

# Aid Coordination and Aid Effectiveness

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A Report submitted to the Norwegian Ministry of Foreign Affairs  
by ECON Centre for Economic Analysis

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## Acronyms and Abbreviations

BoP	Balance of Payment
CDF	Comprehensive Development Framework
CG	Consultative Group
DAC	Development Assistance Committee
DAF	Debt Alleviation Fund
DFID	Department for International Development
ECA	Economic Commission for Africa
EU	European Union
GCA	Global Coalition for Africa
GCPI	Gabinete de Coordenação dos Programas de Importação
IMF	International Monetary Fund
JEM	Joint Evaluation Mission
LDC	Least Developed Countries
LMG	Like Minded Group
MAE	Ministry for Public Administration (Mozambique)
MinAg	Ministry of Agriculture (Mozambique)
MinEd	Ministry of Education (Mozambique)
MoH	Ministry of Health (Mozambique)
MONAP	Mozambique - Nordic Agricultural Programme
MPF	Ministry of Farming and Finance (Mozambique)
NMFA	Norwegian Ministry of Foreign Affairs
NORAD	Norwegian Agency for Development Cooperation
NORSAD	Nordic SADCC Fund
OAU	Organization for African Unity
OECD	Organization for Economic Cooperation & Development
PROAGRI	Mozambique's Agricultural Sector Development Programme
ROCS	Road and Coastal Shipping
RT	Round Table meetings
SADC	Southern African Development Community
SADDC	Southern African Development Coordination Committee
SAP	Structural Adjustment Program
SIP	Sector Investment Program
SPA	Special Program for Africa
SWAP	Sector Wide Approach to Programming
SWAPO	South West Africa People's Organization
TRA	Tanzania Revenue Authority
UN	United Nations
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme



# 1 Executive Summary

The so-called “Pearson Commission” presented its report entitled *Partners in Development. Report of the Commission on International Development 30 years ago*. Key themes in that report remain valid today: the recipient must be responsible for its own development policies but donors have a right to be consulted; the interaction between the parties should be based on a *partnership* where predictability and performance-based resource flows are integral parts.

*Aid coordination* has subsequently become a key dimension in the operationalization of the partnership concept. Donors and recipients alike are allocating increasing resources for aid coordination activities, with the understanding that efficient aid coordination generates efficiency gains. It is not clear, however, how to measure these efficiency gains, nor is there a good understanding of what a “least cost” strategy for aid coordination *improvements* should look like.

This study was commissioned by the Planning and Evaluation Unit of the Ministry of Foreign Affairs to provide an update on the aid coordination debate. It was primarily to be a desk study, but supplemented by interviews of resource persons and the use of relevant case studies. Particular attention was to be paid to recipient experiences and viewpoints where these could be identified.

## Partnership, Recipient Responsibility and Aid Coordination

The partnership concept is given different contents by different actors, but overall it is an important step in the direction of a more equitable relationship between donors and recipients. In particular, it recognizes the centrality of the recipient in the relationship, and the desirability of the recipient to manage it. But the reality is that fundamental asymmetries remain between the two sets of actors, not only in terms of economic resources, but also political. A key aspect here is the lack of credibility and legitimacy on the side of many recipient governments that undermines their political bargaining power with respect to donors. There is thus a serious gap between rhetoric and reality regarding the content of partnership concept where the resource-rich partners have a particular responsibility for not dominating and taking over the relationship.

Instead of partnership, Norway has used a *recipient responsibility* concept, to underline the need for donors to step back and have donor coordination subordinated to recipient priorities. Norway risks becoming marginalized in the development of the partnership

concept if it insists on maintaining a separate concept, since both partnership and recipient responsibility are to address *systemic* dimensions of the donor-recipient relationship. Norway may make a greater contribution by bringing the experiences gained from the recipient responsibility approach into the partnership discussion.

## The Structure of Aid Coordination

Two *kinds* of aid coordination take place at the international level. Focused *events* such as the international conferences help generate consensus on overarching policy issues, largely on specific issues like the environment (Rio), education (Jomtien) etc. On the other hand, more permanent institutions like OECD/DAC or process-oriented fora like the SPA work with systemic and implementation problems. Most of the latter institutions are donor-driven, however, with recipient countries having limited influence.

Coordination at the recipient country level usually includes overarching development issues and financing of national priorities through Roundtable or Consultative Group meetings, held abroad or in-country. There are often a variety of inter-donor coordination mechanisms in place as well as government-donor fora, both at macroeconomic and sector levels. The number of such coordination activities has grown rapidly over the last years without clarity as to what the outcomes of them have been. There thus seems to be a lack of focus and results-orientation regarding the aid coordination activities themselves, which represents a major challenge both to donors and recipients.

## Dimensions of Aid Coordination

Aid coordination can be de-composed along several dimensions: *geographic* (international coordination on general issues versus recipient country-specific); *content* (policies, principles and priorities versus procedures versus practices); degrees of *intensity/commitment* (general consultation versus cooperation at the strategic level versus collaboration at implementation level); national issues versus sector and sub-sector issues; at *geographic/regional* level within a given country; and along *functional* lines (technical assistance versus general balance of payments support, for example).

By de-composing aid coordination efforts along these various dimensions it may be possible to identify which cells in the multi-dimensional coordination matrix yield the higher pay-off to effort.

### **Lessons from Coordination**

While all actors in principle agree that it is important that recipient governments manage external assistance and thus should be responsible for aid coordination, most of the poorer countries lack the technical and administrative capacity and skills to handle this efficiently. A more serious shortcoming may be their lack of *political* credibility and legitimacy, however, which is a dimension that requires more attention. But donor practices fragment and thus weaken aid coordination possibilities and outcomes as well, and this is at least as much to blame as lack of local implementation capacity and will.

### ***Nordic Experiences***

The Nordic countries have a high degree of commonality with respect to overarching policies and a strong commitment to flexible and coordinated development efforts. The experience has been, however, that effective coordination is difficult to achieve. Strong continuous political commitment is required, since the bureaucratic interests of the various aid administrations will otherwise tend to fragment efforts along more particularistic agendas. Since donor country policy agendas change over time, the outcomes of inter-Nordic coordination efforts have therefore varied considerably.

### ***Recipient Politics and Aid Coordination***

Successful aid coordination implies structural changes to resource flows – in particular that central agencies like ministries of finance take on a coordinating and thus a stronger role. This may often generate resistance from those within the local administration that feel they will lose out, such as aid-favored units in line ministries – a problem that should not be underestimated. Understanding the *politics* of aid coordination is therefore as important as understanding the economics of it.

### ***Donor Strategy Coordination and National Development Programs***

If there is no coherent government development program and strategy in place, donors cannot substitute for this by coordinating their own strategy processes, but should rather support government's efforts at developing a credible program. This position arrived at for example in the context of a Mozambique survey, is not accepted by all donors, who believe that many recipient governments are not serious about addressing key structural issues and that donor conditionality is still required. Recent studies note the failure of conditionality as a means for attaining policy changes, however, and this points to the need for more imaginative and constructive support for recipient-managed strategies.

### ***Coordination of Policies versus Procedures and Practices***

Coordination of *policies* may not be so important, however, since it is relatively easy to reach agreement on policies and priorities. The real disagreements tend to appear with regards to procedures and practices. It is at this level, therefore, that coordination gains are potentially the greatest, since differences in how activities are to be implemented generate enormous administrative and transaction costs to both donors and recipients. Establishing a program for identifying “best practices” at this level would seem to be important.

### ***Aid Coordination Mechanisms***

Regarding *mechanisms* for aid coordination, the most common one - informational meetings – may also be the least efficient and could be streamlined/downsized. At the other extreme, formal contracts often represent cost-efficient coordination because while they may be costly to establish – *investment costs* are high – they generate lasting and potentially substantial reductions in *recurrent transaction cost*, and these are the real problems for local administration.

### ***Most Interesting Current Efforts***

Coordination at national level is required to achieve *systemic* changes, which in turn generate major benefits to the host country. The most interesting coordination experiences right now seem to be taking place at the *sector* levels, however, where innovative approaches such as SWAPs are being tried out in a number of countries. At both levels, however, patience and realistic capacity building are required. In this connection it is important to note that *institutional development* is key to successful aid coordination, since this establishes national “rules of the game” that are managed by national authorities and which all actors must follow. This is the only means through which sustainable reductions in transaction costs can be attained and maintained.

### **The Unfinished Agenda**

This assessment was primarily to be a desk-study and done within strict resource ceilings. It therefore represents a first limited effort at analyzing the aid coordination field, and thus suffers from a number of shortcomings:

- The Nordic experiences were not an explicit part of this study, and thus only a few examples have been looked into. There are, however, a number of cases that ought to be reviewed for more careful lessons: the Nordic UN initiatives, several of the larger SADDCC programs including the NORSAD fund, as well as more careful reviews of the Namibia and Tanzania experiences.

- Over the last year, considerable work has been carried out regarding the experiences of sector coordination/sector budget support. This area should be paid more attention in the future.
- Another area that merits more work is donor practices. Norway's fragmentation of its cooperation financing according to own priorities is one example, and the degree to which this is common ought to be looked into. Sources could be national budget documents but also the DAC donor reviews.

Conceptual and empirical issues need to be developed. At the conceptual level, it is important that some agreement can be reached on how to measure costs and benefits of aid coordination. Right now, vast and increasing resources are going into this area without there being a clear idea about whether the coordination

efforts are being done in a rational way or not. A transaction costs approach to this problem appears to be one of the more promising avenues.

In the empirical field, a program of case studies should be developed that would track some interesting cases and analyze what characterizes what are considered to be "best practice" examples. Without some solid empirical foundations, it is difficult to see how aid coordination efforts can be steered in better directions.

Finally, the launching of the Comprehensive Development Framework, CDF, provides a unique opportunity for donors and recipients alike to test out and apply in a systematic way the lessons from many years of aid coordination. The question is if enough is currently known to specify what are the most cost-effective ways of coordinating aid resources.

## 2 Introduction

Both donors and aid recipients are spending considerable resources on aid coordination activities. The trend seems to be towards an *increase* in these levels, yet relatively little is known about the outcomes and impact of these efforts. In particular, there does not seem to be much of a *strategy* in place for how to improve the effectiveness of the aid coordination resources themselves.

Norway's Minister for Development and Human Rights has made it clear that she sees this as an area for improvement. As a step towards understanding where the debate on aid coordination is today, the Planning and Evaluation Unit in the Ministry of Foreign Affairs commissioned the current study. It was to be primarily a desk study, but was at the same time rather ambitious in terms of identifying lessons that might be relevant for the future. Given the limited time and resources available, on the one hand, and the agenda to be covered, on the other, the strategy chosen has been to prepare a report that is as much a discussion paper as just a review. The reason is that there are some issues that seem worthwhile to present for debate, but the material underlying them may be limited and uncertain, so it is not clear how valid or general the conclusions really are. As a way of promoting the debate, however, it was found that presenting the tentative conclusions might be the most helpful approach.

### 2.1 Mandate

The mandate for the study divided the task in two parts. The first was to be a review of the studies available on aid coordination, including the experiences with Consultative Group meetings, of sector coordination, etc. It should in particular look at material that contains information on recipients' experiences. The review was to cover both Norwegian and international studies, and could be supplemented with interviews. The other part of the study was to look at the development of Norwegian policies and practices with respect to main channels of Norwegian assistance.

Based on the above work, the study is to summarize the experiences with aid coordination, and identify and

assess the factors that have contributed to or weakened aid coordination. Attention was to be paid to donor-recipient coordination, and particularly which factors have held back recipient capacity for managing coordination. A comparison should be made between Norwegian and international experiences in these areas, and an analysis of what may have caused the divergences should be presented. Finally, if at all possible, the study should say something about costs and benefits from aid coordination.

### 2.2 Methodology

The study has been based on four sets of inputs. The first one was the desk study, where the attached bibliography contains the material reviewed. The second one was a limited series of interviews with aid officials in Oslo and Stockholm. The third component consisted of case material from Mozambique and Tanzania, taking advantage of two major reviews that ECON carried out in these two countries over the last twelve months, and that generated material relevant to this study. Finally, the Ministry financed the participation of ECON as an observer at a workshop organized by the World Bank in Washington in February 1999. This workshop was for senior officials in developing countries who have aid coordination responsibilities in their home countries, where the purpose was to critically review their experience in this area, and look at ways of making aid coordination more efficient.

### 2.3 The Larger Picture

The World Bank, the UNDP, and the Development Assistance Committee, DAC, are also currently engaged in reviews of the issues surrounding aid coordination. These other studies are considerable larger efforts and will thus cover overarching issues more in-depth. Taking this into account, this review thus presents some more case material that may not be used in the other reports. Some of the experiences with aid coordination among the Nordic countries are presented, as is material from Tanzania and Mozambique – two aid dependent countries with somewhat different experiences regarding aid coordination.

### 3 Partnership and Aid Coordination

The mandate asks that particular attention be paid to the interaction between donors and recipients with regards to aid coordination – that is, review the *structural* dimension of this interaction. This is done along two dimensions. Chapter 3 gives an overview of *actors* and *roles* within aid coordination, whereas chapter 4 looks at *dimensions* of aid coordination.

#### 3.1 Aid Coordination and Partnership

Central to donor-recipient coordination is the concept of *partnership* – which is hardly a novel concern. The first major commission established by the international community dealt with the problems of development and aid. Headed by Lester Pearson, the commission's report *Partners in Development. Report of the Commission on International Development*, was presented in 1969. Much of what it said then is still relevant today:

*“The formation and execution of development policies must ultimately be the responsibility of the recipient alone, but the donors have a right to be heard and to be informed of major events and decisions. This calls for a new partnership based on an informal understanding expressing the reciprocal rights and obligations of donors and recipient. The precise arrangements will and should differ from country to country, but, broadly, aid-providers, including international organizations, should be able to expect periodic consultations on matters of economic policy ... Recipients, on the other hand, should be entitled to a prompt and reasonably steady aid flow at the level agreed and allocation of additional aid according to explicit criteria emphasizing economic performance” (Pearson et. al. 1969, pp. 127-128).*

The title of the Pearson Commission report was carefully chosen. And the title and arguments for partnering are clearly as topical today as when the report was produced. The World Bank presented a discussion paper in 1998 entitled “Partnership for Development: Proposed Actions for the World Bank”. The focus of the paper is “on the single question of how partnerships can provide a tool to deliver more effective development assistance to developing countries” (World Bank 1998d, p. 2).

The Pearson Commission's call for a partnership based on reciprocal rights and obligations between donors and recipients has thus been a constant theme over the last 30 years, and *aid coordination* has been a key dimension in its operationalization. Over the last

several years, there has been greater consensus concerning the need for and content of the partnership. At the same time, work has intensified regarding aid coordination, with both the donor community and developing countries intensifying efforts to improve performance. A wide range of agencies are involved, and there are more efforts than ever at identifying “best practices” and understanding what makes them successful.

