996 were more closely aligned with the new NGOs, especially the more politically oriented ones, and regarded the inheritor NGOs as vestiges of the old system. While this perception may have been true, the inheritor NGOs had good networks throughout the country, which the new NGOs needed time to develop. Donor engagement was influenced by this in terms of selecting partners for implementation of activities or for consultation and engagement in decision making.

While the private sector may have been non-existent in the beginning of the transition process, the privatisation process soon led to its expansion, especially in the second half of the 1990s. A

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<sup>230</sup> From a meeting with a senior World Bank official in 1993. UNDP wanted to mobilise resources and therefore painted a picture of serious poverty problems that need to be addressed urgently. The World Bank, while not denying that poverty existed, was trying to attract foreign investors.

number of NGOs were also established to represent private sector interests and these organisations were able to engage in consultative processes. Broad partnership also meant moving beyond central government to dealing with local administrations. In Mongolia the administrative system was already established and although reformed, the basic skeleton of a system at national regional and sub-regional levels existed. Even in a large country with a population spread across all regions as Mongolia, donor interaction at the local level began quite early and was intensified through the NPAP (see next chapter).

### **5.3.2 Aid ownership**

Overall perceptions from interviews with key informants across government and civil society were that national ownership was weak (although often with the exception of strong national ownership in relation to their own responsibilities).<sup>231</sup> Moreover, a major finding from these interviews was that ownership was not clearly understood or even on the agenda in the country (discussed in section 5.4). Donor informants generally agreed with these perceptions, for example a former UNDP official remembered: ‘In the early 1990s [national] ownership was very limited. As an example, the ADB prepared its Education Master Plan with the Ministry of Education but when it was presented to various stakeholders the report was read out in Mongolian and “simultaneous” translation was made by reading out the original in English’. Another overall indication of poor national ownership is the long parliamentary delays in approval of ADB projects which in turn delayed loan signing and effectiveness. In three cases these delays were, on average, 16 months, as compared to an average elapsed time of five months for all ADB projects (Asian Development Bank 2002).

County programme evaluations can provide a good example of donor perceptions of ownership. The World Bank’s Country Assistance Evaluation of 2004 (World Bank OED 2004b) illustrates the complexity of assessing the degree of ownership and the problem of summarising it even for one donor in one country. It also highlights an issue made earlier in this thesis about the lack of coherent understanding on the concept even within a single organisation. The evaluation concluded that:

The Mongolian transition experience was characterized by young, enthusiastic Mongolian leaders who embraced and fully committed themselves to advancing political and economic reforms. This high degree of ownership was the driving factor behind the significant progress seen in Mongolia since it embarked on its transition in 1990. (World Bank OED 2004b: p.16)

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<sup>231</sup> Interviews undertaken in March 2001 and April 2002

This is an extremely positive statement<sup>232</sup> in describing the overall situation of ownership. It does not seem to imply an average situation but strong ownership across the board. When disaggregating the aid relationship by sector other perspectives arise as illustrated in the following part of the World Bank's management response to the evaluation.

In evaluating results of Bank assistance in Mongolia's financial sector, it is helpful to distinguish Bank performance and borrower performance. It is not realistic to assume Bank and other donor programs can give Mongolia a strong financial sector. It is easier (relatively) to change behaviours than fundamental attitudes. Whatever the donor advice, unless the client sees the need to do it, and the political, social, economic and cultural environments support it, fundamental changes will not take place at the pace and magnitude the donors would like. The [country assistance evaluation] mentions strong borrower-government ownership. However, when it comes to specific policy-structural-institutional changes, the ownership may not be there. (World Bank OED 2004b: p.54)

How the evaluators or the World Bank management came to their conclusions is unclear. The evaluation reveals nothing about any specific approach, methodology or method that would allow a thorough assessment of the degree of ownership. Nor did the evaluation's Terms of Reference require the team to do so. This lack of clarity as to how they came to this assessment was raised by the Committee on Development Effectiveness<sup>233</sup> which also responds to World Bank evaluations.

[The] Subcommittee noted that the definition of ownership presented challenges. In this case, ownership was strong at the higher tiers of government but less so in lower tiers and they wondered how strong ownership was given the numerous regime changes. Some members noted that the evaluation made little reference to the interim poverty reduction strategy of the government and to government priorities and they asked to what extent the Bank's programs were aligned to the priority goals of the government and how the lessons from the interim PRSP had been utilized. OED informed the Subcommittee that while the country had experienced seven regimes in 10 years, all of them had a strong commitment to reform but with emphasis on different areas. The Government's commitment to reform has also deepened its understanding over time of the links between goals and reform actions. (World Bank OED 2004b: p.59)

The ADB Country Programme Evaluation 2002 had a more useful, albeit shallow, analysis of ownership of its programme:

Government ownership varied across different aspects of ADB's cooperation with Mongolia. It was limited in areas of a broader, strategic nature: even while the [country operations strategy] 2000 stated that it had been prepared using participatory methods, few if any government officials engaged in a discussion of it during the [country assistance program evaluation] mission. The project mix in the portfolio (especially the discontinuation of infrastructure investments) was criticized by some government agencies. During the early transition years, the limited exposure of policymakers to market-oriented policies affected their participation in policy dialogue and appreciation of implications of policy reforms. These limitations, however, did not reduce

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<sup>232</sup> The statement assumes that 'ownership' means 'national ownership' or at least ownership by the Mongolian authorities.

<sup>233</sup> Established in 1994 as an 8-member standing committee of the Board of Executive Directors, the Committee on Development Effectiveness oversees the Bank's operations evaluation system, reviewing their output and management responses to it.

government ownership to the reform process as a whole. Ownership for individual projects and reform initiatives was generally strong, although in politically sensitive areas government decisions were not always consistent with overall reform objectives. (Asian Development Bank 2002: p.40)

One of the problems related to the way the elements of the aid relationship were defined is that they seemed to assume a homogenous government. Occasionally there was a distinction between central and local government in terms of ensuring coordination or encouraging partnership but at the central level it was assumed that the government was one unit. This was clearly not the case in many countries and in times of rapid reform could not have been further from the truth. Writing about Mongolia in the early 1990s (1993-1994), Bikales (1997: pp. 437-8) notes: 'the transition period tends to be marked by fierce turf battles as the role of government agencies are drastically redefined'. In such circumstances the indiscriminate support for different agencies effected the pace and nature of the reform. Specifically, Bikales noted that significant donor support for Mongolia's National Development Board, considered an unenthusiastic reformer, may have slowed the pace of change.

In addition to competing government entities, donors competed among themselves, especially in promoting different national development planning frameworks. Rather than a unified donor stance in support of government, or even in conflict with it over pro-poor policies, the process saw the donors become even more selfish and self-centred. The UNDP and World Bank relationship will be examined more in the next chapter in the context of the National Poverty Alleviation Programme (NPAP) but the conflicts continued even after the completion of the NPAP in relation to the PRSP and the UNDP-sponsored Good Governance for Human Security Programme. In 1990s Mongolia, the culture of blame and competition among donors was also strong. It was only after Monterrey and with the introduction of the PRSP/CDF and harmonisations/alignment agendas that significant movement was made towards better cooperation. But progress was limited and largely on the part of the donor community and not the government. In terms of ownership of the PRSP process, the international community took a large share of the work of preparing it<sup>234</sup> and certainly for approving it. International consultants were also employed to assist the government in the process which at times seemed like a battle between UNDP and the World Bank for who would have the greatest influence on national development planning.

The lack of a coherent national development strategy, or in some cases sectoral strategies, led to poor aid coordination and limited national ownership of donor interventions. An extreme

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<sup>234</sup> The World Bank/IMF Mongolia PRSP Joint Staff Assessment (World Bank/IMF 2003: p.4) notes that 'the donor community has been actively involved in the preparation of the [PRSP] and has provided comments and technical assistance in the formulation of the strategy.....A first draft of the [PRSP] was presented to the participants at the Mongolia Consultative Group Meeting in July 2005 and subsequent drafts have been submitted to donors for inputs'.

example of poor cooperation was identified in the World Bank's 2004 evaluation of its work in Mongolia.

in transport ADB pursued a strategy of paved roads along the north-south axis on the assumption that growth could be driven by transit traffic between Russia and China. The [World] Bank, meanwhile, pursued a strategy of gravel roads along an east-west axis on the basis that integrating isolated regions would stimulate growth. In the end, neither road has progressed to extent that it is meeting its objective. (World Bank OED 2004b: p.18)

It was argued in Chapter 2 that there is a capacity-relationship paradox; you need capacity to have national ownership but lack of national ownership is a constraint to capacity development. The 2006 Paris Declaration baseline survey indicated that in Mongolia there was a complete lack of national ownership of the capacity building agenda as measured by the amount of technical cooperation that was coordinated with country programmes. For the 15 donor organisations that responded to the survey only 18 per cent of technical cooperation was coordinated in this way. Taking the largest five donors (which as already noted account for 80 per cent of ODA in Mongolia) the figure was just 12.5 per cent.

The issue of the burden of donor driven activities on the public administration was identified as early as 1994 when Keith Griffin, writing about Mongolia, noted:

each donor, quite properly, is concerned to ensure that its aid is used as intended, that costs are kept to a minimum, that corrupt practices are avoided, etc. The result is a multiplicity of monitoring, reporting, review and auditing arrangements, each imposing a burden on the recipient country. The 'aid process' involves frequent travel – and very high overhead costs – to 'find facts', assess the country's economy, establish an 'operational framework' for the donor's aid, to conduct pre-project investigations, to appraise the project, to monitor progress and finally to conduct a *post mortem* examination. All of this 'technical assistance', supervision and evaluation absorbs and inordinate amount of time of senior government officials. Indeed many officials spend more time servicing foreign missions than serving their people. In extreme cases officials come to believe that the two are indistinguishable (Griffin 1995: p.174).

The degree of national ownership of implementation is easier to identify as very weak since project management units (PMUs) and other parallel structures proliferated. Even where there were opportunities for greater government ownership of implementation, such as through using the UNDP *national execution* modality, these were not always used. Partly through poor design but largely due to the wrong incentives, national execution sometimes meant using national staff rather than international staff, as opposed to its true purpose of integrating the implementation process into mainstream government structures.

## **5.4 STRUCTURAL CONDITIONS DETERMINING THE NATURE OF THE AID RELATIONSHIP**

Using the analytical framework established in Chapter 2, this section examines the factors determining the nature of the aid relationship. It draws on interviews undertaken within the framework of interview questions set out in Table 1.1, specifically the set of questions surrounding the explanation of why the good aid relationship exists or does not, but also relies heavily on documentary evidence. It assesses the importance of the overall aid regime, the high concentration of donors and the impact the key donors have on the relationship. Like the LIPCCs as a whole, Mongolia's strong integration with the Soviet Union meant that the legacy would be felt for some time after the transition process started and it is clear that this legacy had an impact on the aid relationship through a number of different channels.

### **5.4.1 The role of policy and ideology**

The first key finding is the importance of openness and accountability in determining the aid relationship. This manifests itself in two ways: first, the accountability of government to its citizens and the lack of debate on the issue of the aid relationship in the country, and; second, the lack of accountability of donors to the recipient government and its citizens.

During the period being examined there was no open and broad debate about the aid relationship, aid effectiveness or even the role of aid in the country. Mongolian civil society organisations interviewed, specifically academic organisations and developmental NGOs, reported that there was little dialogue about the aid relationship or aid effectiveness. Within government, some officers interviewed were aware of the global debates but these individuals were largely those directly concerned with aid management and/or donor coordination: issues related to developing a more effective set of aid relations were simply not on the agenda. For example, at the 2001 Mongolia Consultative Group Meeting in Paris, the Minister of Finance and Economy delivered a presentation on cooperation with the international donor community. While carefully setting out Mongolia's aid management arrangements and ODA needs for the following few years he made the following statement: 'The issue of Government "ownership" is critical in effective and efficient undertaking of various donor-funded projects and programs' (World Bank 2001c: p.105). During fieldwork for this thesis,<sup>235</sup> the above statement was used as an opening in interviews with staff from the Ministry of Finance and Economy to discuss what ownership means in the Mongolian context. When asked why there was so little interest in the concept even though the Minister had made a strong and clear statement in his speech, the

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<sup>235</sup> Interviews with Ministry of Finance and Economy officials in April 2002.

response was 'the speech was prepared by a foreign consultant'. Clearly, there was no national ownership of the ownership issue.

So even with the significant capacity building that had been provided to Mongolia for aid coordination and related activities, the presentations were still written by foreigners. In 1992 the same minister responsible had all government documentation for the donor consultation meeting written by outside consultants.<sup>236</sup> Outside consultants were routinely used to improve on documentation and in some cases edit presentations to make them more acceptable to the donor community, an approach reportedly inherited from the previous Russian relationship. Support for capacity building was based largely on practical issues (for example, the development of aid databases) and not on supporting country-driven debate on aid effectiveness. This may be because of limited incentives for the donor community to do so as a result of limited oversight from donor headquarters on implementing the rhetoric of the good aid relationship.

At the same time the language of aid was confusing and understanding it presented a challenge to many. As discussed in Chapter 2, even though there has been progress towards codifying the elements of an aid relationship there is still work to be done on ensuring coherence or agreement on the terms used in the global debate on aid effectiveness. Bilateral, multilateral and non-governmental organisations (including academia and research institutions) that engaged in the debate were unable to use consistent language. Add to this the need to translate terms that often had no counterpart in the national language and the problem was made worse. Moreover, these words often have specific meanings outside the field of aid, especially ownership and partnership, which further confused the matter. Civil society interviewees (as well as some donors) noted that what debate there was in government often concerned the allocation of assistance in the country and which provinces should receive it. This was largely kept from the public apart from province-specific projects that were widely announced. Individual Mongolians may have been involved in aid evaluation as consultants but there was no independent country driven research on aid and its effectiveness.

Even by 2000, there was still a lack of understanding about how the aid system worked, and this was not just among the general public. According to one very experienced Mongolian working for an international development NGO: 'We do not understand them [donors]. We need to have someone explain the system to us and how it works. There are just a lot of letters'. Accountability was limited in the Soviet system adopted by Mongolia and lack of accountability once the transition started was related to the lack of debate and understanding. Although the

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<sup>236</sup> For example, "Mongolia: New Orientations for National Development." (Government of Mongolia and UNDP 1992)

government made efforts to improve its systems of accountability to its citizens and the voice they had in terms of holding the government to account, a number of related issues still needed to be addressed and the aid relationship is important here. For example, in relation to the questions: Who was responsible for the projects? When aid was unsuccessful, did the people blame the government or the donors? How did people perceive the degree of ownership and partnership? Fieldwork suggests that the answers are complex and depend on the type of aid among other factors. They also depend on the nature of the respondent to the question, with government respondents more likely to blame the donors than those from civil society. Although people outside government and development organisations reportedly did not know much about aid, this situation began to change as the media reported more and more on the aid business. Nonetheless, it was often simple reporting of events, for example that a project agreement was signed, rather than any analysis of the results of donor supported interventions.

The second part of this finding relates to the difficulty, facing governments and citizens alike, of holding donors to account for achieving their objectives. As noted, individuals or even civil society organisations had some difficulty in obtaining information about donor performance (which is interesting given how keen donors are to ensure effective performance systems exist in government). Country programmes setting out what the donors intend to do over a specific programme period were available for most donors but in general these were available only on English. There was a similar situation with information concerning projects, although this largely concerned existing/ongoing/approved projects and not those in the pipeline. Again, these documents were generally only available in English. At Consultative Group meetings, the government was usually asked to account for its actions but not the donors, and information on these meetings is not widely available. What was available (for example, the books of presentations, participants and agenda put together by the World Bank) was in English and not Mongolian. In 1999 the UN Country Team in Mongolia prepared an annual report for Mongolia, made it available on its website and reportedly distributed it widely, including a version in Mongolian. While such efforts should be applauded, the document is, however, more descriptive than results-oriented.

Since a significant amount of technical assistance was provided to Mongolia, the opportunities to learn from this experience through the evaluation process were considerable. But donors did not make adequate effort to undertake this learning and, more importantly in the context of establishing a good aid relationship, to undertake it with national partners. Since joining the ADB in 1991, over US\$ 600 million was disbursed to Mongolia (as at 31 December, 2004) as loans through 35 projects (Asian Development Bank 2005b). In addition, US\$ 57 million was disbursed through grants and since each grant is usually less than US\$ 1 million it can be

assumed that there have been over 60 grant projects, possibly considerably more (the precise figure has been difficult to ascertain from the ADB). According to the ADB's own website, by the end of 2005 it has conducted only 13 evaluations<sup>237</sup> including one evaluation of the overall programme in the country in 2002 (Asian Development Bank 2002). This was the only evaluation available in Mongolian in 2005 (according to the ADB website).

Table 5.5: ADB Evaluations (1992-2004)

	Loans etc	Technical Assistance
Completed projects (1992-2004)	17	at least 40
Performance audits (as at end 2004)	7	4
Performance audits as % of total projects	41%	less than 10%

Source: www.adb.org

The World Bank's Country Assistance Evaluation (CAE) for Mongolia in 2004 (World Bank OED 2004b: p.45) notes that: 'CAEs rate the outcomes of Bank assistance programmes, not Clients' overall development progress'. The CAE presented five major recommendations all of which relate to the Bank's future assistance to Mongolia. The first three relate to suggested areas of future focus for the Bank: removing critical obstacles to investment: ensuring an appropriate mining regime; and improving fiscal management. Only the third has any direct relevance for making the aid regime more effective. The final two recommendations concern developing the next assistance strategy: first, the evaluation recommends that the Bank should 'Collaborate with other donors to develop strategic frameworks in each sector – even if the bank does not plan lending operations in these sectors', and; second, it should 'Develop a new approach to institutional development and capacity building' (*ibid*: p.22). Both these statements are repetitions of earlier approaches, some from the earliest days of Mongolia's engagement with the aid business.

In early 2000, UNDP undertook a review of its activities during the first country cooperation framework for Mongolia (1997-1999). Unlike the others this was a much shorter, less in-depth process that according to the terms of reference was to be a maximum length of 15 pages. It drew heavily on three earlier thematic evaluations that covered the three main themes of the Mongolia country programme. Nonetheless the evaluation failed to capture or examine issues concerning the aid relationship. For example, the evaluation examined partnerships but only looked at it in the sense of working with a range of different types of organisation, namely government, civil society and target beneficiaries, and private sector (interestingly donors are not included). The report (Gallagher 2000) stated the following in the only paragraph on the subject:

<sup>237</sup> <http://www.adb.org/Evaluation/reports.asp?s=3&ctry=50> (downloaded December 2005)

Probably the broadest range of partnerships between UNDP and Mongolia is in the area of government. UNDP has been able to foster close working relationships with central and local government levels and with many other institutions affiliated with government such as academia and research centres. A recent strengthening of this partnership has taken the form of a regular meeting with NPDs [National Project Directors] of all projects to discuss cross-thematic concerns and challenges.