##### 3.1.1 OECD/DAC

The Development Assistance Committee, DAC, of the OECD carried out a series of assessments in the late 1980s and early 1990s, leading to the *DAC Principles for Effective Aid – Development Assistance Manual* (OECD 1992). The 1992 document states as the first “compelling lesson” from its review of 25 years of development cooperation that “aid can only be as effective as the policy, economic and administrative environment in which it works...The fundamental lesson is that aid has to be more concerned with creating the fundamental conditions for its effectiveness”. Furthermore, “Greater emphasis should be given to ensuring the commitment of recipients’ executing agencies and the motivation of local target groups through the active involvement in selection, design and implementation”. (OECD 1992, pp. 5-6). Regarding the specific issue of aid coordination, the document has as the first overriding principle that “donor coordination [is] to help developing countries establish and implement improved policies and carefully appraised investment and expenditure programs” (OECD 1992, p. 25). It has little to say in terms of *how* this is to be achieved, however.

Subsequently, the DAC has produced a policy paper, *Shaping the 21<sup>st</sup> Century: The Contribution of Development Co-operation* (OECD 1996). It establishes a series of specific objectives for the development cooperation that are related to poverty reduction. It goes on to say “Acceptance of the partnership model, with greater clarity in the roles of the partners, is one of the most positive changes we are proposing in the framework for development co-operation”. It then notes that “Paternalistic approaches have no place in this framework” (OECD 1996, p. 13). The document defines what is termed “a compact for effective partnership” in three parts: joint responsibilities, developing country responsibilities, and external partner responsibilities. On the developing country side, responsibilities include appropriate macroeconomic policies; social development with increased participation and gender equality, accountability and the rule of law, strengthening of human and institutional capacity. External part-

ners should provide reliable and appropriate assistance, adhere to guidelines for effective aid, support capacity building to avoid aid dependency, and work for better coordination among the external partners (OECD 1996, pp. 14-15).

### 3.1.2 UNDP

Within the UN system, UNDP has a mandate for coordinating programming and to some extent even funding. In addition, UNDP co-chairs the Round Table, RT, meetings with recipient governments. UNDP has carried out several studies to review its overall aid coordination role and experiences. The last study, done five years ago (COWIconsult 1994), made a number points:

- UNDP's mandate, presence and tools can both service the donor community and ensure transfer of ownership of aid coordination to the national institutions.
- UNDP can perform three key roles: (i) be a neutral provider of aid coordination services, (ii) provide technical services for aid coordination and management; and (iii) provide substantive inputs in key areas, such as sustainable human development and good governance, that would promote local capacity for aid coordination.
- UNDP should focus its efforts in the LDCs, where it has its main presence, has the largest cooperation program, and already plays an important coordinating role within the UN system.
- In middle-income countries, UNDP should provide technical assistance in select core and line ministries, avoiding duplication or conflicts with other large bilateral or multilateral programs and agencies that might already be providing similar services to other national institutions.

UNDP is currently carrying out a review of the Round Table mechanism, where the full cycle of preparation, conference, sector meetings, monitoring and follow up will be looked into. Several case studies will be done and subsequently discussed with development partners in workshops both at the country and sub-regional levels. Other UN mechanisms like the UN Development Assistance Framework, UNDAF, and Human Development Reports will be looked at in terms of their potential usefulness and relevance for aid coordination<sup>1</sup>.

1. Reviews of the UNDAF have already taken place leading to a number of revisions to both the structure and organization of the UNDAF compared with the original concept. The UNDP review will presumably bring the various issues surrounding the UNDAF to the table for further discussion.

### 3.1.3 Sweden

Among the bilaterals, Sweden seems to have carried out the most thorough review of its cooperation principles. Focus was on its relations with Africa, since most Swedish financial resources are channeled there, and this is where Sweden – and other donors – have experienced the greatest difficulties in attaining stated objectives. Sida produced a series of studies under the “Project 2015” umbrella, including a major report on aid dependency (Sida 1996). This report contained two studies – one on the problem of aid dependency in general (Riddell 1996), while the other one was a case study of aid dependency in Tanzania, but seen from a recipient-country perspective (Sobhan 1996). The report presented an action program for combating aid dependency in a number of points, the most important of which were: (i) reward the *quality/impact* of aid rather than *levels* of aid, using systematic monitoring; (ii) induce a genuine program approach with recipient management and pooled resources; (iii) build *national* rather than project capacity, including policy environment, civil society; (iv) make policy dialogue broad and transparent, including academia, NGOs, representative entities; (v) support domestic resource mobilization.

This was followed by a major report to the Ministry of Foreign Affairs by a panel of external resource persons entitled *Partnership with Africa. Proposals for a New Swedish Policy towards Sub-Saharan Africa* (Swedish Ministry of Foreign Affairs 1997). The partnership concept is given considerable space: “Here, ‘partnership’ denotes the aspiration to establish, jointly with African partners, a more equal and respectful relationship” (ibid, page 22). The need for monitoring implementation of the principles is proposed, a code of conduct for donor countries is presented, (pre-) conditions for Swedish support and what are assumed to have to be shared values for a partnership to be meaningful, are laid out.

Based on this report, the Ministry itself presented a formal policy paper, *Africa on the Move. Revitalizing Swedish Policy towards Africa for the 21<sup>st</sup> Century* (Swedish Ministry of Foreign Affairs 1998). Partnership is again discussed, where it is explained that partnership “primarily involves not donors and recipients, but two parties collaborating to attain jointly formulated aims”. It goes on to state that “Obviously, the inequality that is inherent in the aid relationship cannot be eliminated all at once. But it can be tackled in various ways while, at the same time, contacts are extended into areas where mutual interest results in self-funding exchange” (ibid, page 9). Genuine partnership requires a basis of common values and mutual trust; clearly formulated objectives, conditions, obligations, roles and responsibilities among the parties; a

shared aspiration to bring about increased equality where the weaker party is to be strengthened through the partnership. The operationalization of partnership is seen to consist of African leadership and ownership of the dialogue; improved donor coordination preferably under recipient government management; well-developed sectoral and budget support; simplified procedures; contractual clarity and transparency; increased coherence between different areas of policy; rewards for progress; and extraordinary debt relief for eligible countries.

Finally, in its budget for 1999 presented to Parliament in October 1998, the Swedish Government states that aid coordination is of increasing importance, and that one consequence is that Sweden will perhaps not develop any further country strategies. The reason is that the proliferation of donor strategies is creating substantial problems for recipient countries. Sweden will therefore support attempts to work out common government-donor country strategies.

### 3.1.4 United Kingdom

The new Labor Government presented its development assistance vision in a White Paper entitled *Eliminating World Poverty. A Challenge for the 21<sup>st</sup> Century* (United Kingdom 1997). The partnership concept is once again central to the policy presented, where it is stated that “(We shall) work closely with other donors and development agencies to build partnerships with developing countries to strengthen the commitment to the elimination of poverty” (ibid, page 6). The partner concept developed seems more traditional than Sweden’s, however, as the White Paper first lays out the objectives for poverty reduction in various fields, and then goes on to state that “Countries with which we are prepared in principle to embark on a deeper, long-term partnership, involving all forms of assistance ... will 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” (ibid., panel 14 page 39). A series of commitments expected by the recipient government are then given, focusing on agreed international development targets, pro-poor policies, and good governance.

### 3.1.5 The World Bank

The World Bank has recently launched its partnership initiative, referred to above. In a subsequent review of aid coordination experiences it notes that “If the Bank is to make headway with its partnership initiative, aid coordination must come first and foremost. The potential contribution of aid coordination to development effectiveness has long been recognized within the development community.” The purpose of the review is to “enhance the development effectiveness of the

Bank’s participation in aid coordination processes, support for building country capacity, and interactions with other donors” (World Bank 1999b, p. i). Aid coordination efforts are therefore analyzed within a results-based framework, using a fairly classic set of evaluative criteria for development effectiveness: relevance, efficacy, efficiency, and sustainability, but adding the dimension of institutional development.

The on-going World Bank review consists of two phases, where the workshop with officials from developing countries in February 1999 (see section 5.4) signaled the end of the first phase. Like the UNDP study, the World Bank now intends to go to the field and discuss with partners and verify through more careful analyses what kinds of empirical basis there might be for improving aid coordination mechanisms, and what the role of the World Bank should be.

## 3.2 Norway and Recipient Responsibility

Norway has always been a strong supporter of the multilateral system – 50% of Norwegian aid should in principle be channeled through multilateral channels – and also of the principle of aid coordination. In a White Paper from the Ministry of Foreign Affairs, MFA, in 1971, the goal of allocating one percent of Norway’s GDP for development assistance was submitted for the first time. It also refers to the work in DAC to reduce tied aid. Norway states that as a matter of policy it will support this with respect to its own aid financing, and will also support the coordination efforts to promote the proposal as such (Norwegian Ministry of Foreign Affairs, NMFA, 1971).

A White Paper from 1986 makes reference to discussions within DAC on the role regarding conditionalities in connection with Structural Adjustment Programs, SAPs. On the one hand, there were demands for donor adherence to the SAP frameworks, which had been controversial, as the Nordic countries were not convinced that all the conditionalities of the SAPs were appropriate. On the other hand, the White Paper notes that there was a growing acceptance of the position that one cannot force a reluctant recipient to accept policies they do not agree with – a point that was important to Norway’s approach to development cooperation.

The document then states that Norway must understand the macroeconomics of development assistance better and develop a clearer and more consistent policy at this level. It should bring these into the debates in the IMF, World Bank and the Paris Club. The Ministry thus underlines the point that if Norway is to participate in the development dialogue, this must be based on in-depth knowledge not only of the particular issues

at hand, but also the overarching framework questions. Furthermore, Norway needs to pursue this dialogue systematically, and the question of coordinating the various dimensions of Norwegian development cooperation and work closer with the other partners in these areas is brought to the fore (NMFA 1986).

In the 1991 White Paper, the principle of *recipient responsibility* was introduced. This will from now on underlie all Norwegian development cooperation. Little is explicitly said about aid coordination. Instead there is considerable attention paid to Norway working through the multilateral system, and in particular the UN (NMFA 1991).

In 1995, the Ministry of Foreign Affairs commissioned a major study on Norwegian development cooperation. The issue of *aid dependency* was reviewed where a distinction was drawn between the economic, administrative and psychological dimensions. The latter was seen as perhaps the most serious aspect as recipients at all levels developed a mentality of letting donors take the real decisions when it came to the utilization of external financing. This problem was driven in large part by donors wishing to direct the use of their aid according to own priorities, often by entering into dialogue with implementing agencies like line ministries and thus circumventing national systems and institutions. The latter tended to be weak to begin with, but the problem was compounded by donor behavior. The typical outcome of this was that as aid continued to be fragmented, it was rational for local actors such as line ministers to invest time and resources mobilizing aid through bilateral discussions rather than support a coordinating exercise run by finance or planning ministries. The donors would in fact be structuring the field such that few stakeholders on the recipient side would have an interest in overarching national coordination (NMFA 1995a).

In the subsequent White Paper, the Ministry notes that there are five main conditions for successful aid, out of which three are linked to issues of recipient responsibility: (i) aid must be structured so that it acts as a *supplement* to own efforts. In countries where the political, economic and other framework conditions are not conducive to such development, aid will have little or no effect; (ii) the division of labor of roles and responsibilities must be clear. The sustainability of a given activity is dependent on the recipient's ability to plan and implement it. If this capacity is lacking, the activity has little chance of surviving the aid phase. If the recipient is not made responsible at the outset, a dependency-relationship will easily develop; (iii) skills and institutional capacity are fundamental prerequisites for developing countries taking responsibility of own development (NMFA 1995b).

Finally, in the budget proposal presented to Parliament on 5 October 1998, the Ministry notes that the work in favor of social justice and sustainable development is a joint responsibility of all countries. The Government therefore will intensify its work to improve aid coordination among the donors, ensuring that development cooperation is based on recipients' own premises. Norway wants to contribute to this by supporting efforts at country level for recipients to take a stronger lead in aid coordination locally. It will also work with DAC, the Nordic countries and other like-minded donors, and with the multilateral agencies to promote these views (NMFA 1998b).

### 3.2.1 Recipient Responsibility vs. Partnership

Norway has consciously chosen to stick with the concept of *recipient responsibility* rather than *partnership*. When the Ministry and NORAD reviewed performance and options for achieving improved impact in the early 1990s, the aid dependency issue, and in particular the lack of recipient ownership as a stumbling block to sustainability, required a major and systematic change to the donor-recipient relationship.

At the same time, there was considerable concern about new relationships between donors and recipients remaining donor driven. While aid dependency is characterized by an absence of recipient government pro-active leadership, this had not come about simply because recipients did not *wish* to assume this task (though this clearly also played a role), but also because many donors aggressively were pursuing their own agendas. The space left for recipient authorities to take decisions was often tightly circumscribed. Reproducing a new form of patron-client relationship in the guise of partnership therefore had to be avoided. So not only had recipients to step forward – donors had to step back.

The way of achieving this was seen to be to emphasize the recipient role and maintain the focus on this. Whether recipients were able to successfully assume this role or not was seen to be a function of several factors: political will on the side of the recipient to take on this role; the willingness of donors to step back; and the organizational capacity in the public sector to actually implement. The latter problem was seen as a joint responsibility, where Norway was committed to assist with necessary resources when asked.

In a discussion regarding what the *content* of the recipient responsibility concept should be, an internal NORAD document from August 1998 spells out some key issues (NORAD 1998). It notes that the partnership concept is not concretized in terms of the relationship. In particular a number of donors use it without discussing the problem of power and responsibilities

between the parties – there is a strong assumption of *harmony of interests* behind the usage (for example that both parties understand and wish to fight poverty along similar lines). The document spells out how Norway's aid administration, particularly in the field, is to act at the macroeconomic, sector and activity levels so that it would be in line with recipient responsibility. And it underlines the need for Norway to actively engage in dialogue with recipient governments and the donor community to ensure that these principles are applied more broadly in every country.

### *Some Issues*

How much difference is there actually between the partnership and the recipient responsibility concepts? Some of the *practical* distinctions may at first seem trivial. There is, however, a more explicit – some would claim realistic – analysis of role *conflicts* and power relations behind the recipient responsibility concept that leads to a better strategy for actually attaining genuine partnership. First it notes the potential conflict of interests between the parties that entails that the donor must genuinely step back and listen carefully to what recipient interests are. This generates a strong argument for the recipient retaining primary responsibility for the cooperation, while partnership may legitimize too much donor interference. Secondly, it puts the recipient-donor relation at the center – the internal donor coordination must be subordinated to this.

There is a danger that recipient responsibility entails too passive a role on the side of the donor, however – that when the donor steps back, it vacates the scene. The recent evaluation of Norwegian development cooperation with Tanzania claims that Norway has not been active enough as a dialogue partner in key areas such as gender, and that this has hurt impact (ECON 1999). At the same time, Norway has always been active in aid coordination fora and strongly supported coordination initiatives, including the close donor coordination that takes place many places through the Like-minded Group, LMG. The difference between Sweden's partnership concept and Norway's recipient responsibility is in practice often negligible.

The Norwegian wariness of partnerships being “old wine in new bottles”, despite the DAC's strong statement against paternalism in this area, is not without reason, however. Maxwell and Riddell, in an issue of the *Journal of International Development* entirely devoted to analysis and comments on the UK Government's White Paper, warn that the change in rhetoric does not necessarily herald in a different era in donor-recipient relations (Maxwell and Riddell 1998). Despite the DAC principles being embraced by all back in 1996, donor behavior is still largely defined by

own agendas and policies. The list of challenges to more effective aid coordination that senior staff from nearly 20 developing countries presented at a workshop in Washington in February 1999, were largely the same that a similar group could have been expected to table ten years earlier (see 5.4).

### **3.3 Summing Up**

There are several asymmetries in the donor-recipient relationship that make the partnership concept complicated. The first one is obvious: one party is providing resources, the other is receiving – and this is the fundamental *reason* for the partnership in the first place, as the concept is used by a number of actors.

The Swedish notion of partnership goes beyond development cooperation, however, as this is only part of the total interaction. It emphasizes the two-way flow of benefits from broader interaction patterns, such as trade, financial flows, and cultural cooperation, noting that there is no true partnership till a situation of more equity in perceived benefits has been established. Focusing on aid structurally forces the debate to remain skewed in favor of donor perceptions, and this in itself puts recipient countries at a disadvantage.

Another asymmetry exists in the field of politics. The issue is not so much the skewed political power – though this is important – but the fact that the donor political system generally has a lot more credibility and legitimacy. Both their policies but also their systems have clear political foundations due to representative parliamentary debates and decisions. Donors hence have a totally different basis from which to demand negotiation outcomes that are acceptable to themselves: “our parliament cannot accept this”. Lack of “good governance” thus undermines bargaining power.

Strengthening the political system is thus important for a number of reasons. But this is an area where donors both have problems finding their proper role and implementing well. Norway's development cooperation with Tanzania is a case in point where the strategy developed was quite innovative and relevant, emphasizing the need for support to political transformations. Implementation, however, focused on formal multi-party politics, whereas the real forces for accountability and representative democracy are coming from the free media, representative organizations like labor unions, employers' associations and professional organizations, and advocacy groups like NGOs (ECON 1999).

### **Conclusions**

- The partnership concept is given different contents, but overall is an important step in the direction of a more equitable relationship between donors and recipients. In particular, it recognizes the centrality of the recipient in the relationship, and the desirability of the recipient to manage it.
- The reality of partnership today is poor, and fundamental asymmetries between the two sets of parties maintain the gap. This reinforces remaining vestiges of paternalism on the side of the donors, including in attitudes. A more embracing concept in line with Sweden's usage would help bridge the gap and in particular is more supportive of providing the recipient voice.
- The gap between the two parties is not only in terms of economic resources, but also political. Donor assistance in the area of political development has been poor, with an over-emphasis on formal multi-party politics. Less support has been provided for the development of enabling frameworks for competitive politics and to representative and advocacy groups that are struggling for increased accountability and representative democracy.
- While Norway's "recipient responsibility" contains a more realistic political analysis and a more explicit set of guidelines for implementing it than most partnership concepts, Norway may still consider whether it is worth maintaining it as a separate concept when dealing with its development partners. Partnership and recipient responsibility both address *systemic* dimensions of donor-recipient relationship. Having one donor maintain its own concept means necessarily fragmentation: there can be no genuine "recipient responsibility" if it only defines the bilateral relationship between Norway and recipient when all other actors are adhering to a slightly different framework. Norway may instead focus on highlighting both the political foundations and the practical experiences from the recipient responsibility approach when participating in the partnership discussions. This would be a way of enriching it and perhaps a more constructive contribution to the development of genuine partnership in the context of recent initiatives like the Comprehensive Development Framework.

## 4 Aid Coordination

The partnership concept provides the framework within which aid coordination is to take place. But while the structure and principles of partnership are important, it is largely the practical experiences of aid coordination that are giving content to the partnership concept. In order to understand the lessons of aid coordination better, it is helpful to de-compose these activities along some key dimensions.

### 4.1 International Coordination

Two different mechanisms are used to coordinate aid at the global level. The first is the large international meetings addressing particular issues, and where the objective is to establish general consensus on key questions. The first half of the 1990s saw a large number of such gatherings, such as for education (Jomtien 1990), the environment (Rio 1992), population (Cairo 1994), gender (Beijing 1995), and social development (Copenhagen 1995). These conferences were important for reaching agreements on certain principles and standards against which all governments in principle can be measured and held accountable for. These conferences are organized by UN agencies and provide recipient countries considerable voice, particularly at the formal representational/voting level.

The second are the more permanent institutional arrangements that work on systemic and implementation issues. The OECD/DAC, the Special Program for Africa (SPA), the Paris Club, and the coordinating multilateral agencies UNDP and World Bank, all are engaged in improving aid coordination at the global level. Regional bodies like the Global Coalition for Africa (GCA), the Southern African Development Community (SADC), the Economic Commission for Africa (ECA) and the Organization for African Unity (OAU) are used to harmonize aid coordination approaches – some of them in donor-recipient fora (GCA, SADC), others as more internal recipient deliberative bodies (ECA, OAU). The division of labor between the various international coordination mechanisms is largely clear, though there has been some overlap between SPA and DAC discussions.

The most important fora like the DAC and SPA are clearly donor dominated. The ones that the developing countries themselves manage – institutions like ECA, OAU, fora like GCA and SADC – have little influence. This is in part due to recipient countries themselves not using them actively and empowering them to act more aggressively – which in turn is largely a function

of the realistic assessment that these agencies have neither the resources nor the credibility to make them genuine playmakers. The conclusion is that at the level of international coordination, there is a long way to genuine partnership.

### 4.2 Country-Level Coordination

While international fora are key to improving overarching principles for aid coordination, the country-level mechanisms are the ones that determine to what extent impact is actually achieved. In many countries there is a bewildering array of activities that in itself may constitute a problem for national management:

- Consultative Group, CG, and Round Table, RT, meetings are the “apex” fora for aid coordination with regards to a particular recipient country. These meetings generally cover both policy issues and resources mobilization.
- Many governments have established local aid coordination fora, usually chaired by ministries of finance or planning, or the central bank. The content and structure of such meetings vary, from quarterly meetings with background documentation distributed beforehand, to *ad hoc* sessions called to address a particular topic, such as preparing for a CG meeting or reporting back after a CG meeting has taken place.
- The most intensive coordination work often takes place at the *sector* level, where donors and line ministries or government working groups work jointly on issues like sector budget support (basket funding and other mechanisms), sector policies, implementation problems, etc.
- Internal donor meetings are of a wide variety. In a number of countries, the UNDP and/or World Bank chair meetings with the donor community to share information, raise policy questions, and harmonize positions or procedures in particular fields. The UN system has established its own internal coordinating mechanism, where a formal UN Development Assistance Framework, UNDAF, is used to streamline and harmonize UN agency activities and priorities. The EU has a formal mandate to coordinate the activities of its member-states. The so-called “Like-minded Group” (LMG) is an informal grouping of donors that in some countries comes together to harmo-

nize positions with a focus on improving on-the-ground coordination<sup>2</sup>.

Total time spent preparing for and participating in these various activities takes a considerable share of available time both for local policy makers and donor offices and embassies. Yet in no country this study is aware of is there a good overview of all of these coordination activities in terms of participation, frequency, agendas, much less regarding outcomes/results and costs.

### 4.3 Content of Coordination

While most aid coordination takes place at the national level, the *content* of the coordination efforts varies considerably:

- **Policies, principles and priorities:** At this level, the challenges usually consist of establishing consistency between recipient and donor overarching policies and priorities. The international conferences referred to earlier (Jomtien on education etc.) deal almost exclusively with this set of issues, while different in-country fora are used to clarify what the priority concerns of the different actors are, and how they can be harmonized to make up a consistent set of activities. The discussions thus focus on “doing the right things” and getting all the actors to agree on these.
- **Procedures:** All actors have established a set of procedures that must be followed, particularly in the field of financial disbursement, accounting and auditing, but also covering areas like procurement, personnel policies, tax and customs treatment, reporting, and policy dialogue. These are defined by each actor’s own deliberative body at home, which means that once in the field, the confusion of non-harmonized procedures creates enormous transaction costs of various kinds, most of which fall on the recipient authorities. Sector working groups often spend a lot of their time on reaching agreements on these “doing the things right”-issues.
- **Practices:** While procedures are formal “rules of the game”, practices are the more informally based ways of doing business, very often part of the “corporate culture”. While formally not so difficult to address as procedural differences, they often have practical implications for how tasks are

carried out. Typical areas concern information sharing, the practical relationship between field staff of externally funded agencies and local authorities, how external agencies interact with local communities, what activities an agency will and will not address, etc.

### 4.4 Degrees of Coordination

Coordination can also be of different degrees of *intensity/commitment*:

- **Consultation:** This generally focuses on *information sharing*, either between host governments and donors, or within the donor community. Usually there are no formal commitments or decisions taken at this level, though there is often the intention or desire that the consultation will lead at least to informal understandings of improved practices along some defined dimension.
- **Cooperation:** This is of a more strategic nature where *policies, priorities, principles* are discussed with the intention of arriving at some form of harmonization. This requires a degree of consensus as well as trust that may not cover all donors, though coordination across the entire donor community is being seen more and more, particularly in emergency situations.
- **Collaboration:** This addresses issues of procedures and practices, where there is a conscious effort to ensure that *implementation* of activities runs as smoothly and seamlessly as possible, independent of funding source. The typical cases are the early joint import support programs and now sector budget support in the form of basket funding where donors accept *one* set of disbursement, reporting, accounting and auditing procedures and where there is complete fungibility between each individual donor’s contribution as well as public funds in that sector.

### 4.5 Other Coordination Dimensions

#### *Geographic/Regional Coordination*

In a number of countries, donors are either being asked by local governments or on their own focusing their activities in particular geographic areas, but based on a division of labor amongst themselves. As will be noted below, geographic or country area coordination presents some serious questions regarding what are good ways of donors coordinating their resources within a recipient country.

2. The LMG composition varies somewhat from one developing country to another, but usually consists of the Nordic countries, the Netherlands, Canada and sometimes Switzerland, the UK and Ireland.

### ***Functional Coordination***

There is some *functional* coordination taking place, where different actors focus on activities based on their formal mandates or comparative advantage. Typical cases are the UN agencies, which have a particular mandate for technical cooperation in certain fields, or the multilateral lending institutions that are particularly concerned with macro-economic or financial/debt issues. Among bilaterals, there are also cases of division of labor, for example among the Nordic countries where at times there have been agreements that only one or two of them would be active in a sector in a given country (see 5.1.2).

### **4.6 Summing Up**

- At the international level the UN-sponsored global conferences have been important for arriving at agreements on international standards in a num-

ber of sectors. Recipient country participation and influence is substantial. More permanent institutions that deal with systemic and implementation issues – SPA, DAC etc. – tend to be much more donor dominated, but are opening up to broader participation and some more partnership – though there is a considerable way to go in this area.

- In-country coordinating mechanisms are multi-dimensional, covering policies, procedures and practices based on consultations, cooperation and collaboration along national, sectoral, geographic and functional dimensions. The complexity and sheer number of such coordinating activities poses a serious strain on both donor and recipient resources on the ground, making it difficult to select and make rational choices among alternative activities to participate in and focus own efforts on.

## 5 Coordination Experiences

While the *structure* of aid coordination has become quite complex, the *lessons* from participating in various kinds of activities are even more fragmented. Not only is the range of activities expanding, but the way in which interaction takes place is changing and becoming more diverse as the actors gain experience and try to adjust the specific aid arrangements to the particular circumstances in a given host country.

Most experiences from aid coordination are not documented. Of those that are, many are today less relevant because the experiences described have been superseded by new approaches. In order to capture the flavor of recent practices, this study has therefore had to rely on perhaps less well documented but more relevant verbal information and less formal and more descriptive material such as working papers and consultancy studies

The first part of this chapter looks at the reviews of some of the mechanisms that have been put in place by the international community for overall aid coordination. The second part looks at country-level coordination, including both donor behavior and what is considered “best practice” by a recipient country, while the third section discusses the limited information regarding recipient views on aid coordination.

Section four reviews some of the attempts by the Nordic countries to coordinate their aid over the last 20 years, for some lessons on multi-donor coordination. Mozambique, one of the world’s most aid dependent countries, is trying to improve the efficiency of external resources through better coordination, and this is discussed in the last section.

### 5.1 General Coordination Mechanisms

The entire multilateral system – the UN agencies, the Bretton Woods institutions and regional development banks – contain important aid coordination dimensions. All the major organizations have been subject to a number of reviews and evaluations, where the Nordic UN projects have in fact analyzed the total field activities of the UN system with a view to reforming and improving what is seen as inefficient management of international assistance due to duplication, excessive bureaucracy, unclear divisions of labor between some of them, etc. The relationship between the World Bank and regional development banks has also been the subject of a recent discussion by the Nordic countries, again with a view to identifying the various institutions’ comparative advantage within the larger external resources mobilization framework.

One noticeable and somewhat contradictory feature of these various agencies is that while they often are seen to behave differently, their *membership/ownership* is largely the same: the member states of the international community. A major reason for this is that the influence of donors versus recipients varies across the different agencies since the voting structure is different. But another important issue is the lack of coordination among different agencies *within* a donor country. In a given organization a donor can be represented by the ministry of foreign affairs, or ministry of finance, the aid agency, the central bank, or a line ministry (particularly an issue with the various UN agencies). Foreign debt and trade-offs between macro-economic stabilization and poverty reduction have been classic areas of disagreement within donor countries and led to individual donors providing inconsistent signals on similar issues in different fora. While this remains a problem, it seems less of one towards the end of the 1990s than earlier, in part because there is greater international consensus on many key issues, both among the donors but more importantly also with recipient governments. At the same time, donors seem to have addressed the internal coordination issue better. One of changes over the last several years in a number of countries is to integrate aid and trade policies more tightly into ministries of foreign affairs. This has usually also led to closer organizational and administrative integration of aid agencies into the foreign policy administration.

### DAC

The OECD/DAC is first and foremost a secretariat to the donor community, and as such has no basis from which to impose or enforce changes to donor practices. Instead, it relies on persuasion and negotiation to encourage donors to modify attitudes and actions. Considerable consensus-building work goes on in the DAC High-Level Meetings and the technical committees that prepare these meetings, where decision-makers from the donor countries meet to review analyses of current policies and practices and decide on possible changes. The interest in identifying and adopting “best practices” in a number of fields as general guidelines for the donor community has been helpful. Coupled with this are the annual peer reviews of donor practices, where representatives from other members of the donor community assess a given donor’s programs. In addition to the specific findings that are produced, the process itself generates a lot of lessons on both sides of the table, providing additional instruments and incentives for harmonization of donor practices in the direction of the “best practices” identified.

Despite being an agency that can only arrive at conclusions through consensus, the DAC has proposed a series of standards that are being accepted by the donor community, such as in the *Shaping the 21<sup>st</sup> Century* document.

### **SPA**

The Special Program of Assistance, SPA, developed in response to particular problems being faced by debt-distressed African countries in the early 1980s. SPA was to assist in mobilizing quick-disbursing funds, usually to support Bretton Woods-led SAPs. Over time, the need for harmonization of policies and procedures in areas related to these quick-disbursing funds led the SPA to develop working groups to address issues like standardization of procurement policies, untying of aid, etc. A recent evaluation of the SPA (World Bank 1998c) found that the SPA had been successful in mobilizing *and* disbursing the additional resources required, it helped channel these resources to the better-performing (in adjustment terms) countries, and managed to untie an ever larger share of such balance of payments support. SPA was successful in streamlining procurement practices and ending earmarking of counterpart funds, but did not achieve much in the area of local salary supplements – a practice that is extremely detrimental to the development of local markets for skilled labor. The policy debates that developed in the context of the SPA were helpful in improving mutual understandings of a series of issues related to the adjustment programs. One surprising finding was that much of the work being done in the context of the SPA was not widely disseminated – the *impact* of the learning was much less than could have been expected. Another area of concern has been that the SPA has very much been a “donors’ club” and where the agenda therefore has been totally donor driven. There has so far been little partnership with recipient governments.