Although it is a key part of UNDP's overall development strategy, UNDP had not developed an adequate methodology for evaluating partnership, even using the simplest of definitions. While it is important to illustrate that the country office was working with a broad range of partners, the nature of these partnership was given little space.

The second finding in this area relates to the policy of the donors and the perceptions of the importance of the aid relationship. Interviews revealed that many of the positive effects of the good aid relationship described in Chapter 2 were simply not held to be true in the context of a country coming out of seventy years of a political, economic and social system that was the complete opposite of what their donor partners were trying to introduce. The main bilateral donors, USA and Japan, were members of what has been described as a 'recalcitrant group' (Whitfield and Fraser 2009: p. 2) who even towards the end of the period being examined had not fully internalized the move towards the good aid relationship.

Finally, the competition between donors described earlier meant that donors were less willing to undertake riskier options and approaches. This may have resulted in a lack of innovative ideas but may also have affected the incentives to strengthen national ownership. In a competitive environment the donor is less likely to 'let go' and allow the government the opportunity to take control of the process since, if the intervention fails, it will be the donor that is criticised by its peers and not the government.

#### **5.4.2 Economic factors and dependency**

The level of aid dependency in Mongolia changed significantly over time. Immediately following *de facto* independence from the Soviet Union and the associated withdrawal of concessional financial assistance, Mongolia was in desperate need of hard currency to finance strategic imports to keep its energy and productive sectors going. Boone (1994) suggests that the value of Soviet assistance to Mongolia fell from 53 per cent of GDP in 1989 to only seven per cent in 1991. The same year, the IMF approved a *Stand-By Arrangement* to restore macroeconomic stability and then build the institutional base for a market economy (SDR<sup>238</sup> 22.5 million approved, SDR 13.8 million drawn). The government of Japan also supplied

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<sup>238</sup> Special Drawing Rights – the SDR is an international reserve asset, created by the IMF in 1969 and its value is based on a basket of four key international currencies.

emergency credits in 1991<sup>239</sup> and the ADB and World Bank provided rapid balance of payments support in 1992 to finance critical imports for these sectors. These were major and essential sources of finance for Mongolia but by the end of 1992 the IMF arrangement had gone off-track due to failure to meet macro-economic targets and had been suspended by the Fund. There was genuine concern within the Government and among the population that without these funds it would be difficult to survive the winter.<sup>240</sup> The Government of Japan came to Mongolia's aid and supplied the resources that the IMF suspended but key interviewees noted that this event set the basis for Mongolia's psychological dependence on aid.

Given the above situation, it is not surprising that perceptions of aid dependency were strong. Most interviewees (from across the board) claimed that Mongolia was aid dependent with reference to the high levels of aid as a percentage of GDP. Although these figures are easily available (for example in Human Development Reports) they were not discussed until the late 1990s when UNDP began to raise the issue. At that time Mongolia was the sixth most "aid dependent" country in the world and the most dependent in Asia. As was argued in Chapter 3, figures based on aid as a percentage of GDP are a more appropriate measure of the resource intensity of aid than of aid dependency. Nonetheless, the high degree of dependency can be understood through the statements of senior government officials, such as the Minister of Finance and Economy who summarised his feelings on this matter in a speech at the 2003 Consultative Group meeting in Tokyo: 'We Mongolians shall provide the answer without any doubt to the question of whether ODA is necessary or not. It is essential' (UNDP 2005a). These perceptions point to what was described in Chapter 2 as *fundamental dependency*: a belief that Mongolia would suffer serious economic, social, environmental or political repercussions if aid was severely reduced or eliminated.

Mongolia's dependence on aid was also significant due to its vulnerability in a number of dimensions. A 2004 report on country risk commissioned by USAID concluded that Mongolia was doing well in terms of political risk but its financial and economic risks were considered to be relatively high (USAID 2004). The report identified four areas of concern. First, a weak debt position; second, vulnerability to terms of trade changes; third, its vulnerability to volatile commodities markets and the impact this could have on debt service and economic growth; and, fourth, large government spending. The report also raised concerns about the limited capacity to monitor country risk. While the USAID report assessed country risk through the eyes of the potential investors, UNDP undertook an exercise that looked at Mongolia's vulnerability

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<sup>239</sup> Boone (1997: p.111) suggests that the USA also supplied emergency credits in 1991 but if it did, they are not captured in DAC databases.

<sup>240</sup> At the time Mongolia relied on its main power stations for co-generating electricity and heating and in turn the power stations relied on the coal mines for fuel.

focussing on the economic and ecological dimensions through the lens of *human security*. It identified a link between Mongolia's vulnerability and aid but concluded that the link 'remains undetermined' (UNDP 2005a: p.12).

A special area of uncertainty that contributed to Mongolia's economic vulnerability since the start of the transition concerned the country's debt to Russia from the Soviet period. Estimated at more than was 10 billion transferrable roubles (Jeffries 2007: p.65) it was unclear what this meant in US dollar terms or how it would be repaid or even serviced. Standard and Poor reportedly estimated the debt to be worth US\$ 10 billion or roughly ten times Mongolia's GDP (ibid: p.66). It was only in January 2004 that an agreement was reached to repay the debt with the vast majority written off and Mongolia's payment less than US\$ 300 million.

Moreover, Mongolia was (and remains) extremely vulnerable to large-scale natural (and to a lesser extent) man-made disasters. In addition to the 20 to 30 hydrometeorological hazards that occur in Mongolia each year (one third of which reach serious levels), the country suffers from fires, earthquakes, outbreaks of human disease, livestock and plant diseases, and technological accidents. The negative impact of these disasters on development can be significant, especially as they disproportionately affect the poor. At the same time the costs of addressing them can be considerable. In the period 1999–2000 the direct damage caused by disasters reached US\$ 80–100 million, equal to about one fourth of the entire government budget in those years and three times the amount annually spent on environmental management by the Government and foreign development partners (Asian Development Bank 2005a: p.64).

Dependency needs disaggregating and the degree of dependency in Mongolia may have been even greater for a number of organisations and individuals. Representatives of a number of aid dependent organisations were interviewed, ranging from NGOs to private sector consulting companies. These consulting companies were often involved in project preparation and background research. Individuals trained in the west and especially those speaking the languages of the donor were in high demand for project management as well as technical consulting work. As the private sector developed and absorbed more qualified people, the dependency of many individuals on the aid system was reduced but remained high for those where the skills were very specialised (for example on ADB procurement) and therefore less transferable. Government service was a less attractive option due to the poor salaries and, reportedly, limited opportunity for promotion. Some private organisations diversified to reduce their dependency on donors and consulting companies that once worked exclusively for donors found their skills useful for working directly with the government and the private sector. One of the largest domestic companies in Mongolia in the mid-2000s was *MCS*, with a range of

interests covering housing construction to vodka production. Few may remember that this company started life as *Mongolia Consulting Services* in the early 1990s servicing donor (largely ADB) projects with English-speaking Mongolian specialists. For individual Mongolia development specialists, the fact that Mongolia is a small country encouraged the development of networks beyond development and into the private sector reducing dependency on donors for financing consulting work.

At the same time, and as noted earlier in the chapter, key donors were also dependent on Mongolia for some of their ambitions: Japan in relation to obtaining a permanent seat on the Security Council, and; the United States with reference to a partner in the GWOT and in its foreign escapades. This raises a very simple question: Who has more to lose? The wild-card in determining Mongolia's aid dependency was (and remains) China and the large amount of financial support it could provide to Mongolia in case of emergency or to counterbalance the demands of DAC donors and the MDBs in their control.

#### **5.4.3 Perceptions of national capacity**

Donor perceptions of national capacity were at the core of their willingness to accept greater national ownership and in Mongolia these perceptions were influenced by a number of factors. For example, the key feature of the aid management system was the movement of responsibilities with each change in government: that is four organisations responsible for aid management at different times between the start of the transition and 2005. Combined with staff turnover, this prevented the development of long-term individual and institutional relationships that would have facilitated a better overall aid relationship. Changes in government and civil servants also posed a problem for building capacity to take on greater national ownership. Changes in government caused even bigger problems at the policy level. The previous section noted that the failure to complete the Fund-supported programmes, even when many of the key objectives were met, suggested lack of sustained national ownership of its policies. The IMF's report on the long-term engagement in Mongolia (IMF 2005: p.25) concluded the following:

Each new administration was keen to resume a Fund arrangement and there appeared to be commitment at the highest level of government at the onset of each new program. Yet, none of the programs bridged the frequent changes in government. In the run-up to elections, reforms slowed and afterwards key personnel were changed frequently and initiatives amended. To minimize disruptions of future programs, it would appear important to encourage broad agreement across parties on the key measures to be undertaken—perhaps including through formal means such as declarations of opposition parties to support the program. This may take some time, delaying the process, but would probably improve implementation.

Although key donors often undertook policy dialogue in preparation for policy reform over an extended period of time, not enough was done to facilitate effective government participation in

the process, let alone promote greater national ownership. For example, the 2002 ADB evaluation of its work in Mongolia (Asian Development Bank 2002: p.23) noted that:

‘the general commitment to change was not necessarily based on a good understanding of reform implications, as policymakers were not familiar with market principles and were thus limited in their ability to assess policy content. The lack of translations of key documents into Mongolian further inhibited the extent to which government officials could familiarize themselves with policy reform requirements. In retrospect, some policymakers expressed concern over committing to policies that were not fully understood at the time. In addition, policy dialogue involved only central-level government, and excluded subnational government, NGOs, and other stakeholders from the process, sometimes leading to misinformation and disagreements over policy directions.’

An evaluation of Japanese aid to Mongolia was also cynical about the capacity of the Mongolian authorities in aid management and the potential to improve ownership (Ministry of Foreign Affairs of Japan 2008: p.34):

Our study revealed that the implementation system of the Mongolian side has various problems. These include a lack of coordination capability in the Ministry of Finance which acts as the contact point of aid reception, a culture of compartmentalization among different ministries, a small population, a deficiency in the number of personnel on the Mongolian side due to streamlining of ministries, a lack of ownership partly due to an oversupply of aid, and a culture which has tolerated bribery and public and private nepotism as inevitable for a long time. It would be difficult to change these circumstances in a short time.

But the capacity issue was complicated and heavily influenced by the Soviet legacy in three ways. First, the Soviet legacy of good human capital was important. Writing in the mid-1990s, Smith (1995: p.64) noted that ‘Mongolia’s past achievements in developing her human resource base are outstanding in international comparisons’. Language may have been a constraint in the early days but the education levels of the population with whom donors would engage was high. While many Mongolian’s interviewed recognized the importance of this inheritance they also pointed to the significance in the early years of the transition of a Soviet mind-set following years of doing things one way, with limited exposure to the new practices and approaches that were rapidly being introduced. Not everything inherited from the previous system could be changed so quickly and it was also recognized that not everything should be thrown away. The difficulty lay in deciding what to keep and what to reject.

While the new systems of politics and economics were completely different from the old, there were, of course, great similarities between Mongolia’s former relationship with the Soviet Union and the new ones it was developing with the international donor community. Both provided financial resources, brought in advisors and trainers and sent Mongolian’s abroad for short- and long-term training. Both had a tendency to dictate how things should work. As one informant noted, ‘Mongolians had many jokes about Russian advisors in Mongolia and now the Russians have been replaced with international consultants.’ It may not be an heroic assumption to say that by the time of their withdrawal early 1990s the Russian advisors would have

probably have had significant knowledge of Mongolia even if they lived separate lives from most Mongolian people. In addition to the long-term relationship, the advisors were used to dealing with similar systems, usually spoke the same language as their counterparts and had often been educated in the same institutes of higher education. While the donors showed none of these attributes, the main difference was that, unlike the relationship with the centralized Soviet Union, the community of international donors was not homogenous and reflected a broad range of process, policies and ideologies, and even competitive tendencies.

Second, comprehensive administrative systems were in place, although possibly considered inefficient and based on low-levels of technology. Donor interviewees noted that this was a very important factor when considering the ownership of implementation. It was not just the case for the formal government administrative structure at all levels but, as noted in Section 5.3.1, also for some NGOs. The former public service organisations had been at most quasi-governmental during the Soviet period and the relationship was loosened early in the transition process. These organisations covering women, youth, disabled, veterans, etc., had networks across the country and national hierarchies. Some donors considered them part of the old regime and preferred to deal with the young dynamic and pro-western NGOs that were being established.

Third, signs of the deterioration of the positive aspects of the soviet legacy (especially in health, education and income) pushed the donor community towards a sense of urgency to address these issues. In many cases this sense of urgency prevented capacity development (or was used as an excuse not to engage in capacity development) as evidenced by the large number of parallel programme management mechanisms established in the early days of support and the huge influx of international consultants substituting for the work of national officials.

## ***CONCLUSION***

From the start of Mongolia's transformation the parallel universe occupied by the aid agencies was far removed from the ideals of partnership, ownership and coordination that would be expected of a good aid relationship. From the previous chapter it is clear that Mongolia had a very transaction, as well as resource, intensive aid regime with a concentration of donors in a pattern not dissimilar to the LIPCCs as a whole. It is also clear that although Mongolia was quite aid dependent at the start of the transformation process, this dependence decreased over time as it moved away from emergency balance of payments support and gained easier access to private capital flows. Yet by 2005 the country remained vulnerable to economic and natural shocks both of which were well understood by the government and made the country more dependent on aid than it otherwise would have been. Furthermore, it is clear that dependency

existed not only at the national level, but also among government units, individuals in the units, civil society organisations and parts of the private sector.

The key pre-conditions for an effective partnership, namely basic shared values in terms of a move towards democracy and a market economy, were in place since *de-facto* independence. But beyond the overall thrust of the transition there remained areas where donors and the Mongolian authorities did not agree, including key issues such as poverty alleviation and sensitive matters such as land reform. There was also the existence of a strong set of civil society organisations and private sector entities that enabled the development of broad partnerships. In addition, there was a willingness to engage in productive partnerships with a variety of international development organisations including civil society organisations.

Very little was done to explicitly improve the aid relationship during the 1990s. Since the start of the new millennium the dual forces of the CDF principles through the PRSP process and the harmonisation and alignment agenda have had an effect on the relationship. But in the period up to 2005, this effect was limited and implementation of harmonisation/alignment initiatives was slow. The degree of national ownership was mixed. On the one hand there seemed to be a high degree of national ownership in some projects combined with a low degree of ownership at the more strategic level. On the other, donor organisations themselves did not agree on the optimal level of national ownership, as in the example of the World Bank.

A set of factors related to policy and ideology centre around the lack of information about, and understanding of, the aid system, combined with a lack of broad debate on the system, aid effectiveness and the importance of the aid relationship. This uncertainty meant that there was no rational or coherent policy or ideology on the aid relationship from the national side. A further set of factors related to the dependency of the country as well as the individuals and organizations involved in aid. Mongolia was vulnerable to both natural disaster and economic conditions which also contributed to limited negotiating capital when it came to negotiating the aid relationship. Weak perception of national capacity and inability to build upon the positive aspects of the Soviet legacy often left donors reluctant to release ownership to the national side. This combined with a sense of urgency to address priority socio-economic issues also left donors unwilling to let go control of their interventions.

Yet while the above conditions appear to be important, it is nonetheless extremely difficult to make a judgement on the nature and importance of the aid relationship at the national level, apart from broad generalisations that would not hold true for all situations and all donors. The analysis therefore needs to be taken to a lower level as will be done in the next chapter.



## **CHAPTER 6: AID RELATIONSHIPS AND THE MONGOLIAN LABOUR MINISTRY**

Previous chapters identified the difficulty in understanding the complexity of many dimensions of the aid relationship at the regional and country levels. The high degree of aggregation can, in relation to specific aspects of the relationship, make it impossible to understand fully the factors that affect, and are affected by, the many individual relationships that exist. This chapter addresses the heart of the research problem, examining the nature of the aid relationship at a micro-level as well as the factors that determine it. It does this through examining donor interventions related to a single unit in the Mongolian government, the ministry responsible for labour and social protection issues. While recognising that relationships at the country level set the tone for those at the micro-level, the chapter now forces the research to confront the realities of an aid relationship at the ‘coalface’.

The Mongolian government organisation responsible for labour and social security issues has gone through a number of manifestations since the start of the transition to a democratic market economy. Formed out of the old State Committee for Labour and Social Security in 1990, the organisation was originally simply named the Ministry of Labour until renamed the Ministry of Population Policy and Labour (MPPL) in 1992. The MPPL was responsible for employment and labour issues, the social security system, population (demographic) policy and poverty reduction, as well as for the welfare of designated vulnerable groups, namely women, children, disabled, elderly and youth. Following implementation of a comprehensive and donor-driven public administration reform in 1996 the ministry was merged with the Ministry of Health to form a new Ministry of Health and Social Welfare. Four years later in 2000, the newly elected government, recognising the poor effectiveness of this arrangement, separated these functions again to form the Ministry of Social Welfare and Labour (MSWL).

Due to its broad mandate it has always been difficult for the Ministry to manage the range of tasks it was responsible for, while at the same time focus on national priority issues. The 1996 public administration reforms attempted to separate the policy and execution functions of the ministry by establishing specialised executing agencies covering the areas of social insurance (State Social Insurance General Office), employment (Central Employment Promotion Office) and social welfare (State Social Welfare Agency),<sup>241</sup> leaving the Ministry with a policy design, implementation and monitoring function. Ministerial departments were no longer divided by issue (employment, social welfare and social security) but by function (policy and strategy,

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<sup>241</sup> Each of these execution agencies has taken several different forms since 1996 and the titles used here were the ones that existed in 2001.

implementation, and monitoring). Despite the changes in internal structure implementation of the new arrangements was weak and departmental officials continued to be classified as either employment or social protection specialists. Although the Mongolian Civil Service Law states that staff of the Ministry below Deputy Minister hold non-political positions, significant changes in personnel took place in 1996 and then again in 2000 with the change in government.<sup>242</sup> Furthermore, while other ministries were able to focus on their relatively narrow mandates, such as health or education, the labour ministry covered a wide range of issues, often only loosely connected with each other. Not only was the labour ministry's mandate broad but there was also inevitable overlap in mandates with other ministries. For example, the ministry responsible for education had an overlapping mandate on the subject of technical vocational education and training. There was also some overlap with the mandate of the ministry responsible for health in relation to disability as well as, to a lesser extent, regarding reproductive health and the status of women and children.

It should also be noted that the ministry has always had a very transaction intensive relationship with donors and other international organisations. Its broad mandate meant that it automatically developed strong relationships with the major UN specialised agencies, programmes and funds: the UN Population Fund (UNFPA) for population; the UN Children's Fund (UNICEF) for children; the World Health Organization for disabled; and, its main partner, covering labour, employment and social protection issues, the ILO. Given its responsibilities for poverty it would also attract the main multilateral development agencies: the World Bank, the ADB and UNDP. International development NGOs, though not numerous in Mongolia but including Save the Children (UK) and World Vision, were also drawn to it. For the same reason, the bilateral donors engaged with the Ministry, for example USAID on social insurance reform. With the fiscal impact of social protection spending an important issue in Mongolia at the time, even the IMF had a great interest in the ministry's activities. This is in addition to engagement with the so-called *horizontal* projects and programmes that cut across all ministries such as those related to improving governance through public administration and civil service reform or on improving government statistics.