## **5.2 Country Level Coordination**

### **5.2.1 Overall Coordination Mechanisms**

#### ***CG Meetings***

The World Bank has reviewed the Consultative Group Meetings as an instrument on several occasions. The main findings are summarized in the recent OED document on aid coordination. One comment is that “the Bank’s CG role is widely appreciated by other aid coordination partners, but some fault the Bank’s lack of transparency and timeliness in sharing relevant information and lack of openness to their participation in processes relevant to more effective coordination” (World Bank 1999b, page 21). Another typical observation from bilaterals is that the CG meetings are suc-

cessful in terms of resource mobilization, but are too formal fora for genuine policy exchanges.

More and more CG meetings are now being held in host country capitals rather than in Paris, which is seen as positive. Among other things this permits a much wider local representation at the meetings, both making the CG process itself more transparent to local society, but also enabling resource poor but important civil society actors to participate (NGOs, labor unions, religious organizations, etc.). The more substantive involvement of host country governments in the preparation and hosting of the meetings is also an important step in the right direction. The highly visible World Bank hand in preparation of key policy documents has raised questions as to the local ownership of contents and interest in implementing the policy changes. Having local finance ministries manage key policy processes like PFP preparations for the CG meetings therefore is reducing this concern considerably.

#### ***RT and Paris Club***

RT Meetings and Paris Club have not been looked at to the same degree as the CG meetings. The RT meetings are generally considered more participatory in their management than the CGs, due to UNDP’s quite different style in its relations to recipient governments. The UNDP is currently engaged in a review of their experiences with the RTs. The Paris Club, on the other hand, is considered extremely closed, and totally donor controlled.

### **5.2.2 Donor Practices**

Early reviews of the experiences with aid coordination often pointed to the *donors* as constituting a problem. Several recipient governments had tried to establish procedures and structures that were in line with the demands from donors, yet when donors were asked to use the new approaches, they generally did not do so (Calhoun and Whittington 1988; Clift 1988; Adams 1989).

The problem of donor-driven processes and donor-determined outcomes is still a major issue. In a review of government-donor relations in Tanzania, a group of independent advisers established by the Government of Tanzania and the donor community jointly, pointed to donor attitudes and actions that clearly undermined Tanzania’s possibilities for taking ownership. The group had as their fourth recommendation that “substantial changes are needed in the operational culture of bilateral donors ...” A number of other points in the list of 19 recommendations point to the need for changes in donor practices (Helleiner et al. 1995). The group noted that technical assistance is an area where donors consistently “over-supply” compared with what recipient governments want. This is in line with

the conclusions in UNDP's review of the experiences with technical cooperation (Berg 1993). A series of case studies on aid effectiveness, organized by the Overseas Development Center, brought out similar stories as two of the four main factors undermining aid effectiveness were seen to be (i) poor coordination of aid, and (ii) the proliferation of stand-alone projects – i.e., donors funding activities outside the government programs (van de Walle and Johnston 1996). The related case study of Danish aid in Tanzania gives a detailed description of how poor donor coordination fragments and thus undermines Tanzania's possibilities for managing aid effectively (Bagachwa et. al. 1998). The evaluation of Norway's assistance to Tanzania found that the major problem was the extreme fragmentation of the program caused by Norwegian decisions. This undermined Tanzania's possibilities for managing it (ECON 1999).

It is not only in relations to host governments that donor practices fall well short of ideals. As was noted many years ago, “donor agencies are not all that good at avoiding repetition of their own mistakes; and they are worse at avoiding each other's, since there is very little communication about failure from one agency to another... There is a strong case for major efforts to improve the learning process, and for strengthening within agencies the incentives to improve the quality of lending, not just its quantity” (Cassen 1986, reproduced in Cassen 1994, p. 12). A recent survey of how donors go about developing their country strategies in Mozambique found that these shortcomings still very much exist (ECON 1998).

One controversial aspect of donor practices is the use of *ex ante* requirements for support – the much-debated “conditionalities”. Recent studies have concluded that such pre-conditions as a way of achieving sustainable policy changes simply do not work (Killick 1998 for general analysis, Selbervik 1999 for a case study on Tanzanian-Norwegian relations). The main reason given is that donors are not consistent in terms of applying sanctions when cases of non-compliance of conditionalities occur. The expected costs to recipients of not implementing certain policies they do not like, is thus seen to be low. In some sense this can be seen as a positive aspect for recipient countries – they are in effect able to exert a “negative veto” on non-preferred policy prescriptions through non-implementation without undue costs. On the other hand, one can turn this argument around and note that with very few exceptions, recipients do not have the political (and economic!) strength to systematically reject aid-funded activities that are not seen as important – donors are almost always able to “buy” an outcome that is agreeable to their own objectives. The full implications of this do not seem to be appreciated by

either donors or recipients in terms of the changes that the integrated sector work (like in sector SWAPs) and the Comprehensive Development Framework may lead to. This will be discussed more extensively in the next chapter.

### 5.2.3 Best Recipient Practice: Botswana

General principles for efficient aid administration have been well known for a long time, and Botswana is usually referred to as a country that has consistently applied them for over 20 years. It has a political system that has both legitimacy and credibility and has been able to set national priorities and stick with them. It has established a budget and planning system that operationalizes the priorities in transparent fashion within realistic resource ceilings<sup>3</sup>. It has created a strong Ministry of Finance and Development Planning that has the technical skills to develop the budgets and monitor implementation, and has the political backing to take action if line ministries overstep boundaries. There is an accounting and auditing system that generates credible reports in a format that allows donors to track resource usage (see Nordås et. al. 1998 for a good description of Botswana's situation and practices). Most important of all, Botswana has had the political will to say “No” to donor proposals that were not part of its own national plans.

#### *Why Others Have Not Been Able to Emulate Botswana*

Other countries have attempted to establish similar systems, but as noted above donors did not respect and follow them. Tanzania, for example, had such an experience in the early 1990s. Donors insisted that the Government develop and present an aid coordination strategy, since a number of evaluations and World Bank-led Public Expenditure Reviews had revealed major problems in the utilization of external financing. The Ministry of Finance presented a plan in 1992 that indicated which donors it wanted to have participate in what sectors. This plan was largely ignored and never became operational.

The reasons for this negative outcome were several. The document itself was poor in a number of fields. It did not have a realistic macro frame that set overall resource limits. There was no *strategy* behind the choice and levels of assistance requested, but simply an extrapolation of existing activities that was based

3. Norway in fact provided assistance as of the mid-1970s for the establishment of a macro-economic model that was used to estimate medium-term growth, and from this derive projections for public expenditure ceilings, investment versus recurrent cost budgets, etc. This work was picked up 15 years later when Namibia became independent and sought out “best practice” examples in the region for its own planning and budgeting structures. The MACMOD model being developed in Tanzania today also is being developed with support from the same milieu at the Christian Michelsen Institute in Bergen.

both on poor data but also unrealistic with respect to aid availability and with an implied prioritization that donors had difficulties accepting. There were no real policy changes being proposed that would have suggested more realistic framework conditions for the activities, and thus no reason to believe that the productivity and sustainability of investments would improve. The suggested sector concentrations for the various donors had not been discussed with the donor community and often did not correspond to where they really wanted to focus their resources. More importantly, however, there had not been a good political process inside the government, so neither line ministries nor central offices like the Planning Commission were on board. The relationship to the overall political system was also weak, meaning that the legitimacy and credibility – in addition to the realism – of the whole exercise was questioned.

It was also obvious, however, that a number of donors simply were not interested in being coordinated in this way. As is clear from for example the Mozambique survey (ECON 1998), some donors have guidelines from their capitals that make it difficult for them to participate fully in such coordination processes. Unless there is an unusually strong and clear leadership on the recipient side that can legitimately call the donors to order – as in Botswana – the political struggle over resource allocations will be determined by the owners of the resources. Those donors who wish to pursue their own objectives may then often simply elect not to be present – at least as donors – in countries where such strong government leadership is in place.

### 5.3 Recipient Perspectives

There is relatively little written material on aid coordination produced by recipient authorities themselves. Most of it is presumably to be found in formal statements presented at CG meetings by government officials, where resource mobilization considerations skews the message towards the positive, and where focus is on good intentions as an incentive to mobilize additional funds, rather than on areas of disagreement and conflict. The most important source of information is therefore probably more informal statements by the politicians and the viewpoints of senior officials involved in aid coordination.

The World Bank organized a workshop in Washington in February 1999 where senior officials from about 20 developing countries were invited to discuss aid coordination. When reviewing their experiences, nine issues were seen as constituting the main obstacles to more successful coordination: (i) there were conflicting goals and stakes between the donors, with compe-

tion between them at several levels of the development hierarchy; (ii) donors have different fundamental paradigms regarding development which creates conflicts with respect to where and how resources should be used; (iii) donors have different procedures, generating procedural overload for the local administrations; (iv) in addition to being *different*, many of the procedures are also seen as unnecessarily *complicated*; (v) recipient governments are often dependent on donors for the basic data needed for good aid management such as debt levels, aid flows, etc. In addition, donors often do not provide full information on their assistance or in categories that are not compatible with local usage, or not in synchronization with local programming cycles; (vi) many donors have conditionalities with the assistance – but these are often not harmonized, and may in fact conflict with each other; (vii) many of the activities that the donors wish to support are not really sustainable at the levels and with the technical solutions that donors introduce; (viii) too little attention is paid to overall *national* capacity and too much to having particular capacity in place that will support donor-specific activities; (ix) many of the donor staff negotiating with the local administration are not at the technical forefront of the issues that are being discussed, yet recipients must listen to them since they make decisions regarding resource allocations. The rapid turnover of donor staff compounds this problem, since it takes time to understand the specific constraints of the local environments where activities are to be implemented (World Bank 1999c).

These viewpoints are in line with the studies previously referred to which either were country specific experiences (Adams 1989; Calhoun and Whittington 1988; Clift 1988), case studies on aid effectiveness (van de Walle and Johnston 1996; Carlsson, Somolekae and van de Walle 1997; Bagachwa et. al. 1998), or more general studies on donor-recipient relations (Panday and Williams 1990; Helleiner et. al. 1995; Baehr 1997).

The Tanzania study done for Sida (Sobhan 1996) is an interesting case, as a leading social scientist from one country where aid relations have generated considerable controversy (Bangladesh) uses those insights to study a case of considerably more serious aid dependency. One point Sobhan raises is the lack of local capacity to counter the donor onslaught in terms of studies, data and viewpoints. He notes the efforts in Bangladesh to produce their own annual development review that among other things can challenge the Bretton Woods-orthodoxy in terms of analytical approaches and assumptions. This is seen as a critical step for a country to be able to develop a level of

knowledge and self-assertion required for meaningful dialogue with development partners.

A common impression one gets from recipient officials about aid coordination, however, is a mixture of resignation, cynicism and some hope. The resignation is due to the overwhelming demands that donors put forward regarding how the aid coordination process should be structured, how fast it should move, etc. This is coupled with the experience of having to deal with donors one-on-one in bilateral annual meetings, the countless donor identification, monitoring, and evaluation mission, and then afterwards meeting the donors as a group where the messages tend to be somewhat different. The cynicism comes from hearing so many messages regarding aid coordination, and seeing that when choices are made, donors tend to go for their own solutions rather than joint efforts. But there is also some hope, as the trend is seen as being in the right direction. There *are* a lot more genuine coordination efforts taking place, more donors are willing to join – but are also expecting better performance from host governments.

## 5.4 Nordic Coordination

The Nordic countries have tried to improve the effectiveness of their development assistance through coordinating efforts closely with each other. Despite quite similar attitudes and policies, not all the attempts have been successful.

### 5.4.1 Policy Coordination

There is a very close dialogue between the Nordic capitals on a wide range of development assistance issues. Under the aegis of the Nordic Council, the ministers responsible for development cooperation meet at regular intervals to discuss common positions on issues that have been identified as of major importance. Below the level of ministers, the political secretaries, senior officials and the senior economists in both the ministries and the aid agencies meet on a fairly regular basis. Ahead of major international conferences, both technical and political management meets to discuss common positions on key issues. In general, there is a good understanding of each other's positions and a lot of trust. There are, however, also differences, which at times make genuine collaboration difficult or even acrimonious. Denmark has a more commercial bent to its development cooperation with a parliamentary rule stating that 50% of its bilateral aid should be used to procure Danish goods and services. Finland also emphasizes areas where it has a comparative advantage. An overview for the DAC of where the different donors focus their resources shows that Finland is

engaged in the forestry sector in 24 countries, in 19 of which it is the *only* donor (Danida 1999).

### *Coordinating with the Bretton Woods Institutions*

The Nordic countries, along with the Baltic states, share an Executive Director position in the World Bank, and a similar arrangement is in place for the IMF. The country that provides the Director acts as focal point back in the Nordic countries, and organizes a small secretariat to coordinate the communication with the Executive Director's office. The officials in each capital that are responsible for relations with the World Bank have a weekly telephone conference that is to provide consistency and full information among the Nordics on their positions on the various issues that come up. On operational matters, each country is responsible for liaising with their respective field offices where this is seen as appropriate. The local field offices in turn often communicate amongst themselves on matters that are coming up dealing with that particular country, such as major issues at CG meetings. The *principle* and *structure* for this cooperation is thus quite clear, and this collaboration is seen as largely successful and well functioning.

There are strong external and internal incentives that make this system work. The overall structure is externally imposed since the Bank sets the organization of the Executive Directors' offices. If one particular donor does not like it, there are no alternatives available. The position of Executive Director gives the Nordics the possibility of having an important voice inside the Bank, and if this voice represents a joint mandate, the voice is heard much clearer. Since the World Bank is so important, there is a strong interest in participating and mobilizing support for own positions. The rotation among the Nordics for providing the Director acts as an incentive as well. Finally, there is a lot of interest from minister and political parties with regards to Norwegian positions in the Bretton Woods institutions. There is therefore considerable pressure for results – accountability – from the politicians on the public officials involved in this area.

### *General Policy Coordination*

There is considerable collaboration among technical staff of the Nordic aid agencies and ministries, both at head office and in the field. Over the last couple of years, more systematic programs of discussion have been put in place, to strengthen the Nordics' role and contributions to key debates. There are often preparatory sessions before SPA and DAC meetings, and topics like sector budget support have been addressed at two larger seminars where external resource persons have been commissioned to prepare background studies (Boesen et. al. 1999; Sida 1998).

## 5.4.2 Operational Coordination

### *Nordic Research Institutes*

The Nordic countries jointly set up the Nordic Africa Institute in Uppsala in Sweden and the Nordic Asia Institute in Copenhagen in Denmark (there was supposed to be a Latin America institute in Norway, but this was never established). An evaluation of the Nordic Africa Institute, NAI, is largely positive in the role the institution has played for *Nordic* research and understanding of Africa and African issues. It acts as a focal point for a large network of institutions in Africa and the Nordic countries; as a center for “knowledge management” on Africa where its library is the premier documentation center on Africa in the Nordic countries; and as a center for quality research on Africa and with African academics (McNeill et. al. 1997). The report raises some critical questions about what the primary mission of the NAI should be, but as a collaborative effort, it is seen as positive. In the case of both institutions, however, the host country has assumed a larger share of the budget costs, which undermines the “Nordic” nature of them.

### *Coordination in the Field: MONAP*

In the 1970s and 1980s, the Nordic countries tried to fully integrate their efforts with respect to some large development efforts in Eastern and Southern Africa. In 1967, they started up a joint program for the development of the cooperative movement in Kenya, and a few years later a similar program in Tanzania as well as a large-scale agricultural program in Mbeya. In 1978, they established the most ambitious effort, the Mozambique-Nordic Agricultural Program, MONAP.

A formal decision on Nordic collaboration was presented in a Nordic Council White Paper in 1979, and this was further elaborated in an Activity Program (“handlingsplan”) adopted in October 1986. There was therefore considerable *political* support for these efforts.

MONAP was an attempt not only at coordination, but also at broad-based long-term development for an entire sector. It covered institutional and organizational development as well as research, extension and training. It established a network of field stations across the country to cover the various agro-climatic zones and different socio-economic producer groups (small-scale peasantry as well as more modern family farming). It covered agriculture, livestock, forestry and fisheries. In short, a comprehensive program with considerable financial resources, flexibility in terms of what to do, and a long-term perspective to allow institutions and processes develop at their own pace.

Yet twelve years and USD 200 million later, MONAP was disbanded, and many of the activities that had been initiated were discontinued. What went wrong?

There were a number of factors that contributed to this outcome. The most important was the rapidly deteriorating policy and macro-economic environment. As the internal strife in Mozambique increased in intensity during the 1980s, the field-based activities had to be abandoned. As the fiscal crisis of the state developed, the resources in the Ministry of Agriculture, MinAg, dwindled, forcing the Nordic countries to take on an ever increasing share of recurrent costs, contrary to the original concept. MinAg itself was a weak institution, and there quickly developed a rent-seeking attitude where MONAP was used to finance activities of interest to those who had access to the MONAP funds. The Nordic countries, in response to increasing problems of mismanagement and simple lack of MinAg capacity, built up an implementation unit that at one point had more high-level technical staff on its payroll than MinAg itself, while it simultaneously built up a huge administrative infrastructure to micro-manage vehicles, housing, field allowances, etc. As with a number of Nordic projects elsewhere, the technical solutions chosen often were qualitatively good but extremely costly both on the investment and operations side, undermining the cost-effectiveness and sustainability. Ownership of many of the activities was low – MONAP projects were clearly seen as *Nordic* creatures.

On top of the deteriorating situation on the ground came the problems caused by a top-heavy and exceedingly bureaucratic decision-making structure in the Nordic countries. At the top was the Nordic Council, which defined the priorities for the joint Nordic development efforts. Then came an Advisory Committee that was to support the Nordic Council in its policy decisions, and finally a committee of senior officials (“Embetsmannskomiteen”) that was key regarding major operational decisions. Below this three-tier structure, one of the Nordic aid agencies was given the operational secretariat function both in the Nordic countries and the field, while in the field a consultative group consisting of all the Nordic aid agencies met to work with the focal agency. The different Nordic countries had given different degrees of freedom to their local representatives to take decisions, so in the end a lot of decisions had to be taken back in the Nordic countries. This created an administrative quagmire, with lots of time used to prepare documentation, argue both in towards the coordinating groups as well as the individual country representatives *in* these coordinating bodies. The flexibility and cost-effectiveness that had been intended was quickly lost. The problems were compounded when different interests came to the

fore, for example when countries became concerned with what share of procurement flowed by to *their* country (Lindstad 1987, various MONAP annual reports).

In the end, the combination of worsening framework conditions, lack of local resources, commitment and ownership; inappropriate technology choices and thus low sustainability; top-heavy and inefficient decision-making and administrative structures; and increasing concerns by some of the partners to manage own aid resources according to own criteria led to all the joint Nordic programs collapsing. In the 1990s, the *integrated implementation* model has not been pursued.

#### ***Coordination in the Field: Namibia and Tanzania***

As the independence of Namibia approached, intensive discussions took place between the Nordic countries and SWAPO to ensure that the good political cooperation and economic assistance that had developed could be translated into efficient support for Namibia's development efforts.

The basic idea was to ensure a well-coordinated Nordic program, but avoiding the costs and problems of earlier joint efforts. The solution arrived at was for the parties to agree to a division of labor in terms of sectoral engagement. An analysis was carried out looking at (a) Namibia's development strategy and resultant development cooperation needs, (b) what the non-Nordic donors were likely to provide, and (c) what areas the Nordics were good at. Based on this, Norway was asked to assist in the fisheries and energy sectors - a focus that has largely been maintained. This is a program that Norway would normally have great difficulties accepting, since both sectors are capital-intensive modern-sector growth oriented and not in line with Norway's "softer" direct poverty-focus in many other countries. To the extent that Norway was to provide support to other sectors, it would be by co-financing other donors' activities.

At one point there was a suggestion that there should be a joint embassy, to ensure close operational coordination. This was abandoned, for a number of reasons, but one of them was that there really was no need for this kind of coordination because of the clear up-front division of labor.

The Nordics also began coordinating their sector work more globally. The idea was that one of the donors would concentrate on health while another might do education or agriculture, and that while all donors could participate financially in a sector in a given country, it would be through the focal donor. The intention was to build up a critical mass of sectoral technical and policy skills so that the Nordics could

participate more actively in framework and sector discussions. While this agreement worked to some extent initially, it never became fully operational, in part due to resistance by affected technical staff in the various aid agencies. Over time, this collaboration has faltered.

In Tanzania, as a follow-up to the report by the group of independent advisers on Government-donor relations (Helleiner et. al. 1995), the so-called "Nordic Initiative" was developed. It partly developed some principles for government-donor relations that emphasized both Tanzania's rights and obligations. These principles were later adopted by the entire donor community at a government-donor workshop in January 1997. But there was a commitment among the Nordic countries to carry the collaboration further. Agreement has in principle been reached that the Nordic countries will fund parts of the local government reform through a pooling of funds ("common basket"). One of the Nordics will be the lead donor and handle the administrative tasks. Several studies and joint missions have clearly laid out the principles for the joint operations (Lund et. al. 1995; Lund and Rimberg 1997), and the embassies have been given considerable leeway by their head offices to take operational decisions. There is also the idea that the Nordics should have joint annual meetings and joint programming exercises, though so far this has not happened due to the reluctance of one of the four Nordic countries to actually forego its own programming.

### **5.5 Aid Coordination in Mozambique**

According to a number of criteria, Mozambique is the most aid-dependent country in the world. More than others, it would therefore benefit from an efficient aid coordination system. While it has not been able to establish Botswana's political and administrative management of external financing, it has taken a series of steps over the last years that are clearly strengthening its systems and improving its credibility vis-a-vis the donor community. Annex 1 gives a more detailed description of the developments.

#### **5.5.1 Achievements**

Mozambique has established a rich web of coordination mechanisms. CG meetings are generally held with annual intervals, where the most recent one was organized in Maputo. The Central Bank organizes quarterly meetings on balance of payments support and general macro policies where documentation is circulated to donors beforehand. There are joint Government-donor sector working groups in five key sectors, pursuing a number of different models, which thus constitute a rich source of learning. Finally, there is a committed and accessible political leadership that is open to dis-

curring modifications and improvements to existing arrangements.

On the donor side, there is a (bewildering?) array of coordinating activities that supplement the government-donor dialogue. The World Bank and UNDP chair regular meetings with the donors; the EU and UN agencies have their internal coordination meetings; the Like-minded group is active; the UN system is sponsoring around 18 small sector working groups; there is an increasing number of joint donor missions in a number of fields. The *costs* of aid coordination are thus escalating as activities expand “horizontally” to cover more areas and issues, and also “vertically” as donors delve more deeply into difficult framework issues.

Most progress has been achieved in the field of balance of payments support. While about a dozen uncoordinated import support programs some twelve years ago created enormous transaction costs to importers, donors are today providing budget support through market-driven mechanisms. The major gain has, however, probably been on the *institutional development* side, where national systems have been developed to respond to market as well as donor pressures for efficiency and accountability, and where the *credibility* of the national instruments is now established, though the *quality* still has some ways to go.

The political developments since the elections in 1994 have improved the *legitimacy* of government positions. Parliament in particular has strengthened its role in setting national priorities, establishing greater accountability within what was formerly a one-party centrally managed state. The policy *instruments*, however, are still poorly integrated, so the ability to steer external financing towards priority areas remains weak.

The sector working groups in the roads, health, agricultural and education sectors have quite different histories. The roads program was originally prepared as part of a World Bank-led sector investment program. Due to its history and thus the investment profile that has been established, it is still seen as largely a World Bank-driven program. In agriculture, a very lengthy development and discussion process lay behind the identification of the PROAGRI program, where finally 14 key donors agreed to a 48-point program as the basis for the collaboration. While the negotiations have at times been heated, agreement has formally been reached on the key issues to be addressed – though it is unclear as yet if the capacity and commitment to implement is in place. In the health sector, a slower process of identifying “champions of change”

within the health system has been pursued, where operational improvements in a number of areas have been attained. There are, however, problems getting in place the overarching strategic vision and action plan that will improve the overall efficiency of the health care delivery system. In education, a low-key and rather slow process has ensured local ownership of the total process, but at the cost of agonizingly slow progress.

### 5.5.2 Conflict and Change

Partly by default, Mozambique is putting together a system that builds on a number of building blocks. In some processes, donor involvement has been overwhelming and has led to conflicts during the process (both PROAGRI and ROCS have had some bumpy stretches); on the other hand, in others progress has been extremely slow when donors have not pushed (education) or uneven despite donors pushing (health). Strategic comprehensive sector agreements have yielded impressive action plans with focus on key issues – but uncertain ownership and capacity to implement (PROAGRI). Learning-intensive participatory processes build coalitions and insights as integral parts of the approach – but are often not able to tackle systemic issues, at least in the short run (health SWAP). Which approach is most appropriate is a function of what is feasible, what the existing situation in the sector is and thus at what level problems can be attacked.

One of the lessons from the Mozambique experience is that donors underestimate the resistance to the changes aid coordination lead to. Successful aid coordination means that access to external financing goes through a central government mechanism, and that public officials have to compete for these resources through a more transparent political process. Many officials have built a strong position within the public sector due to their direct access to donor financing that bypasses such central mechanisms. Their ability to resist change can be substantial (often thanks to donor-funded projects), underlining the importance of identifying “champions of change” that can successfully carry through these transformations from within the system. Understanding the *politics* of aid coordination is therefore often more important than understanding the *economics* of it, yet donors tend not to be very good at it. This leads to exaggerated expectations and unrealistic benchmarks for changes, which means that the process becomes donor-driven (see Dixit 1996 for a good analysis of economists’ frustrations in understanding politicians’ criteria for decisions).

## 5.6 Summing Up

- There exists a fairly dense structure of aid coordination mechanisms and institutions at the international level, but where overlaps and inefficiencies exist. Many of the more influential actors are still heavily donor-driven, though the tendency is towards more open and participatory processes.
- The national apex coordination mechanisms, Roundtable and Consultative Group meetings, are under review. The UNDP is looking into the RT meetings and the UN Development Assistance Framework, while the CG meetings are becoming more recipient oriented, both in terms of preparation, hosting and siting of the events. There is still some ways to go in terms of genuine participatory ownership and management – in part a function of capacity and political will on the side of recipient governments.
- Donor practices have historically been a major factor in blocking more efficient aid coordination on the ground. Though improvements are taking place, particularistic donor practices still create considerable obstacles and costs to host governments.
- Recipient ability to manage aid coordination in a more efficient way is as much a function of *political* legitimacy and credibility as it is of technical and administrative skills and capacity.
- Recipient perspectives on aid coordination are in general somewhat less euphoric than donor views, though there is a sense that more genuine partnerships and active listening is developing, thus also generating more optimistic views on the side of recipient officials.

## *Nordic Experiences*

- There is considerable agreement among the Nordic countries with regards to basic principles for development cooperation: putting the recipient in the driver's seat, poverty reduction, etc. The agreement on principles has led to interest in harmonizing aid activities – yet experiences so far fall well short of intentions. When there is a strong, direct and continued *political* interest in having coordination work, it does (coordination with World Bank).
- Simple, robust systems work best (up-front division of labor – no complicated administrative and continuous political management required – Namibia). If this is coupled with interests of importing stakeholder groups in the donor country, the structure may continue (Namibia). If it is in contradiction with interests of stakeholder groups in the donor country, it is more likely to fail (sector division of labor between Nordics).
- The degree of coordination is more determined by donor than recipient wishes, though when the recipient is strong and unambiguous, this provides important backing to those donor staff who support coordination (Namibia).
- The Nordic experiences indicate that even when there is a high degree of commonality amongst the donors, efficient aid coordination that is a function of donor consensus will only be sustainable under certain circumstances. This argues strongly in favor of recipients being the determinant for continued and successful coordination.

## 6 Lessons from Coordination

To summarize the lessons from the various coordination experiences, it may be helpful to look at these from the point of view of the different *dimensions* that have been used in chapter 4.

### 6.1 Content of Coordination

#### *Policies and Principles*

The point of departure for the Mozambique survey (ECON 1998) was the wish on the side of the donor community to identify ways to improve aid coordination. One hypothesis was that if donors could cooperate on the preparations of their assistance strategies, then a lot of other coordination issues would be taken care of as well: a joint strategizing process would generate consensus on what the major objectives for external assistance should be, and once this was in place, it would be easier for each donor to see how their particular assistance could fit within the larger picture. The study's basic conclusion on this point was rather negative, for two sets of reasons:

- As a matter of principle, the donors cannot on their own define overarching development objectives for a country. Either the recipient government has an acceptable development plan or strategy in place – or it should receive assistance developing these, if it so wishes, but clearly under its own management and in a transparent fashion. Too much donor involvement or interference can cause serious problems for the national political dialogue if the government is seen as listening more to the donor community rather than to national stakeholders. The risk of damage to national political accountability is seen as overwhelming.
- On the practical side, the guidelines the various donors have for elaborating strategies are so different that the costs of actually harmonizing the work would be extremely high. But it was also not clear what the product of such an exercise would be. The one example of joint programming in Mozambique was the first UN Development Assistance Framework. While UNDP was satisfied with the outcome, several UN agencies felt it was a time-consuming and formalistic process that produced a political compromise rather than a focused and operational program. This problem would be compounded if the exercise were to involve a number of bilateral donors, as this would require political clearance from a series of

headquarters – a process that would be time-consuming and prone to break-down.

The main conclusion of the Mozambique study was therefore that the most cost-efficient and politically viable approach would be for donors to assist the government develop *its* vision and the necessary tools to implement it: budgets and plans at the national and sector levels. What the donors could bring to the table in terms of principles and priorities would be the DAC *Shaping the 21<sup>st</sup> Century*-document.

This was a controversial conclusion that was not shared by all. There were those who felt a more directed dialogue on policies and priorities not only is feasible but required in order for the efficacy of external financing to reach acceptable levels. If this did not happen, it would be difficult to justify continued aid.

Part of the disagreement could be traced to different understandings of the partnership concept, where *joint responsibility* for policy choices clearly gave donors a role and legitimacy in discussions, if not in decisions.