Not only did the ministry have to engage with a large number of international organisations in relation to their projects but its broad mandate led to a huge obligation for reporting, for example for the UN global conferences in the mid-1990s on population (1994), social development (1995) and women (1995).<sup>243</sup> Each required preparation of national reports and

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<sup>242</sup> Initial changes to non-political positions in the MSWL following the 2004 elections were limited as they resulted in a coalition government.

<sup>243</sup> Namely: The International Conference on Population and Development (Cairo); the World Summit for Social Development (Copenhagen); and the Fourth World Conference on Women (Beijing).

sending delegations to the summits at a time when the Ministry was trying to address serious social concerns in Mongolia with limited capabilities and resources. The above may not be a problem in many countries with similar obligations to the international community but in a country with such a small population, a small technical staff in the ministry and limited experience with such matters, these were a great burden (often requiring donor assistance to overcome). In addition, the ministry was asked to support the preparation of various UN and donor agency annual reports largely through data collection, as well as more substantive contributions to *ad hoc* reports, for example the production of the UNDP National Human Development Reports in 1997, 2000 and 2003.

This chapter aims to shed further light on the core research question through a detailed examination of selected activities in this Mongolian government ministry. Set within the context established in the previous chapter it will use two case studies, specifically large programmes associated with the ministry, to see what has changed over time in terms of improving the aid relationship in order to increase aid effectiveness. The first case study is the National Poverty Alleviation Programme (NPAP) a large multi-dimensional and multi-donor-supported national programme that ran from 1994 to 2000. The second is the ADB-supported Social Security Sector Development Programme (SSSDP) that was approved in 2001. Although there is an overlap in the ground covered by these two programmes, the SSSDP was not designed as a follow-up to the NPAP. While the NPAP covered an area beyond the mandate of the labour ministry (then the MPPL) dealing with issues such as education, health and rural development, the SSSDP was almost exclusively focussed on issues within the responsibility of the MSSL.<sup>244</sup>

## **6.1 THE NATIONAL POVERTY ALLEVIATION PROGRAMME**

The NPAP was first conceived during the World Bank and Japan-sponsored Mongolia Assistance Group Meeting held in Tokyo in late-1993 where it was agreed that UNDP would be given responsibility within the donor community for helping the government develop a national programme to address Mongolia's urgent poverty reduction needs. The meeting was the third of its kind and ran in parallel to the UNDP-supported Donor Consultation Meetings held in Ulaanbaatar in 1991 and 1992.<sup>245</sup> Donor participants reported that the meeting was dominated by conflict over the relative roles of the World Bank and UNDP in the organisation and conduct of the meeting itself, and in the overall aid coordination process in Mongolia. The agreement that UNDP would take a lead role in helping the government address its poverty reduction

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<sup>244</sup> As will be explained later in the chapter, it included activities that fell within the mandate of the Ministry of Science and Education, specifically activities related to skill training for employment.

<sup>245</sup> Previous 'Assistance Group Meetings' were held in Tokyo in September 1991 and May 1992 while 'Donor Consultation Meetings' had been held in Ulaanbaatar in October 1991 and October 1992.

challenges was seen by some donors as part of this power struggle and, to some extent, a way of compensating UNDP for its loss of the lead aid coordination role.

It is useful to reiterate a few facts about Mongolia's context at this time even if they have been mentioned in earlier chapters. First, in late 1993 Mongolia had very limited experience with foreign aid. As noted in the previous chapter, significant foreign aid flows began only in late 1990 and the majority of this early assistance was emergency programme aid. The MPPL had experience with a number of relatively small projects but these were largely technical assistance and nothing of the scale envisaged in the NPAP. Second, donor cooperation was weak and mechanisms were not in place to ensure effective coordination of foreign aid by the national authorities. Neither was the government in a position to be strategic about determining its priority needs as the planning system was not yet aligned to the new economic and political systems. At the same time, the lack of such a planning framework led to weak coordination between the various ministries and other agencies. In reality both the group of donors and the set of ministries were in a state of competition.

### **6.1.1 The NPAP Design Process**

UNDP's approach to helping government develop the programme was to field a large mission of international consultants, and a distinguished team leader was selected by the UNDP Country Office based on the recommendations of UNDP headquarters in New York. The Country Office's idea was to have the team made up of members of different UN agencies to ensure that the process became a joint UN country team effort rather than just that of UNDP. The team leader had other ideas and selected his own set of core consultants. The relationship between the team leader and the consultants outside this core group was sometimes fractious although all were given a role to play in the production of the final product.<sup>246</sup>

The twelve-person mission arrived in Mongolia seven months after the 2003 donor meeting and comprised specialists in the major dimensions of poverty including economy, education, health, rural development, women, employment and social security. It was fielded for one month and included additional administrative assistance from another UNDP country office just to help with the logistical organisation of the work. One feature of this process was impatience, not from the government, but from UNDP, where there concern that the work get done before other donors took the opportunity to compete in the arena or even managed to take away UNDP's role as lead agency.<sup>247</sup> UNDP planned to provide assistance to the government through a number of sectoral and thematic working groups that had been established by the government prior to the

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<sup>246</sup> The author of this thesis worked closely with the consultants and validated this perception through an interview with a former UNDP staff member.

<sup>247</sup> This was very clear from internal meetings in UNDP at the time and confirmed by interviews with former UNDP staff.

arrival of the mission. No element of direct capacity building was included in the intervention but there may have been some expectations of such a process simply through engagement with the international ‘experts’. Unfortunately the UNDP team did not think much of the working groups and retired to their hotel where, apart from a few meetings and the occasional field trip, they managed to write a comprehensive report on poverty in Mongolia.

No comprehensive survey data on poverty in all its dimensions was available at the time apart from that using the old Soviet system which was unable to capture the changing situation effectively. In fact there was very little knowledge about poverty in Mongolia with only some rapid research undertaken by UNDP in 1993 and some limited data coming from the Soviet-era household budget survey used by the MPPL. Some sectoral studies had been produced, for example on health and education by UNICEF, the World Bank and ADB. The UNDP team drew heavily on these resources and put together a document that for the first time examined poverty beyond its simple income-related dimensions.

UNDP was then faced with the task of helping the government convert the *report* (essentially designed as a book<sup>248</sup>) into a *programme* to present to the donors. While in the process of writing the book there was limited engagement between the authors and the government or Mongolian civil society, during the process of the conversion to a programme, there was even less. The work was largely undertaken by the UNDP Country Office with the government simply commenting on the various drafts that were produced. The consultants’ report also contained sections that made the Government angry, specifically suggestions of weak macro-economic management and inadequate government attention to women’s issues. In addition, translation became a major issue and one that led to further conflict.<sup>249</sup>

There was confusion over the basic purpose of the programme document. On the one hand, from UNDP’s perspective the programme had developed into a framework that would strategically link all the actions that needed to be undertaken by various government bodies to address Mongolia’s priority poverty issues. In this sense it was more of a management tool for government. From the government’s perspective (as well as for some donors) it was more of a programme of action that would need to be implemented and funded by donors. There was also confusion within donor organisations and government, even within UNDP, the organisation where the initiative had come from. Where the government did play a role was in the last-minute preparation of a budget, based on existing expenditure levels in the various areas

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<sup>248</sup> The edited book that resulted from the report – *Poverty and the Transition to a Market Economy in Mongolia* – was published by St Martin’s Press the following year (Griffin 1995).

<sup>249</sup> Simple translation errors and misinterpretations led to a small number of serious conflicts between UNDP and the MPPL which took time to solve and slowed the process significantly.

covered by the programme rather than on an estimate of the costs to produce the programmes outputs.

Towards the end of the design process, it became clear that due to time constraints not all changes could be translated and the document was finalised by UNDP without significant government input. The lack of engagement with the government, especially over issues of practical application of the programme, meant that the final programme document looked nothing like the Government documents that Mongolian government officials or members of civil society organisations were used to. In reality, although intended to be a strategic framework, it was designed largely as a resource mobilisation exercise for UNDP as much as for the government.

Having already written to the donor community to invite them to discuss the new Government poverty programme in a large, formal meeting designed to be like a regular donor meeting but focussed on the single issue of poverty, the government was then forced to adopt the programme, which it did in June 1994. The special NPAP Donor Meeting, ostensibly hosted by the government but in reality managed by UNDP, was followed by a similarly arranged meeting for relevant NGOs the following day. The objective of the donor meeting was to mobilise resources to finance the programme that would result from the report and programme.

The NPAP programme framework set out the scope, objectives, principles and implementation mechanisms. The design followed the three-stranded approach that had been suggested by the World Bank's 1990 World Development Report (WDR), namely economic growth, investment in human capital and strengthening social security systems. Since its design was primarily supported by UNDP it was loosely based on the principles of *human development* as had been established in the series of Human Development Reports initiated a few years earlier. The six components of the programme are listed in Box 6.1 below.

Box 6.1: Components of the National Poverty Alleviation Programme

- Component 1: Policy Management and institutional Strengthening
- Component 2: Poverty Alleviation through Economic Growth and Employment Promotion
- Component 3: Protecting Human Capital
- Component 4: Alleviating Women's Poverty
- Component 5: Alleviating Rural Poverty
- Component 6: Strengthening the Social Safety Net

The programme itself was a list of components and component activities, and covered health, education, social security, employment creation, rural development and women's issues. Macro-economic and governance issues were considered important elements of the Government's strategy for poverty reduction but were excluded from the programme as these were the preserve of the IMF/World Bank and the ongoing UNDP-supported Management Development Programme<sup>250</sup> respectively. Not linked to the budget or the macro-economy, the NPAP was just the kind of poverty reduction strategy that led to the development of the more ambitious and holistic PRSP approach in the late 1990s. There were no linkages with a comprehensive national development planning system as such a system simply did not exist. Immediately, the NPAP became an additional and parallel instrument for the government and was seen by national observers as a donor tool.<sup>251</sup> The problem already noted that the NPAP meant different things to different people and organisations also contributed to confusion during implementation. The idea of a cross-cutting, cross-ministerial set of activities was new in a system where sectoral organisations protected their mandates with vigour and where cooperation was limited.

Moreover, the NPAP framework document itself was only part of the overall programme. To facilitate the implementation of the NPAP, the programme included a Poverty Alleviation Fund (PAF) based on the model of social investment funds that had been developed in a number of developing countries in the 1980s and which were designed to offset the negative impact of structural adjustment. Although the World Bank had indicated that it was going to prepare a loan that would support the implementation of the NPAP, UNDP engaged a number of consultants to develop the PAF as a multi-donor funded instrument and to maintain its control and lead role in the NPAP initiative. Consultants were brought in from countries that already had such funds (Nicaragua and Sri Lanka) but government officials found it difficult to understand how these mechanisms, in countries so different from Mongolia, could be useful for them. Drawing on his own experience, the Nicaraguan consultant promoted a funding mechanism completely independent of government managed by well-paid people (i.e. paid significantly more than equivalent government officials) driving around in Land Cruisers overseeing projects and making decisions. This idea was immediately dismissed by the MPPL. The Sri Lankan consultant was then engaged to promote a vision of a fund more appropriate for a poor Asian country but also upset the MPPL through promoting ideas more appropriate for a small warm country (such as the extensive use of motor cycles in rural areas where the horse is the traditional mode of transport). A Bolivian consultant with significant experience in his country's social investment funds was subsequently brought in by the World Bank but by now

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<sup>250</sup> The broad and ambitious UNDP-supported Management Development Programme had been approved earlier and addressed governance issues in the country including public administration reform, decentralisation and civil service strengthening.

<sup>251</sup> Mongolian government and civil society representatives interviewed uniformly viewed the mechanism this way.

the MPPL staff was unwilling to engage in the design process. This compounded the existing challenge of international consultants who did not understand the complex government systems and were plagued by lack of data and translation problems. The combination led to MPPL resistance to engaging more international consultants in the design process, a problem in terms of crafting such a complex, multi-dimensional mechanism.

### **6.1.2 NPAP Management**

To manage the implementation of the programme the government, at donor insistence, established the Poverty Alleviation Programme Office (PAPO)<sup>252</sup> in 1994. A National Poverty Alleviation Council (NPAC) that was chaired by the Prime Minister with the Minister of Population Policy and Labour as the deputy chair. This high level coordinating council would include the Ministers of the main ministries with interest in the NPAP including the Ministry of Finance<sup>253</sup> and the majority of the line ministries together with a number of NGOs (a total of fifteen members). The NPAC would be responsible for the overall management of the programme (although actual implementation would be directly managed through PAPO) its main role would be for monitoring programme implementation and ensuring that bottlenecks were removed. It would also assist with programme coordination and endorse or approve the major NPAP reports. It was due to meet at least four times a year in this role but this frequency varied over the life of the programme.

PAPO was physically established in the MPPL but was supposedly an independent unit under the NPAC with the Director of PAPO serving as Secretary to the NPAC. The issue of the independence of PAPO and the role of the MPPL vis-à-vis the NPAC was to be the cause of considerable conflict between the donors and the government, specifically the MPPL, over the whole life of the programme. Its operations were initially financed by UNDP with an agreement in the World Bank's Poverty Alleviation for Vulnerable Groups (PAVG) project for the government to continue financing it after the first year. UNDP's financing role gave it some leverage in determining the status of the PAPO which it believed should be independent of any ministry.

The parallel mechanism of the PAF was established across the whole country and included a new organisational structure that would bring together different levels of government and civil society at the local level. Although at the central level the PAF was managed by PAPO, an important innovation for the fund was the introduction of a decentralised management system

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<sup>252</sup> Originally, the unit was named the Poverty Alleviation Programme Management Unit or PAPMU.

<sup>253</sup> Finance, External Relations, Infrastructure Development, Justice, Agriculture & Industry, Education, Nature & Environment, and Health & Social Protection.

that would cover the whole country.<sup>254</sup> This was quite a challenge in a country the size of Mongolia with a small population and poor communications. In its favour were the existing government administrative and political structures that covered the whole country at the province (*Aimag*) and sub-province (*Sum*) level.<sup>255</sup> At the same time the networks of inheritor NGOs (as already described) could be used in implementing the programme. At each administrative level (21 Aimags<sup>256</sup> and 315 Sums) a local council was established to facilitate the implementation of the PAF. The Aimag and Sum Poverty Alleviation Councils (APACs and SPACs respectively) consisted of representatives from the local administration, NGOs, and cooperative and employers associations.

In the capital, Ulaanbaatar, a similar system existed with district (*Dureeg*) DPAC and sub-district (*Khorro*) KPACs as well as an overall Ulaanbaatar PAC (UPAC) as illustrated in Figure 6.1 below. The APAC and DPACs were responsible for the appraisal, selection, administration, management and quarterly monitoring of the PAF projects. Reporting to APACs and DPACs respectively, the SPACs and KPACs were similarly constituted and were responsible for facilitating the identification, formulation, implementation and monthly monitoring of projects. They were also expected to promote community participation and organise local training. Each APAC and DPAC had a Secretary who was provided with a computer and photocopier to facilitate management of the sub-projects financed by the PAF. In addition, from 1997, the Secretaries were assisted by community activists and specialists in training, micro-credit and monitoring and evaluation. It has to be noted that this network covered a country the three times the size of France and inevitably was expensive to establish and operate (at a minimum the costs would include APAC/DPAC Secretary salaries and their basic equipment). The NPAP Final Report noted that operational costs totalled US\$ 1.7 million or 12.6 per cent of the value of projects delivered.

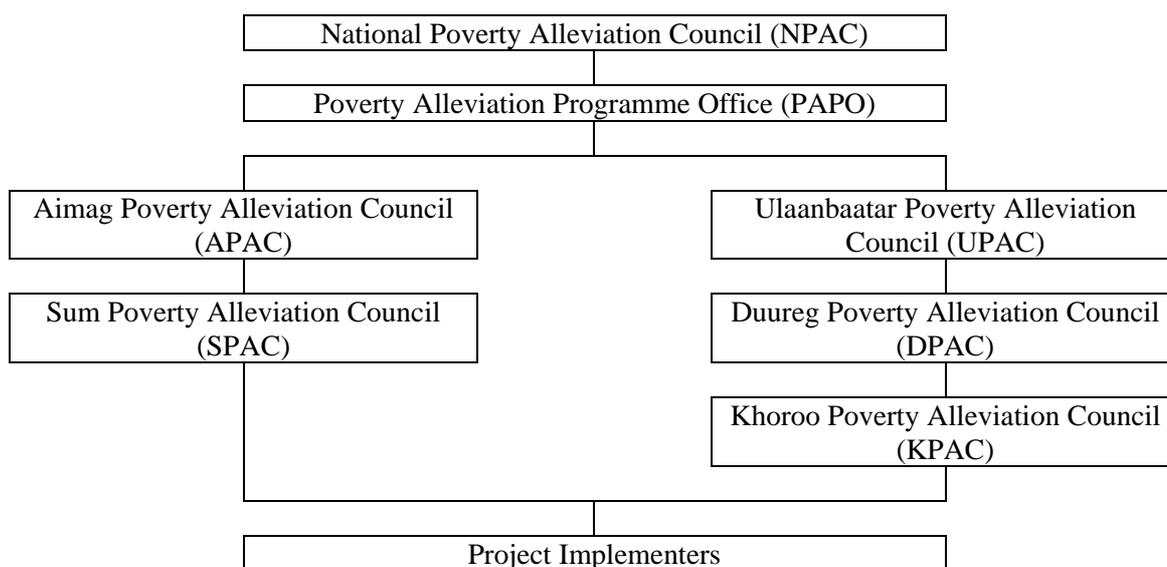
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<sup>254</sup> The institutional framework changed during the six-year implementation of the NPAP but remained broadly in line with the description in this paragraph.

<sup>255</sup> On average, each sum administers a territory of 4,200 km<sup>2</sup> with about 5,000 inhabitants, primarily nomadic herders.

<sup>256</sup> There are also three small cities in addition to Ulaanbaatar that were treated like Aimags.

Figure 6.1: Institutional Structure of the NPAP



Source: (Government of Mongolia 2000: p.10)

Since the World Bank was to finance the programme it had already established a set of pilot projects related to the key components it expected to finance under the proposed loan for the PAVG project. The pilot projects, financed by a Japanese grant to the World Bank, were established well in advance of the proposed loan design phase but did not take into account the Mongolian climate. Although ready for implementation in the autumn of 2004 most could not be implemented until spring, by which time the design of the main project was well under way. At the same time the pilots were implemented in a number of provinces across the country making supervision of project implementation and learning from them both difficult and expensive.