One issue was the problem of “ganging up”: at what point does donor coordination go from being a constructive attempt at sorting out internal differences so that interaction with government is simplified, to establishing donor concurrence on controversial issues and thus “ganging up”? For some donors this represents a real dilemma: the pressures towards internal donor coordination and consensus may lead to a host government facing a united but possibly hostile donor bloc.

A key question is how far aid coordination should go, and who determines the limits. The conclusion from Killick's study – that conditionalities do not work because donors in fact do not impose the sanctions that have been threatened – can be used to argue for *closer* coordination on the donor side to ensure that conditionalities are in fact respected. In 1986, then-Vice President of the World Bank, Ernest Stern, severely criticized bilateral donors for not in fact respecting the SAP frameworks since they provided funding under circumstances where the SAP criteria for doing so were not fulfilled.

But that leaves the problem of what to do in a situation where the government in principle is pro-development but has severe capacity problems, or where line ministries are not interested in pushing the development

agenda<sup>4</sup>. If donors do not push for change, it will not come about very fast due to the forces of inertia and resistance to removal of privileges. Without a good government policy in place, donors have to compensate for this by spending relatively more resources on identifying where their own financing should be used. Doing this in tandem with other donors is clearly more rational than going it alone, but then comes up against the problem that at the end of the day this would impose solutions on the recipient. But with no proactive programming in place, issues like poverty reduction, gender and environmental degradation will not be addressed, so the costs of non-action are not borne by the government but by priority beneficiary groups.

There is no easy solution to the various contradictions this problem poses. The answer provided in the Mozambique case was based on a mixture of principle and pragmatic notions that donor-imposed solutions, no matter how well designed and well intentioned, will in the end be less sustainable and cost effective than the ones generated locally, and that donors will have to live with that.

### ***Procedures and Practices***

Having a common set of policies and priorities with the government is key to improving the relevance and efficacy of external financing. It does not necessarily improve the cost efficiency of using aid resources, however, because the highly different procedures and practices within the donor community put an enormous burden on the recipient administration. The list of donor sins is long and well known (see section 5.3). And it is at the level of procedures and practices that the real costs to the recipient appear. Disagreements over policies and priorities lead to negotiations over *what* is to be supported – the procedures and practices dimension deals with the nuts and bolts of the *how*. And the devil is in the details: 20 donors with support to an agricultural program may disagree on what is most important to do, but the government can usually find an overarching program where most interests can be accommodated. There is no basis upon which to find a least common denominator on procedures, however, since each donor is accountable back to her own head office for following administrative requirement for the use of public funds.

In the case of Mozambique, pooling of funds was made possible in a couple of areas when a small group

of donors was willing to take some risks and accept the Mozambican procedures. In return, more intensive consultations and joint monitoring was agreed to so that problems could be quickly identified and addressed. While this principle was fine, in practice problems arose. This was partly because Mozambican counterparts did not have the additional capacity to implement the more demanding coordination and better quality tasks that were now being asked of them. But also some of the local partners in the system were not interested in the changes. While the hoped-for improvements did not materialize as quickly as expected, it was felt that these new ways of working together still represented progress compared with the more fragmented ways of doing business. With the *principles* for the new procedures in place, the *implementation* of them could be addressed over time as a joint responsibility.

Two lessons were drawn from this experience. The first was that not all donors are able to adhere to a recipient standard for legal reasons: home country laws demanded that own procedures were adhered to. But if the government along with a core group of donors could establish a track record of acceptable results in terms of reporting, accounting etc., then other donors are often able to modify their own procedures so that they can take advantage of and become more or less integrated into the national practice without formally signing on.

But the second lesson was that if there were agreement on policies but problems with procedures, the formalistic regulations would tend to win over principles and policies. It was extremely frustrating for the Mozambicans to go into negotiations on policy matters and believe the two parties had arrived at a consensus for example on pooling of funds, only to discover that implementation became next to impossible due to procedural differences on the donor side that individual donors were not able to overcome because of guidelines or instructions from their home offices. Much more attention thus needs to be paid to this set of issues.

## **6.2 Degrees of Coordination**

### ***Consultations/Informational Meetings***

Meetings where information is shared is the most common form of aid coordination. Such meetings take place both in government-donor and inter-donor settings, across a wide range of issues and sectors. Due to the large number of such meetings, this form of coordination is the single largest user of time and yet the one where donors seem least satisfied. In the Mozambique survey, the typical comments were that the

4. It should be noted that the above conclusion was reached in the *positive* context of a country where the political commitment to development and change is quite strong, though capacity to implement is limited. In cases where such commitment is lacking, the conclusions from recent studies (Killick 1998, World Bank 1998a) are quite clear: neither the carrot nor the stick - funding and conditionality - will ensure genuine policy improvements.

meetings are poorly prepared with no operational agenda. There is an unstructured and unfocused presentation of large amounts of disconnected information. Many donors are not open and honest about what they intend to do but rather provide information about decisions already taken, so there is little information given that can help planning and genuine *ex ante* coordination. In general there are too many such meetings with little value-added produced.

Despite the general grouching, most donors attend what they consider to be an excessive number of such meetings. When challenged as to why they continue misallocating their own time in this way, two reasons are usually given: (i) there is a fear that at *this* meeting, something important may come up that they might otherwise miss, (ii) political pressures to be good corporate citizens by being present and thus show support for the general objective of coordination.

The main *conclusion* was that this form of aid coordination is rather ineffective. It yields little in terms of improved performance or focus of resources, there is little registration of any kinds of commitments or decisions so nobody knows what the actual outcomes of the meetings are, and this lack of structure leaves most actors quite frustrated. Such informational meetings do play an important role in terms of involving all parties, however, because a number of donors have difficulties joining more operational or strategic cooperation exercises.

The main *recommendations* that were made in the case of Mozambique was to (a) reduce the number of groups, (b) define some objectives or targets for the groups to achieve over the next six to 24 months, so that some performance monitoring was put in place, and (c) put in place a budget that would reveal what the cooperation exercises really involved in terms of resources. The most important cost is undoubtedly staff time, both among donors and recipient, so one challenge would be to come up with a good pricing system for the time of various parties. An alternative was to provide a hierarchy of coordination mechanisms, where ceilings in terms of number or length of meetings for the various areas was established, so as to keep time costs down and force more content into the fewer meetings that would be held.

### ***Cooperation and Collaboration***

More *strategic* forms of cooperation, either to harmonize policies, priorities and principles or implementation procedures and practices, take place in a number of different fora, from CG meetings, local aid coordination sessions chaired by the government or by focal donors, sector working groups, down to smaller group-

ings such as the internal EU and UN meetings or the Like-minded Group.

During the interviews for the Mozambique study, it became clear that different groups of donors had quite different views of how closely donors ought to collaborate. The Like-minded Group is quite positive about coordination, as long as the recipient is clearly managing the process. What could be termed the Anglo-Saxon bloc – the Bretton Woods institutions, USAID and to some extent DFID – were more aggressive in terms of “getting basics right”: there was a feeling that many recipient governments were not sincere in pursuing pro-poor policies and that donor conditionality was required to improve aid efficiency. Finally, the “Latin bloc” of southern European donors was more concerned with ensuring that the formal donor-recipient relations were in place. To them, donor coordination smacked of paternalism and interference in a sovereign nation’s right to define the relationship it wanted with any particular country. At the same time, the southern Europeans were quite open about the fact that their aid programs were more tightly integrated with strategic, political and commercial interests.

These divergences result from fundamental differences in worldviews in the different societies. As such they are not amenable to negotiations, but must be taken as fundamental “facts of life”. There has been convergence through the 1990s, however, so the gap in approaches and priorities among the donors is narrower than it was ten years ago. But there are still some differences that need to be recognized and that set limits to how far many actors are able to go in terms of formal commitments.

As noted above, it is usually easier to reach agreements on overarching concerns like policies and priorities, than on how to implement them. The problems do not arise simply because some donors are particularly difficult, but often because well-intentioned aid agencies pursue a variety of development objectives through managing the structure and size of the program and how it is to be implemented. The evaluation of Norway’s development cooperation with Tanzania for the 1994-1997 period noted that if all donors behaved like Norway, there would have been 500 big and 2,000 small projects during any one year. This was at a time when Tanzania was being pushed very hard by the donor community to reduce its investment budget to a “super core” of only 125 projects.

The administrative costs to Tanzania of such a program would have been enormous, forcing the country to allocate scarce management resources to address the planning, monitoring, reporting, accounting and auditing needs of such a highly fragmented program. It

points to what may be the single largest source of efficiency gains from aid coordination: reducing administrative and transaction costs to both donors and recipient. In the Mozambique study, the claim was made that the most efficient mechanism for aid coordination was formal contracts. This would reduce or even eliminate the more pernicious transaction costs, namely uncertainty and information costs by making obligations and rights for both parties explicit. This gets rid of the *ad hoc* adjustments that tend to arise during the lifetime of an activity, and in particular disciplines donors who have a tendency to change their ways of doing business when it suits them.

Establishing such contracts can be extremely costly. The Mozambique study noted that it took one year of quite tough negotiations before the pooling agreement on technical assistance to the health sector was in place. While the *investment costs* of such formal contracts therefore may be quite high, they reduce the *recurrent transaction costs*, and these in the long run are much more important. The health sector case noted that not only did efficiency of external resources increase dramatically, but the institutional development impact was also positive. The parallel systems for recruiting and paying expatriate health personnel were done away with, external interference in reviewing medical qualifications no longer took place, etc. (see Annex 1 section 1.1.4). These, however, are quite impressionistic conclusions, but worth following up with more careful studies, since a transaction costs approach to understanding coordination costs and benefits may prove to be a key step forward.

### 6.3 Coordination at National Level

The major gains to coordination come at the national level when *systemic* changes are arrived at. The history of balance of payments, BoP, support in Mozambique is instructive. With the introduction of the country's first structural adjustment program in the mid-1980s, donors were encouraged to provide BoP support in the form of import support programs. The incredible inefficiencies introduced by a dozen different donors regarding procurement rules, documentation, reporting, accounting and auditing led to the establishment of a government coordination office that received technical assistance from a number of donors, but in a well-structured fashion. Joint Evaluation Missions, JEMs, were undertaken to sort out problems together. This turned out to be extremely constructive, as donors were confronted with the operational problems the different import regimes led to. Agreements were reached to standardize and harmonize a series of matters, reducing the costs considerably and strengthening local systems and processes. As confidence in local management and reporting grew, more donors were

willing to provide un-tied BoP support as "basket funding" under the common set of rules.

The financial sector was restructured. The commercial banking parts of the central bank were hived off and the state banks privatized while banking supervision and other policy and regulatory functions were strengthened. The sector was opened up to foreign banks, and the financial sector deepened by introducing new savings and credit instruments. This provided a different environment for BoP support, opening up possibilities for more market-determined resource transfers. One donor thus begun providing free foreign exchange to the central bank on the proviso that the foreign exchange was sold under free and competitive conditions, that the countervalue funds thus generated would be transferred to the Treasury for budget support, and that monitoring and reporting systems would be improved to allow for better tracking of the flow of funds. The development of the new system proved so successful that other donors followed suit, with the result that there have now been several joint BoP missions working with the national authorities partly to audit performance but even more to work with the local institutions to find ways of further improving the system. As a result of this, there was a very rapid shift from various forms of tied BoP financing – commodity aid, import support, restricted BoP financing – to un-tied budget support. While the ratio of the black market to official market exchange rate was 40:1 in the mid-1980s, there is now a unified market-determined rate. The fall in administrative costs to donors, recipient and not least the purchasers of foreign exchange is impressive.

The key gains were in the field of institutional development. If one makes a distinction between *institutions* as representing "the rules of the game" while *organizations* are "the actors who play the game", there has been major capacity building or *organizational development* within the various actors: the central bank, the commercial banks, the coordinating office for import support, etc. But the *institutional development* has been more important. Due to restructuring of the financial sector, market mechanisms determine more efficient allocations of foreign exchange. The roles of the different actors are more clearly defined providing transparency and thus better possibilities for accountability in the transactions. Removing the distortions in the market has reduced the incentives for rent-seeking and corruption. The reporting that is being produced is primarily for the national authorities to manage the macro-economy better, but is the basis for reporting back to donors as well. While this has reduced the accounting, reporting and auditing costs enormously, the major benefit is that it has shifted government attention away from

reporting to the donors and instead on developing own reporting systems based on national management needs.

The point is that it is not simply individual organizations that have improved – the major gains have come from the fact that there are now improved *systems* and *processes* in place. It has taken considerable time to achieve this because it was not easy to convince actors to change behavior and rules. At times it was the government that resisted, at other times donors, but as mutual trust was built based on actual performance, a few donors were willing to take some risks and try out new procedures, which would then push the experience frontier forward. This step-by-step approach also allowed the government to build capacity at a more realistic pace. The systems that were developed necessarily were *Mozambican* as donors' own procedures and approaches had to give way to the consensus solution. While the new systems may have contained considerable *inputs* from external sources, they were codified and passed in their final form by Mozambican authorities, which gave them an improved basis from which to demand compliance, by the donor community. Any parallel management and reporting systems such as by donor-funded project implementation units would structurally be undermining this institutional development.

In parallel to the reforms in the financial sector, improved budgeting and planning has improved overall transparency and accountability regarding resource allocations, budget control and auditing. Though Mozambique still has quite a way to go before public finance management has reached acceptable standards, the *trend* is very positive. Donors have therefore continued to provide large-scale assistance, much of it in the form of un-tied or weakly tied program aid. While some of this is in recognition of fungibility and thus the futility of earmarking resources, the increasing reliance on national mechanisms to determine resource use has reduced administrative costs to both parties considerably.

As a response to these structural changes, donor behavior has changed. There is an increasing share of donor funding in the form of program aid rather than project funding. In the case of Mozambique, there is more predictability in the resource flows as donors channel more through the negotiated programs rather than *ad hoc* short-term allocations. An increasing share of funds is going to finance recurrent costs rather than investments, getting a better balance in the public budget. A greater share of donor resources is reflected in government budgets, so there is more transparency as well as predictability with respect to external financing.

Emergency programs tend to provide the most comprehensive and consistent coordination programs. In Mozambique, the UN system took a lead first in the emergency relief program, but during the transitional program from when the peace agreement between the belligerents had been signed in 1992 and till the national elections were held in 1994, it nearly functioned as a shadow government. The key to this role was the legitimacy it had as a neutral and non-interested party plus the political legitimacy conferred by the UN Secretary General. Once the extraordinary situation was over and an elected government was in place, the elaborate coordination mechanisms disappeared quickly. While some regretted losing some of the technical skills and oversight capacities that the UN system had built up, it was also clear that it had become too intrusive for a peacetime situation. The elected government needed to establish itself and put in place a dialogue with national stakeholder groups without the interference of external actors. There are thus limits to how far donor coordination should go.

#### 6.4 Sector Coordination

Many of the more interesting coordination experiences are taking place at the sector level. Sector Investment Programs, SIPs, and Sector Wide Approaches to Programming, SWAPs, have generated considerable interest as vehicles for improved coordination of local and external resources. One definition of what defines a SIP or SWAP is that it must (i) be sector-wide in scope; (ii) based on a clear sector strategy, (iii) local stakeholders must be fully in charge; (iv) all the main donors must participate; (v) there are common implementation arrangements; and (vi) local capacity rather than external technical assistance should be used (Jones 1997, p. 1). Other variations on these criteria exist (i.e., Cassell 1997, which is more detailed), but the fundamentals are the same: the approach is comprehensive in scope, time, number of actors, and linkages.