### 6.1.3 NPAP Implementation

Many of the donors and NGOs working with the MPPL also supported the NPAP. Moreover, PAPO was successful in attracting new donors to the NPAP, possibly at the expense of funds for the MPPL, a possibility that did not go unnoticed in the ministry. During the implementation of the NPAP a total of US\$ 15.4 million passed through the programmes covering PAF funded projects, non-PAF projects largely related to capacity building and operational expenses. Among the bilateral donors, Japan, Sweden, Netherlands, UK, and China supported the NPAP. The World Bank and UNDP were the main multilaterals, with some support for the programme from the ADB. Participating international NGOs included Save the Children (UK), World Vision, and the Adventists Development and Relief Agency (Government of Mongolia 2000). From the total of the US\$ 15 million that went through the programme, the PAF was largely financed by a US\$ 10 million IDA credit from the World Bank through the PAVG project, the

approval of which in 1995 effectively marked the start of the programme. According to the NPAP Final Report, US\$ 12.7 million was disbursed through the PAF for the implementation of over 13,000 small-scale poverty alleviation projects throughout the country. These include 7,200 income-generating small businesses, restocking of 2,204 herding households, 634 public works schemes, 468 basic education schemes, 536 rural health schemes and 20 schemes for the disabled. All the 342 *sums* and 9 *duuregs* of the country have benefited from a combination of these different schemes and 219 remote rural *sums* received an ambulance each (Government of Mongolia 2001).

Two things changed soon after PAVG approval. First, as already noted, the NPAP, originally known as the UNDP poverty programme by government and donors alike became known as the World Bank poverty programme. For example, the government's final NPAP implementation report stated that the 'National Poverty Alleviation Programme [was] implemented from 1994 to 2000 on the basis of a contract signed between the Government of Mongolia and the International Development Association' (Government of Mongolia 2000: p.46). Second, implementation of the NPAP became associated only with the PAF. In other words the idea of the NPAP as a strategy that would ensure that a broad range of interventions *and* policy reforms were made in a strategic manner became redundant. The NPAP and the PAF became synonymous and implementation of the NPAP meant interventions through the fund mechanism. In the government presentation to the donor meeting held in Tokyo in 1996 the idea of a the NPAP as a strategic tool was lost and reference to activities outside the PAF extremely limited (Government of Mongolia 1996). In the final NPAP implementation report the focus is firmly on the NPAP as PAF (Government of Mongolia 2000). McKinley (2003: p.123) noted in 2000 that 'what has happened, in fact, is that the national poverty reduction [sic] strategy has been reduced to a set of local targeted interventions – valuable in themselves, without a doubt, but hardly constituting a national strategy'.

The stated goal of the NPAP was to reduce poverty to less than 10 per cent of the population during its 6 years of implementation: this it did not achieve. When the programme was formulated the estimates of poverty were very crude and the causes and consequences of poverty not clearly understood. In 1995, the year following the NPAP design, a World Bank sponsored Living Standards Measurement Survey suggested poverty levels in the order of 35 per cent of the population; by the year 2000 the estimate was almost the same. Clearly the actual goal was largely based on ignorance of the actual situation and on a desire to set a target even though it was unfeasible to do so with any authority. This desire for a target was externally driven and the target itself comes from an example used by the leader of the team of international consultants recruited to help the government formulate the NPAP. The consultant

used the example during his discussions with government to illustrate the importance of poverty reduction and the consequences of not doing anything about it. With the benefit of hindsight it would have been far better to have had no goal in the programme and to have developed one based on a programme of research as well as the Living Standards Measurement Survey undertaken the following year.

While the NPAP may not have achieved its nebulous goal the counterfactual situation is unclear and no attempts have been made to examine what would have happened to the level of poverty without the NPAP in place. Certainly the NPAP put poverty on the agenda at all levels of government and among civil society. It was also responsible for significant community mobilization at the local level even if this was more successful than direct job creation or infrastructure development. The Government went into design of the second phase of the NPAP, the *National Programme for Support of Household Livelihood Capacity*.<sup>257</sup>

## **6.2 THE NPAP AND THE AID RELATIONSHIP**

As already noted, the aid relationship does not just exist at the national level between a donor and a recipient but is a complex set of multiple individual and organisational relationships. In this section the focus is on the relationship between various donors and the national organisations involved in the design and implementation of a single government programme.

### **6.2.1 Partnership**

In Chapter 2 the concept of common values was recognised as a key element of partnership and this was largely used in the context of a relationship between a nation state and an aid organisation. These values were seen to be at the highest level and would include such fundamental issues as respect for human rights or adoption of the principles of democratic governance. Similarly at the meso- (country programme) and micro- (project/programme) levels the donors and government need to share some fundamental vision as to how to address the problem before a partnership can be further developed. From the design of the NPAP in 1993 and continuing throughout its implementation, a basic problem was related to the scope of the programme and, more specifically, the meaning of poverty.

In the early years of the transition the Mongolian government took a very pragmatic approach to poverty: shortage of money was the root of poverty and the answer was either employment for those that could work and transfers (cash or in-kind) for those that could not. Not only was this

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<sup>257</sup> The World Bank was encouraging a Sustainable Livelihoods approach and this represents the translation back from Mongolian. It is sometimes translated simply as the *Mongolian Household Security Programme*.

in line with the previous Soviet-designed system but it also meant that responsibility for poverty reduction through these two channels lay directly with the MPPL. The MPPL perceived that it was responsible for poverty reduction within the government and this perception was reinforced by the relevant (albeit vague) legislation setting out the responsibilities of the various ministries.<sup>258</sup> The donors on the other hand were looking at a very different concept of poverty and a different way of reducing it: multidimensional poverty and the three-stranded approach of the World Bank 1990 World Development Report described earlier. This would inevitably involve a number of different ministries (at a minimum it would also include the ministries of health, education and agriculture in addition to labour) and would require a new organisational framework to ensure effective cross-ministerial management and coordination. Not only did the government have a different understanding of poverty and the ways to address it but the latter was heavily influenced by the understanding of the causes of poverty. An informal survey of *Sum* governors, undertaken in 1994 while they were in Ulaanbaatar for training, revealed that the vast majority believed the poor to be poor because of laziness.<sup>259</sup> Fundamentally, this situation should have raised a serious question: Could the donors and the government form a partnership in the area of poverty reduction when their broad vision of what it was and how to address the issue was so different?

A second dimension of partnership that was weak in the context of the NPAP was the poor clarity of the relationship as described earlier. While responsibilities related to project implementation may have been clear (especially in the context of World Bank credits where a detailed legal agreement was established), the lack of clarity concerning implementation mechanisms, as noted earlier, did not set the stage for a good partnership. This was especially true when the donors and government hold opposing views and are unwilling to change their positions.

### **6.2.2 Ownership**

Without an effective partnership between the MPPL and the donor community, any degree of national ownership was going to be difficult or even impossible. The concept of the NPAP was donor owned and had little to do with the government or even the MPPL, which was not represented at the Tokyo meeting where the donors decided that UNDP should play the lead role in supporting its development. When UNDP first discussed the idea with MPPL, the Ministry made it clear that it already had an anti-poverty programme developed with the help of the ILO that was income poverty focused (employment and social security) and therefore fell directly within its mandate. In addition, the government already had financing mechanisms

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<sup>258</sup> Law on Administrative Responsibilities (November 1992).

<sup>259</sup> Interview with a UNDP consultant who designed the survey in 1994.

covering much the same set of issues as the PAF, specifically, livelihoods (micro-finance), local development (public works and small scale infrastructure), women (like the others but targeted to women) and social assistance (targeted transfers), and did not fully understand why the parallel mechanism was needed. At the same time the ministry resisted integration of its funds and the PAF on the World Bank's terms, which would have meant that the existing funds would have been subsumed under the new donor-driven ones. The MPPL had a very small share of responsibility for NPAP design or even authority to ensure that it reflected government policy (such as it was). The donors, chiefly UNDP and the World Bank, did little to address this issue.<sup>260</sup>

During the design phase, the World Bank decided that the micro-credit component was too risky and began to discuss with the MPPL the option of dropping it or, second-best, have it initially implemented on a small-scale (for example in one province) so that more lessons could be learned. The government/MPPL stood firm stating that this was the core of its efforts (and one of the parts for which it was directly responsible) and the World Bank eventually approved the project with a micro-credit scheme. The Government wanted the component above all the others but recognised its lack of capacity and wanted help in designing it. The only ideas it contributed at the beginning of the design process related to the interest rates (to keep them below market rates) and the size of the borrowing groups. But once the Bank had stopped resisting the idea, it simply allowed the government to include its own design parameters. The scheme faced significant challenges and its contribution to development results was mixed. With the benefit of hindsight it is likely that the Bank was right and that further capacity development activities should have been conducted before a nationwide system of micro-finance was put in place. This example also illustrates the need to examine ownership across the whole project cycle since giving government ownership of design when the concept had been set by the donor does not make the initiative country driven.

There is also the question of who is the owner on the government side in the context of a multi-sectoral approach with a strongly sectoral public administration. Participants on both government and donor sides (specifically the MPPL within the Mongolian government and UNDP/World Bank among the donors) fought for ownership of the implementation mechanism. As already noted the MPPL had limited involvement in the development of NPAP itself. The consultation that did take place was focussed on the list of things to be done, not the way it would be done. Nor did it have significant involvement in the implementation of the programme

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<sup>260</sup> As an example, the Minister of Population Policy and Labour had copies of the 1990 WDR and other reports such as the UNDP Human Development Reports in his library in English, but he could not read them. It was not until 1995 did the World Bank give him the latest WDR in Russian even though earlier versions were available in the language.

where ownership of the structure, approaches, processes, monitoring and evaluation and so on were maintained by the UNDP. As already noted, UNDP funded the equipment and operating costs of PAPO, including the costs of the staff and, as a result, played the major role in their selection. During meetings with MPPL officials at the time it became clear that they were excited by the prospect (and promise) of further funds. While the NPAP was multi-sectoral, other ministries tended to look at the sections that directly related to them. Some of the areas, for example education, were largely in line with the existing sector development programmes and other agreements.

In a similar way to the approach used by the donors in countries where the partnership is poor, for example in the absence of common values, the donors then decided to *go around* government and establish parallel management and implementation arrangements (i.e. the PAF): in effect, a separate government execution agency. It should also be noted that the donor's approach of *going around* government did not necessarily mean using civil society partners for implementation. Civil society organisations were asked to contribute (and to some extent the private sector too through NGOs representing employers) but this was largely limited to the inheritor NGOs described in the previous chapter. The use of NGOs in implementing the NPAP was an explicit part of the programme document and NGOs were part of the organisation structure being members of the national, provincial and sub-provincial PACs. Rather, the donors *went around* the ministry with a comprehensive implementation arrangement that remained loosely based on existing government public administration systems but nonetheless parallel to the MPPL and other national administrative structures. Where there was greater national ownership was at the local level, where communities came together to decide their priorities and design a proposal for financing by the PAF. This type of national ownership again raises the question of who are the owners of a donor intervention and who they should be.

The perception of the programme as donor driven was frustrating to some donors who wanted it to be seen as a government programme (even though they would not let go control of the initiative). At the same time as the NPAP effectively became a social investment fund financed by the World Bank, the Bank and UNDP entered a period of intense rivalry to gain control of the initiative. As the focus of donor aid policy converged on poverty, the race to *control* poverty reduction was strong, especially between these two organisations but later including others. The inter-donor rivalry was not the only source of conflict and clashes between the donors and the MPPL went on for the life of the programme. Even after the MPPL was disbanded on the advice of a donor project (only to be re-established 4 years later) the conflict continued in the form of the new Ministry of Health and Social Welfare.

### **6.3 NPAP: DOES THE GOOD AID RELATIONSHIP PROMOTE GREATER EFFECTIVENESS?**

This section addressed the question of the relationship between the good aid relationship and the effectiveness of aid using the four challenges identified in Chapter 3. It provides insights from the field into some of the theories presented in Chapter 3 and contributes to answering the second research question: What is the theory and evidence that links the good aid relationship to more effective aid? It has already been made clear that such an exercise is difficult in the context of a region (Chapter 4) or even with regard to a single country (Chapter 5) but is something that may yield more insights when examined at the project/programme level.

All interviewees were questions related to the linkage between the aid relationship and aid effectiveness but of the four broad areas of investigation, this was the one that revealed the least from interviews. Generally, there was limited discussion of concrete examples in Mongolia, let alone on specific examples of the NPAP (with the notable exception of the NPAP micro-finance scheme). Data collection on this issue was therefore driven by the observations of the author of this thesis, but those observations used here were validated by interviewees or by documentary evidence.

#### **6.3.1 Promoting programme effectiveness**

Greater national ownership at the identification stage may not have focussed the programme on the poorest of the poor, the most marginalised and the most vulnerable. It has been noted that at the time of NPAP design, government officials often regarded the income poor as lazy while at the same time emphasising the plight of educated and experienced civil servants made redundant following privatisation and government restructuring. Although an attempt was made by UNDP consultants to explain to the government the importance of investing in poverty alleviation from an economic perspective (the waste of unemployment/underemployment, of the ill and poorly educated, etc.) lecturing senior government officials in one-off meetings was, not surprisingly, unsuccessful.

At the same time, there is little doubt that greater national ownership by the MPPL would have resulted in a programme focussed on the issues that fall within its mandate. If the objective of the programme was alleviating multi-dimensional poverty (i.e. beyond simple income measures) then a programme only covering the mandate of the MPPL, by itself, may have been less effective. But the World Bank and UNDP choose to locate a programme addressing multi-dimensional poverty in a ministry dealing with responsibility for only one dimension. Partly this was because of lack of clarity between these two concepts: poverty to the government and as

translated into Mongolian dealt only with income/money issues. Greater national ownership at the conceptualisation stage would have identified the appropriate Mongolian terms for poverty and could have resulted in a more appropriate organisational framework. Rather than trying to persuade the ministry responsible for poverty alleviation that it should look at a multi-dimensional concept beyond its mandate, it would have been better to have taken a Mongolian concept and designed the programme around it. The good aid relationship is not a static "one or the other" or donor vs. national ownership proposition. There should be an opportunity for donors to present options to address key national priorities together with implications for both budget and results from which the authorities could choose. Greater national ownership combined with some debate on what is the appropriate concept of poverty for Mongolia is therefore likely to have led to a more appropriate definition, a correspondingly more appropriate organisational framework, more commitment to the programmes goals and more effectiveness. As noted, the main problem with the NPAP was the sense of urgency which donors assumed allowed no time for the necessary debate.

Greater national ownership in design, especially at the early stages, would also have led to a more appropriate mechanism for the PAF. Had the World Bank encouraged greater national ownership of the PAVG pilot projects, not only is it likely that they would have been more appropriate but the timing would have been better. Lessons could have been learned that would feed into the design of the PAF. Greater national ownership would also have addressed some of the key problems imposed by donors and made up for their ignorance (as illustrated in the sad story of the Nicaraguan, Bolivian and Sri Lankan consultants described earlier). The one area where there was greater national ownership concerned the PAF's organisational structure at the local level which was designed with far greater input from MPPL, local government and national civil society. The structure led to one of the most successful parts of the programme and a major achievement of the programme 'over and above the benefits provided to poor households' (McKinley 2003: p.117).

Some interviewees from the donor side implied that there may have been too much national ownership in relation to the World Bank's PAVG project, specifically the micro-credit component. The argument goes that had the World Bank designed all aspects of the initiative it may have been more successful. But the ownership of the design is only part of the story. More importantly was the ownership of the process of design since in this case it was the Government who wanted rapid implementation to address urgent needs and the donor who wanted to learn more and wait for greater understanding from pilot initiatives. The compromise was that the scheme would start immediately and that lessons learned along the way would be used to revise it over time. In the context of an ineffective and conflict-ridden system of programme

management, and the inevitable time it takes to make adjustments to IDA credits, this was not to be the case. Following the arguments used earlier, the micro-credit would have been more effective if designed in partnership between those who know the complex context in Mongolia and those who have experience of such initiatives in other countries and understand the constraints faced by donors.

### **6.3.2 The effect on recipient governance**

In Chapter 3 it was suggested that low degrees of national ownership would add extra burden to the government administration. In the case of the NPAP, however, the low degree of government ownership at all stages of the programme cycle meant that burden on the MPPL would not be in the sense of responsibility for implementation. Ironically, by developing a separate implementation structure through the PAF the NPAP may have reduced administrative burden on the MPPL compared to the approach of integrating its structures into the existing government ones. The NPAP did draw some key MPPL staff away from the Ministry but not many (although it is impossible to say if some of the PAPO recruits from outside government would have joined the Ministry had they not been lured by higher salaries). At the central level the NPAC was an extra burden for its members but although it was supposed to meet on a quarterly basis it did not meet that often and only in an *ad hoc* manner. PAPO largely did the work of the NPAP itself and required little support from the Ministry, partly as it was trying to distance itself from it. On the other side of the coin there were occasions when PAPO would provide support to the Ministry, sometimes in terms of equipment or materials but also human resources, for example translations.

The constant battles between the MPPL and the donors were another matter and one that did add to the work of the Ministry. The lack of a clear vision on how to address poverty, on the poverty concept that was most appropriate and the roles of the different national agencies led to an initial burden during design and a constant burden during implementation. But parallel systems including a parallel management unit (PAPO) also introduced complexity and problems of overlap with existing mechanism adding additional work in terms of administrative governance. Initially based in the MPPL, PAPO was better equipped and its staff better paid than its ministry colleagues in neighbouring offices which reportedly caused some resentment among Ministry staff. The question of its status was the cause of much time and energy to the extent that it 'created confusion and inevitable administrative problems' (McKinley 2003: p.166). Moreover, former MSWL and PAPO staff interviewed expressed their frustration with the lack of clarity and uncertainty over the relationship between PAPO and the MPPL.<sup>261</sup> As one staff member remembers, the Ministry, and the Minister himself in particular, was hit twice by first not being

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<sup>261</sup> Interviews March 2001, April 2002 and July 2003.

in control of the programme while at the same time being the first port of call for the many donor missions wanting to understand how the programme was progressing.

### **6.3.3 The aid relationship, evaluation and accountability**

At the time of NPAP implementation there was no evaluation culture in government and, by default, the parallel nature of the PAF and weak ownership made the government less interested in learning from it. Given weak national capacity in the area of evaluation, greater participation of the national authorities in the evaluation process (beyond simply acting as informants) would have been time consuming and costly but would have allowed the evaluation to take into account national concerns. The externally driven nature of the evaluations was one reason that they were not fully utilized by the Mongolian authorities, being viewed as something for the donor's internal processes rather than something that could be used by the government for changing its programme.

A better, more inclusive, evaluation may have led to important lessons for improving later attempts at designing similar multi-sectoral programmes including the PRSP. The Joint Staff Assessment of the PRSP (IMF and IDA 2003) acknowledges a good consultative processes but the Joint Staff Advisory Note of the first PRSP progress report in 2005 (IMF and IDA 2005) notes 'As it is now, the [Economic Growth Support and Poverty Reduction Strategy] process is isolated from the other government strategic processes and is not used as an effective instrument to feed into policy design and budgeting.' An assessment of the NPAP would have come to similar conclusion. But undertaking an evaluation using the approach of the good aid relationship would only have led to greater aid effectiveness if the government (and civil society) was given enough space to use the lessons in the design of future interventions. Again, the importance of the good aid relationship across all stages of the project cycle becomes clear.

Chapter 3 assumed that greater national ownership would support accountability if national accountability mechanisms were in place. Although it is a new democracy Mongolia has a system of accountability in place supported by regular elections that met international standards (Beck *et al.* 2007). Moreover, a recent World Bank study of social accountability<sup>262</sup> in Mongolia (*ibid*: p.viii) reveals 'an impressive array of social accountability approaches currently in use'. In such a context aid effectiveness could be improved by strengthening the accountability of donors to government. Unfortunately, the lack of NPAP goals means that holding the government or even the donors accountable has been very difficult. The only NPAP goal of

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<sup>262</sup> Social accountability, as used in this study, refers to a) the broad range of actions and mechanisms, including but not limited to voting, that citizens can use to hold public officials to account, as well as b) actions on the part of government, civil society, media, and other societal actors that promote or facilitate these efforts.

reducing poverty from more than 30 per cent to less than 10 per cent was so unrealistic that its utility as a goal needs to be questioned. More important, as the key issue in terms of the good aid relationship, is the question of whom should the citizens hold accountable. If this was seen as a donor-driven programme then even if government accountability mechanisms are in place, citizens will hold the donors accountable for the programme. Government can only be held accountable to its citizens when it is clear that the government is in control, has ownership. When citizens perceive the ownership to belong to the donors then they will not hold the government accountable for its actions.

There was limited reporting of the NPAP at the start of the programme and even towards the end when reporting became more common it was largely related to reporting on activities and outputs and not on the real results of the interventions in the sense of real changes in people's lives. Since the mechanisms for citizens to hold donors accountable are weak, then accountability will be weak and the incentives to improve aid effectiveness will be weakened.

#### **6.4 THE SOCIAL SECURITY SECTOR DEVELOPMENT PROGRAMME**

The SSSDP was distinct from the NPAP in a number of important ways, each of which made a significant difference to its design, implementation and ultimate effectiveness. First, unlike the NPAP, which, for Mongolia, was innovative and unusual (although based around a standard social investment fund mechanism), the Sector Development Programme (SDP) concept had been used in Mongolia since the first Education SDP approved in late-1994. Even if the SDP model was new to the MSWL it was familiar to the Ministries of Education, Health, Agriculture, other line ministries, and, most importantly, the Ministry of Finance. Second, the SSSDP was focussed on the MSWL and did not attempt to be a broad multi-sectoral programme. While the SSSDP did envisage some cooperation with the Ministry of Education with respect to technical and vocational skill training for employment, the vast bulk of the project related to issues within MSWL's domain and mandate. The conflict between the donors and the MSWL regarding responsibility for project implementation that dogged the implementation of the NPAP for years did not occur. Third, the SSSDP was a holistic framework for the ministry and although it envisaged leaving space for other donors to provide assistance, it had the resources to address the majority of the ministries needs. Unlike the NPAP there was no major inter-agency rivalry nor the need to bring other donors on board which would inevitably lead to complications.

In addition, the environment in which the SSSDP was developed was markedly different. First, the Ministry of Finance and Economy<sup>263</sup> (MFE) was by now more sophisticated in terms of understanding the implications of the SDP, and the policy-based programme loan in particular, having participated in the preparation of two previous versions of the programme that were not approved. Many (but by no means all) of its staff had a good understanding of the ADB's approach as well as its practices and procedures. Second, the overall aid regime in Mongolia within which the SSSDP was designed was also significantly different to that of late 1993 and early 1994 when the NPAP was designed. By 2001, the government had gained significant experience with foreign assistance, donor coordination had improved (although it remained far from perfect) and although there remained a problem of competition between ministries it was not as strong as it had been seven years earlier. Finally, the SSSDP was developed in a period where the importance of the aid relationship as established by the CDF principles and the newly-introduced PRSP was becoming clear and an important part of donor rhetoric and, for some, practice.

#### **6.4.1 The Design Process**

The origins of the SSSDP can be found in an ADB Project Preparation Technical Assistance (PPTA) project named the Social Safety Net Project originally included in the 1997 ADB Country Assistance Plan. The social safety net was not a new area for the ADB since from 1995 to 1997 it had provided significant support to strengthening the social insurance system. The ADB had also helped to strengthen poverty monitoring and capacity building for the NPAP and had engaged in social assistance financing and employment promotion interventions. The PPTA was to support development of a Social Safety Net Sector Development Program 'to facilitate key social policy reforms to address critical deficiencies/weaknesses in the existing social safety net and provide a means of financing critical poverty reduction/social safety net programs beginning in 1998' (ADB Mongolia "Social Safety Net" Project Document TA 2978).

An SDP is an ADB instrument that combines policy and investment loans often with associated technical assistance grants. They also provided reform packages on a plate with funds for implementing them and a framework within which other donors could (but often would not) provide support. At the same time there were political advantages for the government in the ability to blame donors for implementing sensitive reforms (although allowing donors to take the blame for such reforms could be seen by citizens as a sign of poor government negotiation skills).

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<sup>263</sup> At the time of SSSDP approval, the Ministry of Finance and Economy (MFE) but previously the Ministry of Finance.

The process of preparing the SSSDP was not easy and took considerably longer than originally envisaged. One key factor was the changing organisational framework for the social security sector noted above. As the first step, a consulting team was fielded in 1998 under the PPTA and although it produced the required outputs, internal Mongolian political problems<sup>264</sup> meant that the project was not further developed. A second attempt was made in 2000/2001 by a new team of consultants but the ADB and the Government also rejected the results since it felt the design was inappropriate. At this stage it was decided to simplify the approach and provide support to the new MSWL according to the three main sectors of its work: social welfare, social insurance and employment promotion. Consequently, a final attempt at project preparation was made in 2001 by the MSWL supported by a team of ADB-financed Mongolian consultants who had ADB and/or government experience, with the assistance of a single international consultant. This approach was partly due to the fact that there were insufficient resources to finance the kind of large teams of international consultants that had been used before. At the same time the new approach would potentially facilitate greater MSWL participation in the design of the SDP where previous attempts had been driven by the international team.

While the MSWL had a greater say in the development of the programme, there were still problems related to understanding the ADB approach by some key staff members who were new to the Ministry, notably the principal political representative in the process, the Vice Minister. In addition, even though the Ministry felt comfortable with the drafts of the SDP design prepared in Ulaanbaatar, these were changed once the document arrived at ADB headquarters in Manila, reportedly including changes by people with very little knowledge of the country, the issues or sometimes both. According to an ADB official, one example was the proposal to introduce a legal specialist to examine the social welfare legislation before its reform, at the expense of the social assistance specialist who would actually help the government prepare the new legislation.

#### **6.4.2 The SSSDP itself**

Compared to other SDPs in Mongolia, the SSSDP was structured in a complex manner with a number of financing instruments and sources of funds. In broad terms it used three types of instrument. First, the programme consisted of a policy loan of US\$ 8 million<sup>265</sup> that provided direct budget support to the Ministry of Finance. The loan would be released in three tranches<sup>266</sup> based on government fulfilment of social security sector conditions set out in a Policy Letter

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<sup>264</sup> During 1998 Mongolia was officially without a government for much of the year (July-December) following the resignation of the government of the prime minister, Tsakhiagiin Elbegdorj.

<sup>265</sup> All ADB loans and technical assistance grants are denominated in Special Drawing Rights (SDRs) and the figures should therefore be in "US\$ equivalent".

<sup>266</sup> The first of US\$ 2 million and two subsequent tranches of US\$ 3 million each.

and Policy Matrix.<sup>267</sup> Second, it included two parallel investment loans of US\$ 4 million each from the ADB and the Nordic Development Fund<sup>268</sup> (NDF). Finally, it included a number of large technical assistance grants that would support implementation of the SDP (described in more detail below and illustrated in Figure 6.2).

The objective of SSSDP was to reduce poverty among the most vulnerable groups of society through strengthening the social security system in Mongolia and specifically to improve its sustainability and effectiveness. It would do this within three basic components that corresponded to the definition of social security as used in Mongolia. First, it included a component aimed at reform of the social welfare system. More specifically it focused on better targeting of the poor while at the same time increasing the efficiency of services by shifting focus more to preventive approaches at the community and family levels and away from reactive, centralized approaches. Second, it included a component aimed at developing pro-poor labour market policies through improving state employment services and strengthening the provision of training for skills and entrepreneurship. Third, it included a smaller component aimed at strengthening social insurance operations to increase compliance with existing legislation and overall effectiveness.

An important part of the programme was to prepare a Social Security Sector Master Plan. In Mongolia's other experience with SDPs a master plan had been developed by the government with the support of consultants financed by the PPTA. This meant that the SDP would simply help implement the reforms and interventions set out in the plan. As already explained the preparation of the SSSDP was not so smooth and no master plan was produced in advance of its approval. In fact, the required studies of the situation, especially in the rural areas, had not been undertaken and were therefore incorporated into the project itself. As a result the programme was designed so that the first step after approval was to prepare the master plan and to undertake the necessary studies. While the term Master Plan was used in the approved programme document<sup>269</sup> the MSWL preferred "Social Security Sector Strategy" (SSSS) and this was subsequently adopted as the title of the document. The design of the SDP was deliberately made flexible enough to allow it to support the implementation of the SSSS once the strategy had

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<sup>267</sup> These are standard parts of an ADB policy loan agreement and set out the conditions that the recipient has agreed to fulfil together with timing of actions, responsibilities, implications of change, etc.

<sup>268</sup> The NDF is a Nordic multilateral development financing institution, funded from the development cooperation budgets of the five Nordic countries (Denmark, Finland, Iceland, Norway and Sweden). NDF is part of and governed by the principles of the Nordic countries' international development cooperation. The overriding objective is to contribute to poverty reduction. NDF grants very long-term credits on concessional terms to public sector projects. NDF can also provide financial support for private sector activities in developing countries without government guarantee.

<sup>269</sup> "Report and Recommendations of the President" (RRP) in ADB's terminology.

been developed. The technical assistance projects supporting the implementation of the SSSDP were important in this respect.

Three technical assistance projects were associated with the SSSDP and were integrated into the overall programme. First, an ADB Advisory Technical Assistance project designed to help the government develop the SSSS - the “Policy Project” (US\$ 600,000).<sup>270</sup> Second, there were still some funds remaining from the ADB PPTA which was not closed when the SSSDP loans became effective (as it should have been according to ADB regulations) but continued to provide important support to the project.<sup>271</sup> Finally, a Japanese financed project<sup>272</sup> aimed at decreasing the poverty incidence of disabled members of the labour force was approved in April 2002 and implementation began in July of that year (US\$ 1.2 million).

The overall management and implementation arrangements for the programme were complicated, partly because of the nature of the ADB procedures and partly due to the division of responsibilities between the MSWL and the Ministry of Education, Culture and Science (MECS)<sup>273</sup>. The MFE was the executing agency<sup>274</sup> for the ADB policy loan while the MSWL was the executing agency for the ADB investment project, and the associated technical assistance grants. In turn, the MECS was the implementing agency for a subcomponent of the investment project (NDF-financed) comprising skills training for the unemployed and poor, and entrepreneurship development.

To support implementation of the programme, an SSSDP Programme Management Unit (PMU) was established in the MSWL in January 2002. At the time this was the standard practice of the ADB in the country when dealing with SDPs. At the start of the design process, the consultant team preparing the SSSDP worked with the MSWL on designing a unit and overall implementation mechanism that would, to the extent possible, be integrated into the Ministry.

This proved to be no easy task since it required some flexibility on behalf of both the MSWL and the ADB. This situation was not just a reflection of a lack of willingness on both parties but also a case of bureaucratic obstacles. The lack of willingness on behalf of the ADB related to the risks of integrating too much with the government systems and to some extent losing control over the way the programme was to be implemented. Since there are no incentives for ADB

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<sup>270</sup> “Strengthening Policy of Social Security Reform” project (TA 3709).

<sup>271</sup> “Social Safety Net” project (TA 2978).

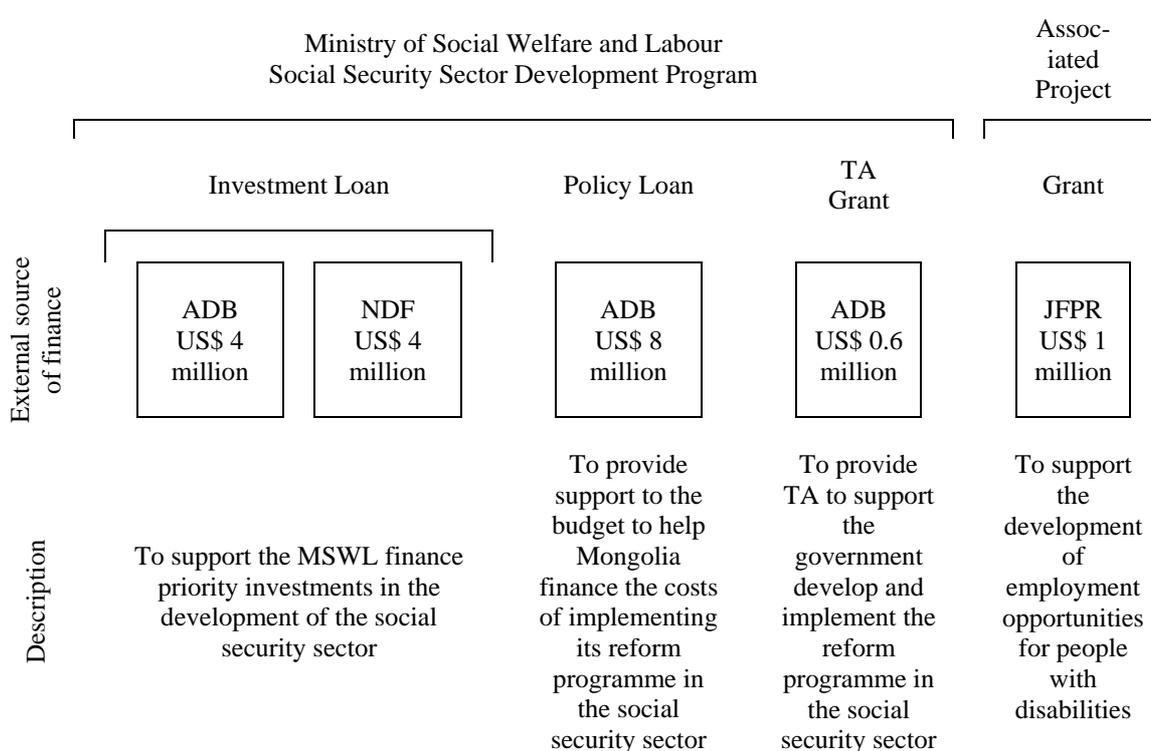
<sup>272</sup> “Expanding Employment Opportunities for Poor Disabled Persons” project (JFPR 9014).

<sup>273</sup> Now the title of the Ministry of Education.

<sup>274</sup> The executing agencies are agencies that may be involved in designing, implementing, and/or operating a project. The executing agency should be capable of providing correct and timely information on the progress of project implementation and, where appropriate, on its operation. It is also responsible for sub-projects within the project, which may be implemented by another agency.

staff to integrate, it is rarely done. Other projects in Mongolia suffered from the same parallel system of project implementation and such an approach had become the norm in Mongolia. By 2004 there were no holders of master's degrees in the ministry while a number of former staff members who had obtained master's abroad were waiting on the periphery for consultancy work. Initially, a separate sub-PMU was established in the MECS to facilitate implementation of the employment component of the investment project (NDF financed). As implementation progressed it became clear that it was more efficient and effective to integrate the sub-PMU into the main unit.

Figure 6.2: Overall Structure of the Social Security Sector Development Programme



### 6.4.3 Implementation

By the time of the mid-term review of the SSSDP in 2004 progress had been made in implementation of the policy measures. The policy measures were reflected in the new Social Security Sector Strategy (to which the government at the time remained committed) and in the Government Plan of Action (2004-2008). Implementation of the investment project (both ADB and NDF financed) started slowly with a disbursement rate of only 23.5 per cent at a stage more than half-way through the project. The main concern related to the timing of the implementation of the measures related to reform of the Social Welfare system. It was recognised that delays were not due to the lack of government commitment but rather to the sensitive and complex nature of the reforms. The situation was further complicated by the introduction of the reformed

system of child benefit due to start implementation in January 2005 (in other words before the full set of social welfare reforms due in mid-2005 had been designed and the relevant legislation approved). Nonetheless, the government set out a timetable for development of new legislation in this area and was committed at the highest levels to including the results of the relevant SSSDP pilot projects in the process of developing the new laws.<sup>275</sup>

There were a number of reasons for the slow rate of implementation of the investment activities but the necessity of pre-investment policy decisions, sometimes quite detailed, is probably the most important. For example, many of the investments had to wait for approval of new social welfare legislation in mid-2005. This simple fact did not help the ADB obsession with ensuring disbursement rates are in line with the disbursement schedule.

Table 6.1: SSSDP Disbursement Rates at Mid-Term Review

COMPONENT	ACTUAL DISBURSEMENT AS % OF PLANNED			
	ADB	NDF	Gov't	Total
A Social Welfare	33.3%	-	30.9%	32.6%
B Employment Services and Working Conditions	30.6%	24.9%	13.5%	23.4%
C Social Insurance Management and Training	14.2%	-	27.7%	17.8%
D Project Management Support	41.5%	-	128.6%	47.6%
Total Base Cost	30.9%	24.9%	24.3%	27.1%

Source: Annex 7 Draft Mid-Term Review of the SSSDP (Asian Development Bank 2005c)

The government disbursement rate was high due to the fact that much of the contribution was in kind, for example office space and staff time. The causes of the delay are complex and vary with the components and also with the nature of the assistance, in other words between TA and investment. Two issues can be applied here: first, the lack of planning capacity, for example the preparation of work plans or budgets; and, second, delays in donor approval largely due to cumbersome donor procedures.

Since the SSSDP was ongoing at the end of the period being examined by this thesis (2005), it is too early to determine if it would achieve its development objectives. Moreover, these

<sup>275</sup> The second tranche was released even though compliance was met with only three of the four tranche release conditions. The government and the ADB agreed that the compliance in amendment of social welfare law would be postponed to 3rd tranche release. The government then requested, and ADB agreed in Apr 2005, an extension of the due date of compliance for third tranche release to 28 Feb 2006.

objectives are not clearly defined. The mid-term review of the SSSDP (Asian Development Bank 2005c) noted the need for greater results-orientation, specifically the need to move beyond outputs and towards outcomes and future impacts. At the same time, even though the SSSDP sets out a monitoring framework of indicators it does not include those related to the generic objectives that were proposed in Chapter 2, namely sustainability and efficiency, as well as any to capture the unintentional impacts of the assistance.