The above criteria are quite stringent, and a central lesson is that moving to a full-fledged SWAP is a time-consuming process that should not be rushed. The key issues are – as usual – to ensure that local political commitment and implementation capacity is in place; to get donors to adhere to common and transparent procedures; and to find mechanisms that are mutually acceptable for addressing problems and conflicts.

One important challenge is the integration of sector work within macro frameworks. Ensuring that sector plans are sustainable given the overall resource availability and priorities determined by national authorities is often ignored. Sector working groups have turned out to be good fora for raising these kinds of issues,

given that it is often more meaningful to discuss productivity and sustainability of donor-funded activities at the level of the sector rather than at general macro levels. The goal is often to develop activity-based budgeting with clear outcome criteria that will permit integrated financial and performance audits.

One key lesson from sector work is that *central* bodies – ministries of finance or planning, the Prime Minister’s office, or the central bank – should be involved. These are central government institutions that have an obvious interest in improving public finance management, and are often key allies or “champions of change” for sector development.

Another finding is that it is often more important to focus on implementation procedures rather than the formal sector policies. Policies are more prone to changes whereas implementing modalities tend to be relatively stable (Boesen et. al. 1999). Furthermore, it is often *how* policies are implemented that will determine actual outcomes. This is another reason why harmonization of donor actions is important.

Questions have been raised why, in an era of fungibility, one should bother with SWAPs and sector budget support instead of just general BoP support? - The answer is in part that each sector faces a particular set of institutional issues – the structure of the transaction costs to be addressed varies. Sector budget support is the appropriate vehicle for addressing systems issues at ministry level and ensuring that for example ministerial budgeting and accounting is linked to national systems (surprisingly enough not always the case!). Macro programs sometimes contain objectives related to health and education sector performance, which is not appropriate: if the agreement is with the Ministry of Finance, it should only contain issues for which the ministry itself can be held accountable. Likewise, sector budget support should probably not contain demands regarding national budget priorities (increase in the share going to social sectors, for example), since this is dealt with at a level above the individual line ministries.

There is a lively debate going on regarding what the pre-conditions for sector support should be. Many donors feel they are facing difficult choices regarding moving from project to program aid, but without clear guidelines as to when this is appropriate and even less what the monitorable variables are that should be followed to see if the program is on track. While many agree that in principle program aid is better, this should somehow be revealed in practice, so it should be possible to identify some verifiable dimensions to see if it is correct or not.

One response to this has been that the sector approach is very much a process- and learning-based one, for both parties. It simply is not possible for an aid dependent country to come up with satisfactory performance along the key criteria defined for a SWAP as a pre-condition for SWAP support. Instead, these characteristics will be outcomes of the successful SWAP process itself. Donors should therefore (once again) be willing to take more risks than they currently do – but not blindly so. Realistic improvements along a limited set of dimensions should be established, with flexible negative and positive sanctions established as incentives for performance improvements. Work is thus required to understand the existing situation (benchmark study) so that performance improvements can be identified and subsequently monitored.

A recent study done for Sida on the *practical* issues regarding sector budget support points out the difficulties and costs of such work actually being successful (Sjölander and Brobäck 1999). The study notes the work that the World Bank and IMF had to put into many of the African countries in order to come up with an acceptable understanding of the macroeconomy and public finances, and be able to track this over time. Even after many years of work, it is recognized that the factual basis for policy decision-making may be fragile. And the annual consultations and monitoring visits are still required and remain costly. In very few instances have donors been willing to invest similar resources to address *sector* issues. Without this, however, the consultants believe that the sector work will not generate the kinds of outcomes that are expected.

The real challenge, however, is that this level of involvement leads to commitments on the side of both parties that in particular the donors do not seem to have fully considered. Sector programs entail long-term economic and political engagements – genuine partnership in fact – that mean that donors must get more heavily involved in national sector policies than many of them feel comfortable with. The level of intrusion becomes much higher than when individual projects are being discussed. At the same time the coordination that joint sector imposes also reduces flexibility on both sides of the table: individual donors can no longer avoid the responsibility for joint decisions. When mechanisms like basket funding are in place, various forms of conditionality will in fact also become effective since other financing mechanisms will have been reduced, removed or at least strongly frowned upon by the donors involved in that sector.

## 6.5 Geographic Coordination

Coordination along geographic lines is also beginning to take place. In Mozambique, the EU member-states have agreed amongst themselves that in each province, one EU country will have a particular responsibility for coordinating all EU-funded activities in that province. There is even a suggestion that the embassies establish a provincial office in “their” province, to ensure operational coordination on the ground. In Uganda, various aid agencies also have been asked to provide assistance to particular districts.

What is of considerable concern is that some of these initiatives are taking place at the same time that various forms of decentralization of the public sector are being promoted. Creating a geographic “division of labor” between donors during a process of decentralization may create problems. The reason is that there is much less accountability and countervailing forces at levels below the national. While donor-driven processes at the national level are problematic, at regional or local levels they can become very distortive. During the war in Mozambique, there were NGOs that had larger operating budgets in a province than the provincial administration. This of course created major problems, not least of all in terms of the dependence of the local administration on NGO resources. At district level it is much worse: locally elected officials can often only stand by and watch as NGOs and other donor-funded activities move ahead according to their own agendas. While there are many cases of good cooperation and coordination, this is much less a *structural* phenomenon than a case-by-case outcome largely dependent on the individuals involved.

When this is combined with decentralization, problems increase. In the Mozambique case, there are proposals that the EU country coordinating activities in a province be given a particular responsibility for supporting the local administration. Given the very different administrative procedures and traditions in the EU countries, one can imagine the impact on the consistency of provincial administrations if one province receives help from Sweden and another one from France, for example.

This problem has already come up in the health sector, where different donors provide assistance to different provinces. One donor has provided quite massive capital assistance to the Manica province for rehabilitation of infrastructure, but has managed most of the program through own consultants. Another has tried to build up large parts of the health system in Tete, but as part of a larger assistance in the province, creating a new set of dependency distortions. A third donor has tried to strengthen the overall health finance adminis-

tration, but comes up against problems of identifying what the real resource availability is due other donors not providing full information, so that its assistance may in fact further distort resource allocations.

The question is if donors may be re-producing some of the mistakes of the first structural adjustment programs. The challenge at that time was first seen to be to remove distortions to economic markets, so that the “level playing field” could be established. It turned out that getting to the situation where the principle of “one dollar – one vote” in fact worked required not only removing the structural barriers to more competitive markets, but also to put in place implementable pro-competitive regulatory frameworks. If not, the highly skewed income and wealth distributions coupled with highly concentrated political power tended to create new forms of market distortions that worked against the poor.

Similar problems exist in the political markets. Getting to a situation where the principle of “one person – one vote” becomes reality requires probably even more transformation and pro-competitive regulatory and oversight capacities than was the case with the economic system. Yet donors’ knowledge of and insights into local political processes and power constellations is considerable poorer than was the case when economic markets were tackled.

Because the pressures for getting results are considerable, the easy and most obvious things are done first, with the danger that the process is done somewhat backwards. The typical first step is to identify what is not working well, and then assume that a restructuring will address the issue. Since central government often is not good at delivering services, decentralization seems like a good move, based on the notion that if “government comes to the people”, local political processes will be more participatory and democratic. Once it becomes clear that local politics may in fact be more manipulative and corrupt, it can become quite expensive and difficult to sort things out, as strengthened local political stakeholders can mount a strong defense of their privileges.

In Tanzania, the Government established the Tanzania Revenue Authority, TRA, to improve tax collections at the center, as this was a major problem in the area of public finances. The TRA is now seen as doing a credible job. At the same time, a research team has found that as much as 90% of locally collected revenue may never find its way into the public coffers (Fjeldstad and Semboja 1999). At the local level there are usually no bodies that have oversight functions and the political clout to address such issues.

Aid coordination along geographic dimensions points to the downside risk of coordination. If the principles upon which the coordination is done are not good, the costs to the recipient can become extremely high. Donor coordination based on a division of labor by area coupled with decentralization may be a recipe for disaster. One possible outcome is a fragmentation of local public administration without systems of accountability and transparency in place. National institutional capacity is thus weakened or even undermined while no complementary or supporting systems are put in place locally – the worst of both worlds.

## 6.6 Summing Up

- If the host government does not have a development program and strategy in place, donors cannot substitute for this by coordinating their own strategy processes, but should rather support government's efforts at developing a credible program
- It is easier to establish agreement on policies and priorities than on procedures and practices. It is the latter, which address *implementation* differences, where coordination gains are potentially the greatest, however, since these differences generate enormous administrative and transaction costs to both donors and recipients. Policies furthermore are more subject to change than procedures, which tend to remain amazingly stable, yet it is often procedures that determine impact on the ground.
- It is not necessary to have all donors in an area agree to new procedures and practices. It is usually enough that a core group of donors take the lead, assume some of the risks/experimentation costs to work with government to develop the new approaches. Once a track record has been established, other donors are often willing to modify their own procedures to come as close as possible to the new government/donor standard.
- The most common mechanism for aid coordination - informational meetings – may also be the most ineffective. Streamlining and downsizing such meetings can free up scarce time for more productive aid coordination activities.
- Formal contracts may represent one of the most cost-efficient mechanisms of coordination. They are costly to establish – *investment costs* are high – but they generate lasting and potentially substantial reductions in *recurrent transaction cost*, and these are the real problems for a local administration.
- A wide range of different approaches to aid coordination can be helpful in a first phase of developing overall aid coordination instruments and structures, as experience on the ground is required to identify least-cost solutions. Differences in approaches may also reflect different political and economic realities in various sectors. But over time national authorities need to impose coherence and discipline on external resource flows and make aid coordination more transparent through a consistent set of rules and mechanisms.
- Successful aid coordination implies structural changes to resource flows. This will generate resistance from those within the host country that feel they will lose out. Since these actors usually occupy central positions, they can mount effective resistance, a problem that should not be underestimated. Understanding the *politics* of aid coordination is therefore as important as understanding the economics of it.
- *Institutional development* is key to aid efficiency improvements as this is the means through which sustainable reductions in transaction costs are attained. *Organizational* development is helpful but in itself of less importance (technical-administrative capacity and skills within a given organization).
- Coordination at national level is required to achieve *systemic* changes, which in turn generate major benefits to the host country. The most interesting coordination experiences right now seem to be taking place at the *sector* levels, however, where innovative approaches such as SWAPs are being tried out in a number of countries.
- Recent reviews of what it takes to implement comprehensive SWAPs highlight potential downsides since a genuine SWAP may imply a level of joint interaction at the policy and financing levels that some parties may not be comfortable with. On the one hand, a SWAP demands considerable own administrative and policy resources that few donors have indicated so far that they are willing to commit on a long-term basis. But it may also require tying own financial resources to larger joint frameworks in a way that some donors may find troubling. These issues merit very careful consideration.
- Geographic coordination in connection with public sector reforms/decentralization is also seen as containing serious downside risks, which may among other things undermine institutional development at the national level.

## 7 The Unfinished Agenda

While aid coordination is considered only a dimension within the partnership concept, the purpose of partnership and thus also of aid coordination is to improve development effectiveness – that is, the extent to which intended purposes behind the provision of external financing have been attained.

### 7.1 Measuring Aid Coordination

The World Bank study on aid coordination provides an analytical frame for studying these questions consisting of five dimensions: Relevance, Efficacy, Efficiency, Sustainability and Institutional Development (World Bank 1999b). The preliminary conclusions are that aid coordination is highly relevant and improves efficacy regarding development impact. The results with respect to efficiency, sustainability and institutional development are considered more uncertain.

One reason for this dichotomy in the findings may be that it is easier to agree that some of the *principles* for aid coordination are being attained while it is difficult to measure the more *operational* dimensions of it.

One way of addressing this problem may be to look at some of the links that can be established between the three dimensions of efficiency, sustainability and institutional development. One assumption behind some of the analysis in this report is that *institutional development* is key to *sustainability*. Only when improved national systems, processes and capacities – institutional development – are in place will local activities become more sustainable. Institutional improvements can often be measured as reductions in *transaction costs* of various kinds. The challenge is to operationalize transaction costs so that they can be monitored (not necessarily measured at the cardinal level, but at least monitored for change over time). These transaction costs are of various kinds – money, time, information, uncertainty – but as soon as they are identifiable, then one also has a measure of efficiency gains.

### 7.2 Designing Least Cost Aid Coordination

Subordinated to this general problem of aid efficacy is how to make aid coordination itself more cost efficient. This is a more manageable problem, as aid coordination activities are more easily identifiable and measurable (here again a transaction cost approach may prove to be helpful).

More work should go into looking at some case studies. In the case of the Nordic experiences, relevant cases would be the larger Nordic programs in the SADDCC region during the last 20 years or so. This could include the NORSAD fund, support to some of the regional secretariats like the Transport Commission in Maputo, as well as the country experiences of Namibia and Tanzania.

A number of bilateral donors have looked at the experiences with sector support in various forms. A critical review of the lessons so far could also generate more insights into the pros and cons of various forms of aid coordination. The recent Sida study that looked on the one hand at sector program aid and macroeconomic development and on the other at the need for a functioning administration and financial management systems (Sjölander and Brobäck 1999) poses a series of critical questions that may have been overlooked so far.

Donor practices deserve considerable more analysis in this context. The DAC country reviews provide a wealth of material that can be used, but national budget documents will also reveal a lot about how different donor governments think about their aid resources.

As of now there is not a strategy in place to develop a “least cost” program for aid coordination improvements. Given all the material that is potentially available, some more work in this area may yield high returns in terms of more impact from the very considerable resources that today are being invested in aid coordination both by donors and recipients.

### 7.3 The CDF

Many of the issues and questions raised above will undoubtedly become even more urgent as the discussions on the Comprehensive Development Framework, CDF, proceed. The CDF may in particular clarify the extent to which more intensive aid coordination at national and sectoral levels poses downside risks and costs as well as benefits. This may set the stage for more careful empirical work regarding aid coordination, since one of the conclusions from this review is that we perhaps *know* a lot but in fact *understand* very little about aid coordination: much has been said about coordination *activities* but little seems to be known about systemic outcomes, and how better to achieve them.

## Annex I: Mozambique Experiences

(Modified excerpts from ECON [1998]: “Donor Coordination in Mozambique: Background Report”. ECON Memorandum 45/98, August. Oslo)

### 1.1 Donor Coordination

There was clear consensus among the donors that effective coordination among all actors would ensure better outcomes. This is being pursued in a number of ways, from the import/budget support quarterly meetings chaired by the Banco de Mocambique, through sector working groups, to internal donor coordination meetings. Within the donor community, the Development Partners Group covers external financing agencies - bilateral and multilateral - and major UN executing agencies. The UN and EU systems have internal coordination mechanisms, while the so-called Like-minded Group also convenes coordination meetings. A large number of working groups have been set up, which in turn generate countless meetings. Coordination is particularly demanding on senior decision-makers’ time, which is the scarcest resource both for the national authorities and the donors. Since the time available is limited, and as all forms of coordination are not equally important, it is of interest to review the experiences with coordination in terms of reducing costs.