## **6.5 THE SSSDP AND THE AID RELATIONSHIP**

The partnership was quite broad as it involved three ministries – MSWL, MECS, MFE – as well as the three MSWL executing agencies and two donors, ADB and NDF. Partly to ensure that the partnership was broadened further, a multi-sectoral project steering group chaired by the Minister of Social Welfare and Labour was established and included government and civil society representatives as well as parliamentarians<sup>276</sup> (a standard ADB approach in its projects at the time). As far as other donors and international NGOs were concerned, few partnerships were developed during SSSDP design or during its initial implementation. Again some donors reported being confused by the complexity of the initiative and others (generally the smaller ones) put off by the dominance of the ADB in the process.

Although the shared objective was to strengthen the social security sector, the various ministries and agencies were more interested in their parts of the sector than in the sector as a whole. While it is likely that the MFE would be pleased with a more efficient social security sector, ultimately its objective (as confirmed by its staff) was to ensure that the policy loan was made available and then disbursed on time. The ADB and MSWL did, however, share the same values in their joint intervention, recognising the importance of addressing the needs of the most vulnerable of society and agreeing on the overall approach to do so. The basis of a partnership was therefore in place.

The SSSDP, and indeed other programme lending from the ADB, used a standard idea of conditionality. Programme loans are accompanied by a policy matrix within which specific time bound actions for policy reform including measurable targets and triggers are set out. Among the list of policy measures some are identified as tranche release reforms which indicate that these must be implemented if the next tranche is to be provided. The SSSDP contained eight

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<sup>276</sup> Members include: Vice ministers of the MFE, MECS, Ministry of Health; heads of MSWL agencies; Deputy Governor of Ulaanbaatar City; Senior officer, Standing Committee of Parliament; Senior officer in charge social welfare and Labor Issues, Cabinet of Mongolia; senior officials of the MSWL, MFE and MECS; Director of the SSSDP; Chairs/Presidents of Vocational Association, Mongolian Employer's Association, Veterans Association, and National Federation for Disabled People's Organisation.

tranche release reforms within the four components and for the three tranche releases.<sup>277</sup> The degree of ownership was largely determined by the consultants and the ADB staff member responsible for the formulation process but the majority of the reforms came from the MSWL and its executing agencies. In fact the executing agencies provided many of the reform ideas to the consultants in the hope that they would be included since, in many cases, they had been waiting for some time for these reforms to occur. It was largely a case of getting the ADB on their side: this was particularly true in the social insurance component. Ownership on the national side was therefore strong from the perspective of these executing agencies but not from the core policy makers.

The policy matrix sets out some major areas of reform but leaves out some of the details since it was impossible to determine the correct approach at the time of formulation of the SSSDP. The “policy” TA was designed to support the development of a master plan for the sector that would provide a framework for its development. Support would be provided to the Ministry in this respect by a group of consultants selected through a competitive bidding process. One important aspect of their work (at least as envisaged by the ADB) was to strengthen existing partnerships and to expand partnerships among donors. For example, it was assumed that since the scope of the technical assistance was too narrow to cover all aspects of the sector, other donors would also support the MSWL in developing the master plan/sector strategy (UNICEF for children’s issues, UNDP with employment services, etc.). Second, the consulting group was expected to facilitate national (specifically MSWL) ownership of the process as well as ownership of civil society and local government partners. Unfortunately, the consulting team, charged with producing a strategy, did so with MSWL input only in relation to comments on drafts. Even the consultant’s outputs were called ‘reports’ and resembled the kind of report that could be used by the MSWL in preparing a strategy, but not the strategy itself.

Although the SSSDP policy matrix was largely owned by the MSWL and endorsed by the Social Policy Standing Committee of parliament, it still was not implemented quickly due to changes in policy by the government. At the same time the programme loan was meant to offset the cost of implementing the reform but these fungible funds were used for something else. The lack of political will does not reflect lack of ownership at the design stage but rather the

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<sup>277</sup> The release schedule contained in the agreement stated: first tranche released upon loan effectiveness; second tranche to be released 24 months after the initial tranche, when five conditions have been met; and, third tranche to be released when four more conditions are met, 48 months after release of the first tranche.

changing priorities of governments that are difficult to incorporate into the policy framework for a development loan.<sup>278</sup>

The aid relationship can also be examined in the context of specific interventions within projects. In the case of the SSSDP a good example is the social welfare sub-component that dealt with establishing new integrated Social Security Service Centres.<sup>279</sup> Although the design of these centres had been discussed with the MSWL and their objectives were thought (by the ADB) to be clear, the flexible (some could say vague) nature of the project allowed space for variation. The MSWL, its agencies and local government took responsibility for the design within the parameters set out in the ADB agreement. But while the MSWL took ownership, that of the intended beneficiaries of the programme was non-existent. The result was the building of a centre that was too grand, expensive (over budget) and, on initial examination, not suitable for the full involvement of all beneficiaries, especially the marginalised and vulnerable. This raises a question: how to ensure that you get beneficiary ownership while not taking away ownership of the process from government? Getting the MSWL, its agencies and local government to recognise the importance of beneficiary participation in the intervention and the development of effective and efficient mechanisms to facilitate this process takes time, something that SSSDP implementation was not given.

## **6.6 SSSDP: DOES THE GOOD AID RELATIONSHIP PROMOTE GREATER EFFECTIVENESS?**

Compared to the NPAP it is more difficult to assess the contribution the aid relationship had on effectiveness of the SSSDP, largely because, as already noted, the programme was still running and the results still unclear in 2005 (the end of the period being examined). Nonetheless it can provide some interesting insights.<sup>280</sup> For example, early attempts to prepare the SSSDP suffered from similar problems to the design of the NPAP; teams of international consultants parachuted in to Mongolia with very little experience of the country. The lack of ownership of the design process was one of the reasons that the ADB failed to complete a programme document in its first two attempts. It was only when the overall structure was agreed with the MSWL and that a group of capable and trusted national consultants were brought in that the programme design could finally be completed.

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<sup>278</sup> Following the 2006 election the incoming Government adopted a social welfare package to increase benefits on a universalized basis. This was in contrast to the condition for the release of the third tranche of funds from the programme loans that required narrowly targeted assistance to the poorer segments of the population. The third tranche of the policy loan was subsequently cancelled, effective 22 November 2007 (Asian Development Bank 2008).

<sup>279</sup> These centres were designed to provide comprehensive services covering social insurance, social welfare and employment, specifically to ensure that the poor, vulnerable and marginalised.

<sup>280</sup> As in section 6.3, the origin of these insights is often the author of this thesis but they were validated by key informants during interviews and/or by documentary evidence.

The ADB (2008) suggests that the development of the SSSS by internationals led to poor ownership largely because of lack of national capacity of MSWL staff. As has been described, initial attempts at developing the SSSS were indeed run by international consultants (with no ownership issues in their terms of reference as mentioned) but later the SSSS was revised by the MSWL through the facilitation of an international consultant. The lack of ownership was not on the side of the MSWL but with a broader set of politicians. Nonetheless, the problem led to additional burden on the Ministry. Although the ADB assessment of weak MSWL capacity was accurate but interviewees in the MSWL were quite positive about the separate management unit in terms of possible burden since it was seen as an extra set of facilities which the ministry could use. Any criticism largely came from the frustration of not automatically being able to use the project's assets such as vehicles.

The lack of implementation of the policies in the policy matrix and the subsequent cancellation of the third tranche of the policy loan is related to the aid relationship but not in a simple, linear way. A change in government and a new politically oriented policy direction resulted in a policy matrix that was no longer owned by those in power. The same evaluation (ADB 2008: p.29) found that 'a key issue affecting implementation of the policy loan was the lack of political will to implement reforms aimed at targeting social welfare assistance to the most vulnerable'. Lack of ownership by Parliament resulted in a failure to implement the policy reform and therefore failure to achieve the intended results (i.e. weak effectiveness of the programme). In this sense, greater national ownership through adjusting the policy matrix to the new policies would have led to implementation and release of the final tranche of the policy loan. But adjusting the policy matrix of an ADB loan would require time and, given the nature of the new policies (universal social assistance versus the targeted approach in the policy matrix), may not have been immediately agreed by the ADB governing body. What this example also illustrates is that national ownership in a country like Mongolia needs to be in the hands of the legislature and not only in those of the technocrats in the government units.

## **6.7 STRUCTURAL CONDITIONS AFFECTING THE AID RELATIONSHIP**

As described earlier, the relationship between the MPPL and the donor community was clearly weak from the start of the NPAP process. Limited partnership through a lack of shared values (even objectives) meant that there was no platform for developing a better aid relationship. Even without the basis of a good partnership the donor community decided to go *with* the government but developed implementation mechanisms to go *around* it at the same time. By the time of the

development of the SSSDP in 2001, issues related to improving the aid relationship were firmly on the agenda. The World Bank had already launched the PRSP with its CDF principles and OECD DAC had articulated its partnership approach. The Mongolian government had also participated in the Conference on Financing for Development in Monterrey and the Minister of Finance and Economy ended his presentation with the statement: ‘Let us launch a genuine partnership for development here in Monterrey’.<sup>281</sup> This section will examine the structural conditions that can explain the state of the aid relationship in the NPAP and SSSDP and using the framework established in Chapter 2 build on the analysis of the relationship at the country level set out in Chapter 5. Like Section 5.4, it draws heavily on interviews undertaken within the framework of interview question set out in Table 1.1 and specifically the set of questions surrounding the explanation of why the good aid relationship exists or does not.

### **6.7.1 The importance of Dependency**

Three key findings were made regarding the role of dependency in determining the aid relationship. First, the dependency of the ministry was important when the ministry was held accountable for the results. Examining the period of NPAP design, there are very few indications of dependency by the ministry or indeed its staff. The MPPL was not dependent on the NPAP to achieve its objectives since, first, its mandate went beyond the NPAP (for example it was responsible for the pension system addressing poor and non-poor alike) and, second, the NPAP went beyond its mandate (including health and education). While the ministry had an extremely wide ranging mandate and faced significant problems within the areas covered by this mandate, it had not set, or been set, specific targets to achieve. In fact rather than pander to the World Bank, the Minister and his staff initially stood up for what it wanted knowing that this could cause the whole IDA-assisted PAVG project to fail.<sup>282</sup> While being a burden, the large number of donors that the MPPL dealt with meant that specialised support would always be available for the issues covered by the ministry (for example, responding to global conferences). This led to limited dependency and a degree of ambivalence on the part of the MPPL in relation to the whole exercise. By contrast the SSSDP covered the work of the Ministry and work that the Minister was being held accountable for by the government and increasingly by Parliament.

A second finding concerns strong political dependency on aid programmes, especially in relation to the political incentives faced by politicians and government officials with political ambitions. The strong demand by parts of government for projects meant that they were less likely to make the required effort to ensure greater national ownership. Senior Government

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<sup>281</sup> <http://www.un.org/ffd/statements/mongoliaE.htm> (last downloaded October 2012)

<sup>282</sup> This was a threat made by the World Bank during negotiations for the PAVG project loan at the World Bank headquarters in Washington D.C. in 1995.

officials (for example at the political ministerial level) saw the provision of aid to their ministry as a trophy or something to boast about. Government informants revealed that this was the view of much of the population.<sup>283</sup> If, for example, the Asian Development Bank gave a large loan to one ministry, then another minister would try to get a loan of a similar or equal size. Once the loan was secured the signing of the loan agreement would be well publicised and the relevant Minister bathed in glory. At the same time, while seasoned international consultants recoil at the sight of so many donor projects (blatantly signified by large signs on ministry doors), the Minister would wear these as a badge of honour, as if thinking: ‘we must be doing something right or these foreigners wouldn’t give us the funds.’ In the case of Mongolia at least five other ministers could boast major ADB loans, putting greater pressure on the Minister of Labour to get his approved. So while the ministry itself may not have been dependent on the programme, the Minister, a politician in the Mongolian system, may have been dependent on obtaining donor resources for his standing and potential political progress in the party.<sup>284</sup>

Third, beyond the above, the issue of dependency became clearest in relation to the relationship between the MFE and the SSSDP, and specifically the policy loan. The ADB had originally indicated a total of US\$ 12 million for the SSSDP of which US\$ 6 million would be budget support and the remaining US\$ 6 million for investments within the sector. The first two attempts of preparing the SSSDP had been within this amount. As already noted, preparation of the third project proposal took a more modest approach in terms of the costs and consultants, but also in terms of ambition. The initial consultant team proposal for the investment project was for a total of US\$ 3 million with the same amount for the policy loan as ADB staff members were quite clear that they would not move from the principle of equivalent amount of budget support to investment loan. The MSWL recognized that it could probably only absorb US\$ 3 million of investment and was happy with this amount. At the early stages of the design of the SSSDP the MFE was also realistic about the size of the loan and appeared more concerned with the recurrent cost implications of the proposed reforms and financing the government’s contribution. It had therefore originally endorsed the proposal made by the consultants for the two small loans of US\$ 3 million.

During the design of the SDP, however, the situation was to change quite rapidly. The IMF and World Bank had already included the SSSDP in their financial programming exercise, specifically the US\$ 6 million programme loan that would be paid in three tranches directly into the budget. Moreover, in its discussions with the IMF and World Bank it was clear that the government still had to find additional resources in order to meet IMF conditions. Within this

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<sup>283</sup> Interviews undertaken in March 2001 and April 2002.

<sup>284</sup> The observation of a former minister.

context, the Ministry of Finance became very keen to obtain the largest amount of programme loan from the ADB as it could. It therefore proposed to increase the programme portion of the proposed SSSDP to US\$ 6 million. Since the ADB insisted that the programme and investment loans would have to be equal in size, the total SSSDP returned to US\$ 12 million. In addition, the ADB offered even more funds from the NDF which allowed an increase in the size of the overall programme to US\$ 16 million of which the ADB would provide US\$ 8 million for the Ministry of Finance and Economy. With this “carrot” in place, the Ministry was less objective when discussing the contents of the policy matrix and the financial implications of the reforms it contained. Moreover, it was unwilling to take ownership, or even fight for it, for fear of delaying or losing the opportunity to access the programme funds.

Even when donors encourage greater national ownership the opportunity may not be taken by government or other national groups. While the consultants were developing the SSSDP policy matrix the MSWL was given full powers to identify the contents of this overall policy framework with the ADB simply requiring that the Ministry staff follow the standard matrix format that it used in its official documents. The ADB may have disagreed with some of the contents included by the government and that there would subsequently be some discussion or negotiation. But even given this opportunity to take ownership, the MSWL did not want to engage. It saw the policy matrix as something important to the MFE who would receive the resources if the MSWL implemented the policies in time. The MFE did nothing to dispel this perception as it had no intention of financing the reforms; as noted the whole policy loan was just a way of expanding the budget. Implementation of the policy was not an issue for MFE and therefore ownership of the policy not an issue either.

Given the strong opinion, often forcefully articulated, that the foreigners did not understand the specific situation in Mongolia, why would the MSWL not drive the investment and policy design process? Either the Minister believed that the projects designed by outsiders did in fact reflect what he wanted, or he believed that the projects would do so once skilfully moved towards the ministry’s goal. Many government officials did not understand that the ADB procedures, processes and, most importantly, policies, offered them the choice of taking greater ownership in the process. If the donors were not willing to let their national counterparts know of such choices then greater national ownership was clearly less likely to happen.

### **6.7.2 Policy and Ideology**

At the time of the preparation of the NPAP in 1994, the policies of many aid agencies on the aid relations were not fully developed and issues related to the aid relationship were not on the agenda. There was no open discussion about ownership or partnership. Donor coordination was

an issue from the start of assistance in the early 1990s and the NPAP was supposed to strengthen it further through attracting donors to a single framework. The more difficult issue of aid coordination, of integrating the programme into national structures, was not examined. Although, as has been argued already, the importance of national ownership had been identified some decades ago, the issue of ownership was not at this time a major global issue. As has already been noted in the previous chapter, UNDP had supported a NaTCAP exercise in Mongolia which was intended to promote greater national capacity for managing its own affairs, but this effort had been unsuccessful and the products deriving from it, far from nationally owned.

Had the idea of the NPAP been presented without the promise of resources but as the donor-preferred option to address a multi-sectoral problem in a participatory, multi-sectoral manner, it is likely that the MPPL would have rejected it, as the Ministry was not interested in examining ideas and issues beyond its mandate. The evidence of this is the constant conflict between the donors, PAPO and the Minister over control of the programmes. Certainly the idea of local government choosing priorities would not have been supported. It may be that the approach of dealing with separate ministries would have been less ambitious and more effective but the counterfactual is difficult to assess. Impatient donors were not willing to enter the long-term process of supporting capacity development for a government unfamiliar with addressing the kind of multi-dimensional poverty Mongolia began to experience in the early 1990s.

The conflict in development ideology was clear and no more so than in relation to poverty reduction strategies and approaches. Yes this conflict could have been averted through rigorous evaluation of what was working and what was not. Between 1996 and 2000 the NPAP was subject to at least three evaluations by UNDP and the World Bank, none at the request of the government. Thus ownership of the evaluation process itself was weak partly due to lack of capacity on the government part but also largely due to the lack of willingness of the donors to let the government define the terms of the evaluation or engage in its implementation. Some government staff and other nationals were involved in the evaluations but could only act within the parameters already set by the donors. The evaluation also focussed on the schemes within the programme (especially the microfinance scheme) rather than the programmes as a whole. There is little evidence that the findings from the evaluations were used by the government in addressing the key concerns. Evaluation of the programme could have yielded interesting findings that would have been useful for future programmes, specifically for the development of the PRSP. Donors could have learned how not to do it but instead they repeated many of the same mistakes a few years later. Unfortunately the evaluations did not capture this aspect of the problems. Rather they focussed on the components of the PAFs and the PAVG project in

particular. The evaluations were very much owned by the donors, UNDP in particular and to some extent the World Bank. Unfortunately the evaluations coincided with a period of global (but not universal) obsession with the potential of microfinance, the weakest component of the NPAP. They failed to examine the specific lessons that could have made a difference to the national planning arrangements and led to a more effective and efficient system than the one that emerged during the PRSP process (described in the previous chapter).

In addition to the issues of inadequate national policy and poor learning, donor policies as they existed were not always implemented. At the time when the SSSDP was being designed, the ADB had only recently been associated with some of the more innovative ideas about the aid relationship through the harmonisation and MfDR agendas.<sup>285</sup> In addition, part of the problem with the development of an appropriate aid relationship was the difficulty of putting the ideas from headquarters into practice. The ADB referred to the ‘fundamental importance of country ownership’ (Asian Development Bank 2004b: p.3) but how to translate these ideas, research, policies and rhetoric into practical tools and processes that could be used at the project and programme level remained a challenge. The experience of the SSSDP shows that there may have been greater willingness to improve the aid relationship at the programme level but difficulty in knowing how. There is a second and related problem, however, and that was to generate the willingness to improve the aid relationship. This is not just about changing the mindset of the staff away from the idea of the aid ‘expert’ engaging with the ignorant, corrupt recipient but also the incentive system whereby aid organisation staff are held accountable for their actions in terms of improving the aid relationship (specifically, held accountable for promoting an appropriate aid relationship).

Staff attitudes and understanding of the issues are therefore fundamental as are the incentives to support the development of an effective aid relationship. The lack of systems, capacities and incentives in the ADB can be illustrated by the following two examples. During one mission to Mongolia for the SSSDP, the ADB Project Analyst<sup>286</sup> told PMU staff not to listen to the government officials they work with or waste time discussing new options not included in the official agreements: *“You have a contract, just do it. Don’t waste time getting permission from government or getting their ideas.”* A second example was in the context of a discussion about the first Education SDP in Mongolia which failed to address poverty issues by ignoring pre-school education and focussing on higher education, which at the time was the government priority. *“This is the kind of problem you get when you listen to the Government”* was the

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<sup>285</sup> One ADB staff member noted that the fact that most of the innovative ideas concerning aid are coming out of Africa is not just a reflection of the difficulties of that continent and of the urgency with which they must be addressed but also of the greater relative dominance of a different set of donors that is willing to push forward new ideas.

<sup>286</sup> A junior position focusing on financial issues and adherence to ADB procedures.

comment of a middle-ranking ADB official in 2003. The attitude towards the SSSDP policy matrix was also confrontational in that it was simply assumed by some ADB staff that all the policies were ones that the ADB was forcing on the government as this was perceived as the norm for the ADB's policy based lending. In fact, as noted already, the majority of the policies included in the matrix came from the government.

An additional ADB mistake was not to make issues related to ensuring greater national ownership of the SSSS clear in the terms of reference for the consulting company contracted to help prepare the SSSS. It would have been easy to ask the tendering companies to outline a strategy for ensuring full and broad national ownership of the strategy and for providing support in full partnership with other members of the donor community. But while the ADB has a policy on country ownership, practical tools to ensure greater national ownership is achieved were not available. Even the policy does not address the issues raised in chapter three concerning the meaning of ownership or the confusion over the term at the national level.

### **6.7.3 Capacity of the Recipient**

Low perceptions of national capacity for implementing the programmes reduced the degree of ownership of the implementation process. Some observers from the government side referred to the culture of Soviet domination to explain why the MPPL did not push for greater ownership of the design of the NPAP even if it did fight for control over implementation. Others pointed to the lack of experience in those early days of aid in Mongolia with the procedures of donors and understanding what the possibilities were in terms of support and relationships.

Following meetings with its donor partners (and potential providers of funds for the NPAP) UNDP believed that the donors did not have confidence in the government mechanisms. They were perceived as poorly managed and with little accountability to donors or even its own citizens. The parallel mechanism therefore seemed necessary to attract donor funds. Initially the donors wanted to integrate the mainstream government mechanisms into one set of funds (the donor-designed set) but neither side was willing to compromise.

By the time of the design of the SSSDP, just ten years after the start of the transition process, there was a major change in the capacities of the staff of the ministry. Although there were staff who had made their way up in the organisation before 1990, there were also plenty of young staff with no history in the previous system. Even the Vice-Minister of Social Welfare and Labour who was the ADB's main counterpart in the design of the SSSDP, was young enough not to be a member of the cadre of Soviet educated Russian-speaking bureaucrats and politicians.

This was not, however, enough to make a significant change to the relationship with the ministry. A major problem with developing the SSSDP was the lack of experience of the MSWL with the ADB and the details of the design of an SDP, even if familiar with the overall SDP approach and following two unsuccessful attempts to design the programme. No efforts were made to build the capacity of the MSWL before the start of the process so that they could engage properly in programme formulation. The ADB had provided some basic information on what an SDP should be but beyond that little was available to help the government understand the process, and of this, virtually nothing was available in Mongolian. The government was therefore blind in the process and led by the consultants who were doing little more than copying the basic structures of other SDPs and then getting the advice of the relevant ADB officers to ensure that they were in line with ADB policy. Several requests were made to see the official policy of the ADB in specific matters but these were met with a response that these were informal and related to the workings of the ADB's Executive Board. For example, it was suggested that a minimum of fifteen per cent of the total cost of the investment project should be allocated to international consultants (on the basis that the ADB is a recruitment agency for member states). In other words, the designers had to rely on the best estimates of the ADB officers on what would be suitable to pass the executive board and this was largely based on precedent. The MSWL and its consultants had little choice but to comply since, given the history of the project and the two previous attempt to design it,<sup>287</sup> this was the last opportunity to go to the Board.

Perceived lack of capacity is the main reason for establishing a parallel PMU for implementing the programme although the lack of easy alternative structures was also part of the problem (i.e. lack of capacity of ADB). Although at the start of the exercise there were statements from the ADB about integrating management of the programme into ministry structures this did not happen. The decision was not based on a formal capacity or institutional assessment but rather on the basis of the perceptions of ADB officers.

Equally important was the conflict between the need for capacity development and the perception of an urgent need to implement activities. In the case of the NPAP this related to the need to prevent social infrastructure collapsing and in the case of the SSSDP, the need for staff to show results and to get the bureaucratic processes moving. Capacity building was envisaged to ensure appropriately skilled staff were employed to implement the PAF in the local areas but this would inevitably be limited given the constraints of time, the wide area to cover and

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<sup>287</sup> Apart from the fear of ADB staff that their senior management would not countenance a fourth attempt, the PPTA project was running out of money.

transport difficulties. This situation also reflected the sense of impatience with addressing the problems as, in the eyes of the donors, capacity building or entering negotiations with government over reforms of the existing system to their liking would take too long and be too risky. This time constraint, in turn, comes from the donor perception of the urgency in addressing the problems.

In Chapter 2 it was argued that the good aid relationship should be dynamic based on a longer term effort to support national capacity development efforts among the potential owners. One of the key reasons why the parallel mechanisms were put in place and capacities were not built in time, was this sense of urgency. The desire to move quickly with implementation was based on the perceived need to protect what was developed during the Soviet period, especially the investment in human capital. The country with its relatively well-educated, literate and healthy population (compared to many countries with similar level of GDP per capita) was facing the risk of losing these investments as the poor and the vulnerable succumbed to economic and social decline. Much of this effort meant investing in social infrastructure especially in rural areas which had been hit hardest by the transformation. For example, children were out of school because of simple problems such as the lack of glass in school building windows or broken heating pipes. There was also a rapid increase in maternal mortality because of the closure of rural maternity rest homes. The donor perception of the need to address these issues urgently is at the core of their approach to the NPAP. At the same time, when it came to design and implementation, lessons from the World Bank PAVG pilot projects revealed the importance climate has to play on some of the types of interventions envisaged under the programme. Many types of public works activity, for example related to laying heating pipes or repairing buildings could not be undertaken in winter. The same situation existed for certain income generation schemes envisaged by participants in the relevant part of the PAF, many of which were seasonal in nature. In fact this only added to the sense of urgency as failure to start certain activities before the onset of winter could cause considerable delays.

Support for capacity development, as it was, did not focus on building the basis for establishing a partnership. In fact this was not on the agenda. Apart from undertaking a Living Standard Measurement Survey and associated poverty assessment (by the World Bank), no efforts were made at the time to support capacity development in making policy for addressing the multi-dimensional aspects of poverty in the manner that the donors promoted. It is also important to note that while the PAF envisaged greater national ownership (by local communities) in identifying sub-projects this also produced a significant burden on the authorities, for example the time consuming and often expensive process of ensuring broader participation.

## **CONCLUSIONS**

The aid relationship was not on the agenda in Mongolia: it is not used as a criteria or factor in programme/project design or implementation or indeed at any stage of the project cycle. Poor partnership set the context for the development of the poor relationship. Even fundamental issues such as agreeing on basic problems to address and the key ways to address them (shared values at the programme level) were not solved which made true and effective partnership impossible and led to poor levels of national ownership, even if partnership at the macro-level is strong. The poor partnership was also exacerbated by the lack of understanding of the donor policies and processes which led to confusion within the Ministry and ultimately to a sense of limited options to passing over ownership of programme design and preparation to the donors. In terms of the national aid regime, donors may *go through* the government but at the Ministry level they can still *go around*.

Additional insights into the aid relationship include the need to take a much more holistic approach to the problem through the development of programmes within an overall national development planning framework. The aid relationship needs to be a fundamental part of this process, made clear to donors and recipients alike. Good partnership needs to be established at the meso- and micro-levels as well as for the overall national aid regime. Where good partnership exists, the government needs to take control of all stages and dimensions of its engagement with donors. This includes the identification of priorities and the speed with which programmes are developed. The establishment of national development programmes to which the government truly owns and is truly committed (maybe or maybe not the PRSP) would facilitate this process.

Capacities and processes need to be established on the donor side to implement the relationship rhetoric and donors need to be more patient in achieving the good relationship and establish the correct incentives. The MSWL's desire not to include capacity development in the SSSDP did not come from the view that adequate capacities were in place but rather from earlier ineffective capacity development efforts. At the same time, where values are not adequately shared to establish a partnership platform for developing the aid relationship, capacity development can also play a role. In this respect the good aid relationship would require that capacities are developed to establish options and choose between them rather than to specifically select the choices that would indicate the values of the donor community.

The aid relationship can have an important impact on effectiveness but not in a consistent manner. For the NPAP, greater government ownership would have resulted in a more appropriate design, significantly lower burden on the public administration and greater

commitment by national authorities to the implementation of the programme. Greater involvement in evaluation may have led to greater utilisation of the lessons but this would need to have been combined with some national capacity development. On the other hand allowing MPPL a large share of ownership in selecting the overall design of the NPAP led to the implementation of a credit scheme before enough was known of the situation and before the lessons from piloting had become clear. Again the twin issues of capacity and the time to address it are at the heart of the problem.

Analysis of the NPAP and SSSDP suggests that simply handing over ownership of these interventions to the national authorities would by itself not ensure greater effectiveness in the short-term. Those arguing that the authorities needed to make their own mistakes and learn from them fail to recognize the lack of an evaluation culture or learning in the country. But this does not mean that lack of capacity should result in an excuse for greater donor ownership. While agreeing that capacity development takes time, there are better ways, more aligned with the good aid relationship, which are time consuming, risk failure and may delay implementation. It involves the donors' full engagement with national partners in a process of providing options, jointly examining the implication of these options, facilitating design of the intervention and learning by doing. Bringing in appropriate international experience can be a major contribution in countries where capacity in this area is weak.

Another key finding from this chapter is the fact that to strengthen effectiveness it is necessary to have ownership, or the promotion of ownership, across the whole project cycle: to ensure that government (with the participation of other national stakeholders) is responsible for identification. In other words, no matter how much you let the government own implementation and design, if it has not identified the problem then effectiveness will suffer. It requires a long term relationship with the partner entity with trust (or at least a lack of suspicion that the donor has an ulterior motive, divergent ideology or contextual ignorance). Government stability helps but there may be alternative CSOs in the country that would provide national perspective, use national knowledge to help design and assess policies.

But what to do about the urgent needs? The evidence from the NPAP is that disbursements were slow because of lack of national commitment to the exercise. Greater national ownership, even if resulting in a longer process of preparing the interventions may have resulted in more assistance being provided quicker than a rapidly designed intervention that was delayed. The SSSDP shows that where you stick to a single ministry and work within its mandate, design may move quickly. But it also shows that greater national ownership of the design does not

necessarily lead to quicker disbursement or, more importantly, the core needs of the target group being addressed in an urgent manner.

## **CHAPTER 7: BRINGING IT TOGETHER**

### **– EXPLAINING THE AID RELATIONSHIP**

Lenin is quoted as stating that ‘Communists who believed we could completely alter the economic form of society in three years were visionaries, I say it will take at least a century’.<sup>288</sup> In fact, the complete alteration of society for most of the LIPCCs (in the opposite direction to the one envisaged by Lenin) has taken just fifteen years, in some cases less. Ten years after the collapse of the Soviet Union, the LIPCCs were facing severe economic and social difficulties, leading to the establishment of the CIS-7 initiative described in Chapter 4. Five years later, in 2007, the situation was very different for many of them. Azerbaijan had its oil revenues finally on full stream at a time when global oil prices were at all-time highs, Mongolia was benefiting from similarly high copper prices, in Armenia good policies had resulted in rapid growth, and so on. This does not mean that the transformation is complete, that there is no more work to do or that all major challenges have been overcome. In fact, a series of ‘revolutions’ of different hues<sup>289</sup> suggests that the political transition is not yet over in the region and the strongly negative impact of the 2008 global economic crisis indicates that these economies remain very vulnerable.

Over the period being examined (1990 to 2005) aid has undoubtedly played a role in achieving some of the positive results of the transition but this role has varied significantly across this group of LIPCCs. Moreover, the relationships between the international donor community and the LIPCCs have also varied considerably both in terms of differences between the countries and, in some cases, over time. It is precisely this combination of similarity at the start of the transition, and the different relationships that have developed since then that makes the examination of what has happened so interesting.

This final chapter draws conclusions from the findings in the empirical chapters. Chapter 2 addressed the first of three initial questions related to the nature of the aid relationship. This chapter starts by reaching conclusions on the other two, specifically the extent to which the good aid relationship has been implemented in the LIPCCs and the effect of the good aid relationship on aid effectiveness. Although emerging conclusions were identified at the end of the empirical chapters, this chapter draws on the whole body of findings across the LIPCCs, Mongolia and the case study ministry in Mongolia. It presents conclusions on the core research question related to why the good aid relationship exists or does not and links the conclusions to

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<sup>288</sup> Lenin in 1921 quoted in Boone *et al* (1997: p.126).

<sup>289</sup> Rose (Georgia in late 2003), orange (Ukraine in late 2004) and tulip (Kyrgyz Republic in 2007)

evidence from the broader body of work in this area. The specific issue of the legacy of the Soviet Union is addressed to help link the findings from Mongolia to the context of the LIPCCs.

## 7.1 CONCLUSIONS IN RELATION TO THE INITIAL QUESTIONS

**The nature of the aid relationship was mixed in the LIPCCs. Furthermore the relationship varied considerably between the countries and changed over time. The complexity of the aid relationship means that identifying the relationship for a single project, let alone for a single country or group of countries, presents major challenges.**

The framework defined in Chapter 2 suggests that the basis of the good aid relationship is a partnership between the donor and recipient, a term that revolves around shared values that allows a donor to go *with* the recipient government as opposed to going *through* or *around* it. The empirical chapters demonstrated that comparatively few bilateral donors entered into long-term partnerships in the region and that bilateral power was concentrated with two donors – Japan and USA – who, in turn, heavily influenced the two main multilateral donors for the region, the World Bank and the ADB. Most LIPCCs can be considered to have established good partnerships across these key donors over the period being examined. Some, notably Uzbekistan and Tajikistan, have partnerships in place only with selected donor organisations. Uzbekistan provides an example of a situation where the values of the donor community have varied and where for some the relationship has changed so much that it cannot be considered a true partnership. Other countries, such as Azerbaijan, have had key partnerships heavily influenced by the domestic political agenda in the donor country (especially the USA). As such the basis for the good aid relationship in a number of these countries is unclear. What we do know is that for every country, partnership varies between donor organisations and over time.

Chapter 4 concluded that to get a better understanding of the level of ownership it may be better to examine a single country in the region. The recent evaluation of the Paris Declaration (Wood *et al.* 2011) notes the importance of going beyond surveys to undertake detailed county studies. It also struggled to synthesise across case studies because of different uses of complex ideas, especially dependency which required a separate study in an attempt to make the analysis consistent across all the countries examined. Even at the country level there are so many relationships, each changing over time, that such an analysis is challenging, especially in terms of summarising *the* aid relationship for a country. At best it can only be a snapshot of the average relationship, missing the variation around this average and failing to capture accurately the distribution of relationships. It is likely that Mongolia had a better aid relationship than, say, Uzbekistan; but the key finding is that beyond the ability to roughly compare relationships it is extremely challenging at the country level to identify if a good aid relationship exists.

To monitor the aid relationship, for example in the context of the Paris Declaration, is very challenging. Even if indicators were improved (and for that there is some way to go), aggregation across DAC donors (let alone the key non-DAC, donors, civil society organisations, etc.) would also face significant challenges. The report of the 2006 DAC survey of the Paris Declaration (OECD DAC 2006d: p.207) itself notes that while achieving ownership is critical, it cannot be measured by a single indicator. The ownership indicator used in the survey only ‘provides an entry-point to the issue of ownership, focusing in particular on whether a country has an operational development strategy, with which donors can align their development strategy.’

Drilling down to a single donor in a single country, Section 5.3.2 analysed country programme evaluations from Mongolia’s largest multilateral donors. The ADB evaluation of its work in Mongolia noted that while national ownership of its country programme was weak, national ownership of the individual projects remained strong. This illustrated two things: first, that it is difficult to summarise ownership even for a single donor in a single country; and, second, it tells us that the idea of ownership is often restricted to only part of the project cycle. The World Bank evaluation also pointed to good national ownership of its projects and programmes in Mongolia (something refuted by other elements of the same organisation) but the example provided earlier of the different approaches to building highways in Mongolia (North-South vs. East-West) shows that one of the two related MDB evaluations is misleading its readers.

While the degree of partnership at the meso-level (a donor’s country programme) may set the tone for the type of micro-level (project/programme) relationship, it is only by moving down to the micro-level that the extent to which the good aid relationship exists becomes clear. Here it is possible to identify the degree of partnership as the basis of the good aid relationship and, where it exists, the extent to which there has been national ownership across all stages of the project cycle. The case of the NPAP in Mongolia showed that partnership at the micro level is as relevant as at the national level. It illustrated that where you do not get the partnership at the lower levels right from the start, getting a good partnership at the national level is difficult, if not impossible. The issue of ownership is even more complex. Ownership is best measured at the project level, not at donor or country level: aggregation of such complexity presents significant challenges.

**While there were examples of linkages between the *good aid relationship* and greater aid effectiveness, the links are not always clear, do not hold over time and the benefits are not the same – or even always positive – for all stakeholders. Furthermore, the links are much**

**the same as those set out in Chapter 3 reflecting the imposition by donors of standard policies strategies and procedures in the LIPCCs as they had used elsewhere.**

As has been noted, the *good aid relationship* is not simply a static choice between national and donor ownership. It is a set of dynamic relationships that will change over time. There is evidence that by handing over ownership of the NPAP to the MPPL (in at least part of the project cycle) the effectiveness of the intervention may not have been as great in making a difference to the lives of the poor as it could have been (for example the micro-finance component of the NPAP). Equally, the design of the NPAP could not be left to international consultants brought in to design it without any knowledge or understanding of the national context.

Analysis of the NPAP shows that lack of national ownership can have a major negative impact on administrative governance, especially on the burden on government. Equally, the SSSDP shows how lack of national ownership in design wastes the time of national counterparts in the process, raises expectations, only to have them dashed, and has an impact on economic governance through ensuring the unpredictability of resources for the budget.

The parallel mechanisms of the NPAP/PAF made the central government politically inert when it came to addressing the needs of the poor in remote areas of the country and even in Ulaanbaatar. Local governments, who were given much more control over the allocation of resources, and to some extent communities who ostensibly made decisions about the use of resources, were, however, empowered by the process. This had an impact on the accountability of the central government in terms of programme performance.

Since Mongolia did not incorporate donor assistance into its budget, the lack of control of the government over NPAP resources (either mobilisation or disbursement) complicated its own budgeting processes since it had resources allocated for similar areas to those covered by the programme. Without knowing how much would be allocated under the NPAP it was difficult to identify the appropriate level of additional resources required from the national budget. The SSSDP provided a different problem since the use of conditionality meant that the Ministry of Finance and Economy would have programmed the use of funds aimed at budget support without having the power to ensure the implementation of policy reforms that would result in the release of these funds. This power rested with the MSWL and ultimately with the national parliament.

The imposition of standard approaches from outside – as illustrated by the quote in Chapter 5 that within two years the donors had established a system that reminded the observer of Bangladesh – also reflects the lack of understanding of the context by the donor community. In addition to this ignorance, it reflects the urgency with which donors were responding to the transition as well as the lack of culture of learning, especially through evaluation. Greater national ownership of the learning process as it existed would have made it more likely that lessons would have been learned from the NPAP. The donor driven nature of the aid process extended to evaluations (limited in number as they were) and resulted in key lessons not being utilized by government in the design of similar interventions, most notably the PRSP. Greater ownership of the design and implementation of the SSSDP did not lead the government to learn from other SDPs implemented in Mongolia indicating that the incentives to learn were not in place. While it could be argued that recipients needed to make their own mistakes, donors needed to help them in the learning process and not simply introduce ‘best practice’ from very different contexts.

## **7.2 KEY CONCLUSIONS: WHAT EXPLAINS WHY THE GOOD AID RELATIONSHIP EXISTS OR DOES NOT?**

This section answers the core question: why has the aid relationship not improved? It draws on the findings from Chapters 4, 5 and 6 and for each conclusion efforts are made to bring in findings from other research in this area. The final conclusion deals with the issue of the Soviet legacy and the identification of common themes that could distinguish the LIPCCs from recipients with different historical relationships.

### **Lack of national ownership of the aid relationship agenda was itself a major barrier to improving the relationship.**

The aid relationship agenda itself is not owned by the national governments or citizens. It has not formed part of a strong national debate in Mongolia, and there is no evidence that it has been in the other LIPCCs. The concepts are not easy to understand, even by the donors and other international organisations that use them. Some recipient countries have been part of the development of these agendas and have contributed to the development of the ideas. But while many of the ideas are welcomed by recipients, the agendas are still owned by the donor community. In addition, the Mongolia experience shows the lack of national ownership of the evaluations, limited as they were, reduced the internalization of lessons learned by the government. This resulted in little use of evidence on effectiveness and also on the role of the relationship in enhancing that effectiveness.

This situation is clear in Mongolia but is an issue increasingly articulated by Southern critics of aid:

For far too long the debate on international aid has been constrained by conceptual traps and the limitations of the definitions provided by the donors. If the recipients or beneficiaries of aid are to own the process, as present trends in the development literature suggest, then the conceptual reframing of the issues must itself change its location from the North to the South. (Tandon 2008a: p.128)

In promoting the aid relationship agenda while at the same time dominating the discourse on this issue, the donor community is aiming at *cultural hegemony* in which the ideas they agree on become the norm or *common sense*. The consensus culture that has developed and the intuitively appealing nature of the Paris Declaration and similar agreements, means that recipients automatically identify their own good with the good of the donors and help maintain the status quo in terms of thinking about aid effectiveness in a post-Paris environment. Donor dominance of the fora in which core issues are discussed result in the donors maintaining the power that the cultural hegemony brings. In this way donors use the language of the aid relationship as an ideological weapon against the countries they are trying to help. As Tandon notes above, until the concepts, ideas and innovations come from the recipients, the appropriate aid relationship will not be identified and will not become a reality.

While the Mongolian government may not have taken ownership of the aid agenda, civil society in Mongolia has also been unwilling to take the lead in opening the discussion. The importance of broad based engagement in the aid relationship discussion was identified as key 'to ensuring that donors and their partners, through peer or domestic pressure, put in practice what they preach at the international level' (Deutscher and Fyson 2009: p.10) and was also a major finding of the recent evaluation of the Paris Declaration (Wood *et al.* 2011: p.10):

when knowledge of and engagement in aid reform extends to the full range of actors including the legislature, sub-national governments, civil society and the private sector – rather than to only a few ministers and agencies of the central government – it is likely to provide a stronger base for implementing the aid effectiveness agenda.

**Economic dependency was clearly important when negotiating relationships but dependency was as much a political as a technical issue in the LIPCCs, with foreign relations playing a big role. Moreover, the political dependency of individuals was as important as that of organisations and governments.**

Findings from Section 5.4.2 show that economic dependency played a major role in determining the aid relationship in Mongolia, largely through a combination of its inherent vulnerabilities as well as the Soviet legacy of a major debt burden. The high degree of uncertainty over these

factors, together with a lack of knowledge of international donor policies at the start of the transition, seem to have made Mongolia take a more cautious path and push less for ownership. Mosley et al (1995) point to the limited importance of dependency in the 1980s as recipients knew that donors (specifically the World Bank) were more interested in maintaining a lending programme than on holding governments to policy conditions. Whitfield (2009) indicates that economic dependency as proxied by poor economic performance is important in reducing the degree of national ownership in a country. Nonetheless, economic dependency is clearly only one of many factors that ultimately affect the relationship.

Earlier chapters also identified the fact that donors can be as dependent as the recipients in terms of their own foreign relations and commercial goals. China has been identified as a wild card that in many ways affects Mongolia's dependency on Northern donors but brings in risks of dependency of its Southern neighbour. In Africa the changes in the global political economy, and in particular China's rise as an economic power with interests abroad, have been seen as raising interesting possibilities for a change in the aid relationship. But for Mongolia, due to its proximity, China has been a partner by default since the start of the transition. Another example of the political dimension of dependency is US reliance on Uzbekistan for undertaking military activities in the region, as set out in Section 4.4.1, which had an important impact on the aid relationship.<sup>290</sup>

Institutional and commercial factors can also become important in determining the incentives to improve the relationship. The case of the SSSDP illustrated the situation where one agency was dependent on an aid loan for meeting its goals while a different agency was responsible for implementing actions that would lead to the disbursement of these funds. Different structural conditions therefore led to an incoherent strategy when negotiating the aid relationship. In addition, other forms of dependency are equally important in terms of negotiating the degree of ownership, especially at the early stages of project or programme design. In Mongolia, the dependency of individuals on aid was found to be important in negotiating the aid relationship. Individuals in government and among the contractors employed by the donors are dependent on the programmes and the incentives resulting from this dependency can influence positively or negatively the good aid relationship. This leads to the next conclusion.

**Although donor policy was often worthy, the incentives for donor staff (and contractors) to maintain control were strong. Better oversight was needed to ensure that staff and contractors were held accountable for implementing aid relationship policies.**

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<sup>290</sup> Other examples of political dependency in relation to Mongolia are given in Section 5.4.2.

The evidence from Mongolia suggests that on the donor side, the incentives at the micro-level were not in place for donor staff to pursue an effective relationship. Loans related to the two programmes examined faced set time-lines yet were complex and time-consuming to process. Delays were seen as failures on the part of the task managers and the incentives to take the time to ensure national ownership, especially when this is through supporting national capacity development, were limited. Once designed and approved, incentives to implement the programme quickly through the agreed time schedule were also strong and in the case of the NPAP led to the development of parallel implementation mechanisms. For both the World Bank and the ADB, a project was considered weak when implementation was slow as much as in relation to its contribution to national development results.

Gibson *et al.* (2005) identifies an important effect of the aid consultant's tendency to seek long-terms relationships with donors. Concerned with future contracts a consultant will face incentives to retain control over a project. Giving up control is risky and by retaining control and reducing uncertainty the consultant 'maximises expected returns from future contracts' (*ibid*: p.232). The more difficult it is to measure the results of the project, or the less transparent the reporting process, the more likely the consultant is to attempt to control the intervention. Given the finding in Mongolia, the same case can be argued for donor staff.

What is lacking for addressing this issue is, first, an organizational culture where all members of an organization's staff have the tools and the willingness to promote the good aid relationship. Second, there needs to be an accountability system that takes relationships into account and assesses performance of programmes, projects and even individual staff members on how they have contributed to promoting the good aid relationship. Accountability mechanisms are also required to provide the incentives to ensure that appropriate relationship objectives are put in place at a micro level (for example, related to project design) and that corresponding arrangements and instruments are also established (for example, including explicit national ownership issues in the Terms of Reference of consultants). Such an *aid relationship culture* would mean that all donors and government staff at whatever level, and whether at headquarters or in the field, consider the aid relationship as the core of their everyday work and not simply part of a whole package of fashionable donor terms that are so ambiguous as to mean nothing. Clarification is the first step towards making this possible. Addressing the relationship at the micro-level addresses the fact that the relationship is not consistent either across countries or within them, that relationships change over time and that you need to be aware of them at every stage of engagement. As national ownership gains strength, the performance of a programme or project (or of the individuals involved in the aid process) should not simply be based on

contribution to national results (difficult to assess at the best of times for attribution reasons) but on the way the interventions were identified, designed, implemented, evaluated and amended.

**Although donor perception of weak national capacity was a major constraint to improving the aid relationship, rather than work with national governments to address it, donor actions often resulted in capacity replacement or even worse. The paradox is that lack of ownership of the capacity development process itself was often a major cause of its failure. Moreover, the perceived urgency to address critical development needs was often used as a reason not to address capacity development processes.**

In Mongolia, a major factor leading to weak national ownership was the lack of capacity as perceived by the donors. It could be argued that the good aid relationship cannot be implemented in a situation where capacities are not in place. But the primary definition of the good aid relationship was built around a dynamic vision that recognised the lack of capacity in many recipient countries and capacity development as an integral part of the approach tried to address it. In this respect the approach can be considered universal among countries where a partnership is in place based on the assumption that capacity development is possible, even if it may be a very long-term process (and possibly something the donors may not be able to effectively support). If weak national capacity is a major constraint then why are more capacity assessments or, even better, analyses of endogenous capacity development processes, not undertaken with corresponding actions to help address the issues identified?<sup>291</sup>

First, it because of the failure of donors to achieve good results from capacity building efforts. Van de Walle (2005: p.73) notes that:

Contemporary capacity building efforts are largely Sisyphean, doomed to fail. The problem is not technical – it is not equivalent to the problem of building the perfect irrigation pump. Instead, it is about changing the current incentives that are leading local institutions to underinvest in capacity.

Without success the incentives to attempt to try to change an endogenous process are limited but, as Van de Walle points out, donors need to encourage capacity building by the national authorities themselves. Whitfield (2009) finds that among the African countries studies capacities are not always as bad as donors believe and that donors have, in fact, added to the problem themselves.

Second, the perceived lack of capacity is especially important when combined with a sense of urgency to implement programmes often resulting from the relatively short-term perspective taken by donors and recipients alike. This sense of urgency is often strong in the context of

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<sup>291</sup> Whether donors can or cannot effectively support national capacity development is not addressed here but the fact remains that they often believe they can.

countries undergoing a process of rapid change. In the case of the NPAP, combined perceptions of weak capacity and urgency led to weak national ownership of the design of the programme and parallel implementation mechanisms. Equally, with the SSSDP, the sense of urgency to complete the programme design (at the third attempt) combined with perception of weak implementation and policy design capacity led to weak national ownership in design of core elements of the programme and in implementation.

**The legacy of the Soviet system was difficult to capture. So many context specific factors affected the aid relationship that it is unlikely to have had a major effect on the relationship especially in light of the donors' efforts to replicate the structures and relationships that they had established in other parts of the world. The legacy also seems to have weakened over time.**

The legacy of the former Soviet Union, although an important influence on the aid relationship at the start of the transition, has been diluted as time has passed. Although starting from a similar position, the nature of the transitions has been different with some following a path that would allow a good partnership with the international donor community while other following a path that would automatically lead to a clash of ideas, ideologies and policies. As a result, divergence in the aid relationship would be expected. Similarly, although individual capacities may have started in a similar situation, the institutional capacities have developed in different ways with some countries quicker to move away from the Soviet style systems and move towards approaches more appropriate for the type of society and economy they aspired to reach. In addition, the degree of economic dependency varied with different natural resource endowments and geographical advantages.

Chapter 4 clearly identifies some of the important contextual factors that would influence the relationship and importantly recognises the importance of non-development factors, often more related to foreign policy and commercial interests. The importance of context cannot be underestimated and the LICs have gone their own ways developing their own relationships for context-specific reasons. In drawing conclusions on the aid relationship from a series of case studies in Africa, Whitfield (2009: p.357) notes that:

the political, economic, ideological, and institutional conditions that have led to Botswana, Ethiopia and Rwanda's negotiating strength offer little hope of generalizing from them strategies that could be pursued in a wider set of aid-dependent countries. They are either the product of unique circumstances which are not replicable or of factors beyond the control of recipient governments.

The context specific nature of the aid relationship means that learning and accountability are crucial to improving it. There are no best practices in getting to the right relationship; just a process of learning about what type of relationship makes aid more effective and leads to

positive changes in the lives of the people aid intends to help. Holding donors and recipients accountable for the undertaking the process and implementing the lessons learned is also essential.

Furthermore, Chapter 4 and 5 revealed that the donors were trying to introduce a standard and somewhat old fashioned package of assistance to the LIPCCs, so that they would soon develop the kind of relationship seen elsewhere. It is precisely these factors that make looping back the findings Chapter 5 and 6 to the LIPCCs as a whole, challenging. There is no reason to doubt that the factors behind the nature of the aid relationship are very different across these countries. Some specific issues can, however, be raised. First, the speed with which the donor community, in some cases in full partnership with national governments, wanted to address the underlying economic, political and social issues. Unlike countries where national efforts to develop institutions and capacities needed support, in the LIPCCs there was perceived as a race against time to maintain what had been built in the previous system. In this race capacity development, by nature a long-term intervention, had a limited role. The key issue is capacity and speed – not ideology, capacity or dependency – these are context specific and vary across the region. This has implications for transition countries in the widest sense (i.e. countries undergoing dramatic upheaval for whatever reason be it natural or man-made or a combination of the two). Some of the issues are generic and not necessarily associated only with countries coming out of a post-communist system although the degree of the transformation in this instance across economic, political and social spheres was particularly dramatic and beyond what many other transitions would require.

### **7.3 FINAL REFLECTIONS**

The findings and conclusions of the thesis do not, and did not intend to, inform the debate of whether aid is good or bad but they do suggest that the aid relationship can be better. Given the body of evidence that the aid relationship does affect the effectiveness of aid in supporting national development this is more optimistic than the negative pronouncements of observers such as Easterly and Moyo.<sup>292</sup> This thesis does not argue that aid is the optimal solution but recognizes that it can be part of a solution.

The initial questions posed in the research set the platform for examining the main research question. The first, on the aid relationship was covered in Chapter 2 and allowed the development of both an understanding of the relationship and a definition for use in the

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<sup>292</sup> As reflected by the latter's overall stance on aid: 'the choice of aid as the optimal solution to the problems of Africa's poverty' is the 'single worst decision of modern development politics' (Moyo 2009: p.xix).

research. This definition focussed on ownership as the core of the relationship and in particular, ownership as control. The framework to analyse why the good aid relationship exists or does not therefore focussed on why greater national ownership has not been achieved. It used the idea that the determination of control results from negotiations and that the result of these negotiations is based on the negotiating capital of the parties in the negotiations. The structural conditions that determine the negotiating capital has framed the discussion on the key research question throughout the report. The strength of this approach is that it can be applied across all stages of the project cycle and among different parties involved in desiring, implementing and evaluating a donor intervention.

The second question concerned the extent to which the good aid relationship exists in the LIPCCs. The main finding is that it varies considerably across the region and over time, and the conclusion, stated earlier in this chapter, is that it is extremely challenging to determine the aid relationship at the county level. This is important in the context of continued attempts to do just that. By looking at a group of countries it is possible to examine this divergence. Many of the factors are driven externally and have more to do with national context than with the common legacy or a common set of donors. The relationship results from a complex set of negotiations throughout the life of any donor-recipient engagement. The structural conditions, to use the terms of the analytical framework, determine what the relationship looks like.

Equally other factors determine how the relationship affects aid effectiveness. Determining the appropriate relationship that adds value to the donor-recipient engagement and contributes to greater development effectiveness is challenging and context specific. The complexity of the relationship means that rather than attempt to provide such a picture for the purpose of monitoring implementation of international agreements, it is more useful to monitor the implementation of mechanisms and processes that will facilitate achieving an optimal aid relationship in each engagement.

The third initial question related to what is known about how the aid relationship can affect the effectiveness of aid in reaching its goals. Initial ambitions to learn more about the linkage between the aid relationship and the effectiveness of aid in supporting national development were thwarted due to inadequate evidence on the ground to make significant findings. Evidence from the LIPCCs supports that of the wider body of work as set out in Chapter 3. The conclusion is therefore that the donors have helped introduce to the LIPCCs in a few years the same flaws they introduced elsewhere over several decades. It is difficult to argue that these flaws are inherent in the aid system and a cost of the process of engaging with the donor

community. Rather it reflects the inability of donors to learn from their experiences in other countries and regions and to adapt what they have learned to specific contexts.

The conclusions for the core research question have been set out earlier in this chapter and it is possible to use them to identify two central messages or further contributions of the thesis to the wider body of research in this area. The first relates to the aid relationship not only in LIPCCs but in the wider group of countries in different types of transition from one system – be in economic, political, social or a combination of all three – to another. That the political dimensions of dependency are important is known but in the case of many transitions, engagement of parties who do not know each other well leads to uncertainty and this has implications for negotiating the aid relationship. While uncertainty exists, especially in the very early years of a transition, negotiations may lead to a variety of relationships, many of which may be based on experiences on the previous system in the case of recipients or of other countries in the case of donors. Finding the optimal relationship for the country context may be challenging. In addition, transitions are often dramatic and fast-paced and therefore present a capacity paradox where the urgency to address priority problems leads donors to take control and by-pass longer term capacity development efforts. The fact that capacity development itself requires national ownership and that lack of capacity is reason for not wanting to give it, is a paradox that needs to be addressed.

The second major message has implications for advancing the discourse on aid effectiveness and on the aid relationship in particular. While the international agreements on aid effectiveness and the aid relationship indicate that the debate is well advanced, ultimately it is at the national level where the debate will ensure the move from rhetoric to reality. The role of national government and civil society to openly debate the importance of the aid relationship is critical if the relationship is to be improved. It is necessary to develop appropriate tools so that recipients as much as donors can learn how the aid relationship affects the contribution aid makes to national development effectiveness. There is also clearly a role for the donors who need to raise this issue not only in the context of their overall strategies and programmes but in relation to the everyday actions of their staff and the policies and procedures that they follow. After all, the building blocks of relationships are the individuals who engage with each other on a regular basis and it is only through these individuals that change will take place. This fundamental shift in approach will move the process away from the international fora, global agreements and worthy rhetoric to establishing a context specific relationship that truly adds value to the process of changing people's lives for the better.

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