#### *Meetings*

The most common coordination mechanism is meetings. Most are for information sharing, but the data are usually not processed and hence do not provide much *operational* assistance. The result is that much time is spent debating general matters but without clear expectations in terms of what is to come out of the information shared. Most donors complained about the large number of meetings and limited useful outcomes. Still, most seemed not to have clear criteria or prioritization regarding participation in meetings, but attempted to attend more than they actually felt was necessary.

#### *Appropriateness of Coordination*

Some donors do not focus on coordination with other donors since their major concern is that activities should be discussed with Government. Their time is thus spent ensuring that the collaboration with the national authorities is in place. There is also the feeling that too much internal coordination leads to “ganging up”, since so much time is spent on agreeing amongst the foreign actors that the Government comes up against a donor bloc, rather than different partners who can bring different but complementary contributions to the solution of a given problem.

This divergence in attitudes towards coordination is reflected in other ways as well. Some donors engage in dialogue with local stakeholders, inviting NGOs, key informants in civil society and leaders of civic organizations to discussions about their strategy. Others feel that this is an inappropriate intrusion into the dialogue between a government and its civil society, and that donors are trespassing onto grounds that really is not theirs to enter. These differences are not linked to the individuals in the various donor offices - they result from quite different traditions and fundamental world-views in the home countries.

#### *Sovereignty*

Effective coordination has costs in terms of loss of sovereignty as well. It reduces the ability of different actors - both on the donor side and Government side - to move ahead with own projects and priorities. Coordination requires taking into consideration legitimate concerns of other actors, thus accommodating interests that may often conflict. The reluctance of some actors to coordinate seems in part to derive from this issue as well, in some cases due to commercial interests.

Whether the Government or the rest of the donor community should accept this reason for retreating from coordination is a tricky issue. Pursuing narrow commercial concerns comes at the expense of somebody else. Forcing more transparency and accountability on the side of the donors is thus potentially an important part of the unfinished coordination agenda.

#### *Levels of Coordination*

Given such basic divisions amongst the donors, two different approaches can be considered. One is to find a program of coordination that all actors can agree to. This would be a “least common denominator” model, where to some extent the agenda is constrained by those who wish the lowest level of coordination. The other is that groups that want more coordination and feel hamstrung by this approach can have a more intensive dialogue amongst themselves.

Both models are in place in Mozambique today. The large information sharing meetings with perhaps few operational conclusions and focus are acceptable fora for all participants. The Like-minded Group is established to develop closer operational collaboration.

### 1.1.1 Lessons from Macro Coordination

#### *Import Support Programs*

As Mozambique began restructuring its economy in the second half of the 1980s, liberalization of the trade

regime was a key feature. Many donors funded import support programs, all of which had slightly different procedures. For importers, accessing these funds was often a nightmare. The time delays that the various steps led to meant that the typical importation procedure would take six to nine months. Oftentimes, an importer would have to make renewed requests for the foreign exchange, sometimes from a different donor with a slightly different set of regulations, because the validity of the supplier's offer had expired, and the importer then had to start the process all over again. The transaction costs in terms of waiting, uncertainty, fees and complying with different donors' reporting requirements made real costs of importing skyrocket. In the early days of the import support programs, these costs were still worth accepting since the local currency was so over-valued that any foreign exchange represented a windfall gain. As the exchange rate became more realistic, however, these access costs became a real impediment to the growth of a more efficient private sector.

To harmonize the import support programs, the *Gabinete de Coordenação dos Programas de Importação*, GCPI, was established in the then-Ministry of Trade in 1987. The GCPI received considerable technical assistance from a range of donors: Sweden assisted on the importation side, the UK with setting up internal management systems, etc. In 1991, the World Bank, with the participation of four bilateral donors organized a first Joint Evaluation Mission, JEM. Two years later the next JEM took place, this time with almost twice the number of donors on-board.

The JEMs were costly to organize, but in the end turned out to be well worth the effort. Donors who were not fully aware of the issues that GCPI and Mozambique were facing, got a much better understanding. General policy issues could be raised, and a genuine discussion regarding the various options were put on the table and acceptable solutions negotiated. The outcome was a streamlining of procedures around standards that had been used in other countries. Issues like lower boundaries for when International Competitive Bidding and Limited Competitive Bidding had to be used were clarified, and as practices and reporting improved, these floor levels were increased. Five years later, these standards are still largely in place, and there are few discussions regarding the *content* of these procedures.

The coordination in this area thus covered policies, institutional development (GCPI), technical assistance, and joint monitoring - quite an impressive package.

One lesson is that as the Mozambican economy develops, simpler and more direct ways of doing business are becoming possible. The transaction costs to private sector importers of getting their goods into the country are much lower today than they were ten years ago, because so many of the procedures have been simplified and standardized. The administrative costs to both the Mozambican authorities and donors have also fallen to a fraction of what they used to be.

Another lesson is that the JEMs were allowed to die as soon as it was felt that the benefits did not justify the considerable expenses. A key cost was the preparations and coordination efforts, where the World Bank as lead donor spent considerable time putting together the team, ensuring that background information was available to all, etc. As with all such exercises, some aspects were not seen as satisfactory by all the participants, so for some the up-front planning should perhaps have been better. But this points to the need for having a budget that allows one to have some sense of how much a task costs. Without this it is difficult to know if an intervention makes sense or not.

Another reason the JEMs were discontinued was that the Government took a more aggressive role in managing these funds. It established an Import Support Working Group, which is still functioning, so the large external missions were substituted by more continuous on-site monitoring by the local donor offices.

Finally, the share of BoP resources that go to import support programs is falling in favor of more untied forms. The need for policy assessment and monitoring has shifted to the "new frontier" of budget support and the Debt Alleviation Fund.

### ***Balance of Payments Support***

The GCPI experience lies behind the more structured dialogue that is taking place regarding various forms of balance of payments support at the macro level. The Banco de Mocambique chairs quarterly meetings where written reports on the opening and closing balances plus the use of funds during the period in question of the different donor contributions are discussed. The MPF provides reporting on contributions to the Debt Alleviation Fund, DAF.

The structure of these two sets of reports, the periodicity, level of detail, etc., are different. This points to the need for some internal coordination on the government side, since for the donors and from a macro-economic perspective contributions to the DAF and budget support are nearly perfect substitutes. The important point, however, is that there is an established forum which convenes at predictable intervals where both content and process issues can be discussed. Financial

documentation is prepared and distributed beforehand, so the possibilities for a genuine dialogue have been put in place by the Government.

One important lesson is how some risk-taking by the Swiss helped develop the budget support mechanism that is largely in place today. The Swiss provided free foreign exchange to the Central Bank, which then sold it to the commercial banks at the prevailing exchange rate. The countervalue funds were allocated to the general budget with no earmarking, but with general conditionalities regarding how the budget structure was to develop. This mechanism has been refined by the Central Bank, and is the one in use today.

By taking a calculated risk - essentially trusting the Government to deliver on some up-front promises without having any firm guarantees that things would work out the way both parties hoped - a new and more efficient form of donor support was established. This was achieved *not* through a long drawn-out negotiation process where all the pieces had to be put in place first, but by experimenting and allowing capacity and answers to develop as the challenges appeared. It also revealed a lot of trust in Government. The authorities responded to this at the political level by paying enough attention to ensure that it would be a success. Those who were involved at the technical/operational levels felt a responsibility for the new mechanism that ensured that actual implementation also went well.

The institutional development/capacity building effect of this is critical. It was left to the national authorities to work out how exactly the various mechanisms were to function, so responsibility was placed squarely where it belonged. No outside technical experts were called in to do this - this was worked out among the various entities that had to be involved. The learning was thus system-wide and system developing, as there was no formal teaching *to* some heads of departments, but rather involved all those who had to take a part in the successful completion of the operations. This generated a lot of confidence among those involved, and has ensured that the system in place is sustainable.

All reporting on the use of these funds is based on the data and systems generated internally by the Mozambican institutions. These reports are part of the management information system used to keep an eye on Mozambican public finances. They have thus on the one hand strengthened Mozambican systems by being used and hence respected by the donors (a very important signal from the donor community!), and at the same time the additional demands that the donors put on the reports has led to quality improvements of public finance reporting. These become constructive institutional development impulses that are built on using

existing procedures, and then taking them seriously by putting quality demands on them - at a pace and level that local capacity can handle.

Another lesson comes from a mission in May 1998 by four bilateral donors that provide budget support. The mission noted that there were considerable efficiency gains to be had from looking at the various forms of BoP - budget support, debt alleviation contributions, sector budget support, and import support - and establishing consistent criteria for what are largely substitute forms of BoP support. Most of these lessons are for the donors, because the different support programs had differing conditionalities, not because of fundamental disagreements with goals, but for simple lack of inter-donor coordination and lack of consulting each other's documentation.

### 1.1.2 Lessons from Sector Coordination

The sector coordination efforts exhibit quite different characteristics as far as donor and government roles are concerned, and also to what extent they are "bottom up" or "top down" exercises. There are well-functioning working groups in a number of sectors: roads, water, agriculture, health, education, and statistics. Only some of these will be referred to below.

#### ROCS

In the roads sector, the ROCS program, ROads and Coastal Shipping, was the first Sector Investment Program, SIP, in Mozambique. ROCS is central for the re-establishment of the national transport network, which is needed for the re-integration of local markets into a functioning national market. This in turn is a prerequisite for any broad-based economic growth, whether understood geographically or across sectors and social groups.

The elaboration of the program was donor-led, though there were intensive consultations with the relevant national and to some extent local authorities. This structure was in part due to the need for putting in place a *national* program that could allocate resources rationally across a vast territory and where the needs were virtually limitless, and where it was felt that technical expertise based on international experience would be of major assistance. While the national trunk road program thus was prepared at head office level, local authorities were requested to provide inputs as far as the secondary and tertiary road networks were concerned. To that extent there were locally-based inputs to the overall program.

The scaling of the program, the technology choices made, the way contracts were structured and awarded, and other aspects of the *implementation* of the program have generated debate. Over time, as capacity

has been built on the Mozambican side and as lessons have been learned, adjustments are being made and the Mozambican voice given more prominence. But ROCS is still considered by many to be donor-driven, which is problematic given its size, strategic importance for Mozambique's development, and the sustainability challenges it faces.

### **PROAGRI**

PROAGRI can trace its "roots" back to 1992, when UNDP began funding a "pre-program". This was to review the agricultural sector activities and build up institutional capacity that could develop sector plans and policies. Progress was, for a number of reasons, fairly slow. At the same time, resolving the problems the sector is facing is critical to the possibilities of addressing poverty. The process was therefore accelerated by the donors taking a more active - to some extent perhaps aggressive - role in its development. A pre-appraisal was carried out early 1997, where a number of weak points were identified and where the Ministry of Agriculture and Fisheries, MinAg, was asked to address those before the full appraisal could take place.

The donors resolved to tackle some of the stumbling blocks arising from different donor procedures and policies. A workshop involving 14 key foreign partners - bilateral donors, multilateral credit institutions and UN agencies - was held in Copenhagen in October 1997. All 14 present agreed to work together to solve a list of 48 topics that were seen as key to the successful implementation of PROAGRI. This donor coordination workshop was an important event, because many practical problems in sector program implementation are the result of different agencies not being willing to follow standardized procedures but rather continuing to use their own internal rules and regulations.

On the other hand, such events point to the problems of "ganging up", whereby donors agree to coordinate their approach and in particular their conditionalities regarding the discussions with the Government. In the case of PROAGRI, there have been important differences between the two parties with respect to the role of the public sector in agriculture, the restructuring of the Ministry, how to address the land issue, etc. Donor representatives must assure their own taxpayers, however, that public funds are being put to best use. Identifying where "dialogue" ends and "ganging up" begins is clearly difficult and highly subjective, but is an issue that should be explicitly on the agenda regarding lessons learned from sector working groups.

PROAGRI has been a broad *strategic* planning exercise where overriding problems have been raised in the context of setting overall priorities for the ministry.

The dialogue has thus largely been at the level of the heads of the various parties involved. Only towards the end of the process was there some involvement of civil society.

It has been a drawn-out process, which in some respects has been costly. But it seems also at the end of the day to have delivered on an impressive range of issues in a sector that clearly contains a lot of powerful and conflicting interests.

### **Ministry of Education**

In the education sector, the Ministry of Education, MinEd, has taken a much stronger lead in defining the program and managing the dialogue. This has something to do with the role the focal donor in the sector has taken on, where it has tried to keep a low profile and respond to MinEd requests and needs rather than accelerate the process. This has at time caused delays and frustrations, and the technical work may not have been as good as if more outside technical expertise had been used. On the other hand, there has been no doubt regarding MinEd's ownership of the process and the contents of it.

The problems faced by MinEd are in many ways simpler than in the agricultural sector, so it has been easier for the ministry to take a strong position. There are few changes foreseen to the role of the public sector, so the structural changes to the ministry are driven more by a need for improved efficiency than for handing over important functions to the private sector or other actors. The agenda is reasonably clear with strong support across the spectrum of actors, so there is not the same problem of generating consensus. There is considerable continuity in the ministry's work program, so resource re-allocations are less dramatic. And finally the ministry covers essentially an entire and easily defined sector, so the problems of relationships to other sectors and programs is less troublesome, allowing MinEd to focus more exclusively on its own responsibilities.

### **Ministry of Health**

The Ministry of Health in 1992 had developed an acclaimed sector strategy for the post-war period<sup>5</sup>. Based on an analysis of the main medical challenges and probable resource availability, it mapped out a program for expanding its human and institutional capacity. With this as the point of departure, a Health Sector Recovery Program was prepared by Ministry staff with the help of the World Bank. This formed the

5. The strategy was considered a "best practice" example by the WHO, which published it in its *Macroeconomics, Health and Development* Series in 1994. See Abdul Razak Noormahomed and Malcolm Segall, *The Public Health Sector in Mozambique: A Post-War Strategy for Rehabilitation and Sustained Development*. WHO, Geneva, May 1994. 94 pp.

basis for a World Bank-funded Health Sector Investment Program, SIP, where a number of bilateral donors are providing co-financing. Parts of the strategy are now out of date, and the ministry has to come up with a more relevant and cost-efficient response to the ever-increasing demands on the sector.

In 1997, the public budget for health was around USD 25 million, while donors provided an additional USD 90-110 million, of which USD 27 million alone was for central drug imports. The need for coordination has long been evident, and the MoH has been an early supporter of sector working groups. An intensive dialogue with the donors has led to the establishment of several working groups addressing particular problems: drugs imports, technical assistance, etc. More importantly, the focal donor has been willing to invest resources in testing out new and innovative ways of making resources available to the sector, assuming the risks involved.

This has led to the establishment of sector budget support programmed at the national level but being made available to provincial directorates of health for recurrent costs that the government budget could not cover, to development of pooling agreements for technical assistance and drug imports, and joint audits of donor resources. These activities are now organized in a more structured and focused dialogue with MoH in the form of a Sector-Wide Approach to Programming, SWAP.

A Technical Advisory Group visited Mozambique in February 1998 to review the progress on developing a health SWAP. The group noted that the Ministry of Health, MoH, had put in place a number of key building blocks necessary for a successful SWAP. The development of a full-scale SWAP was seen as a medium term proposition. For the time being, the recommended strategy was to follow an incremental process, where new instruments are introduced and the existing ones are consolidated. In this way, institutions, communication, accountability, transparency and thus trust and credible reporting are developed along the way. The report noted a series of lessons that had been learned from health coordination efforts so far:

- Coordination requires strong political commitment and considerable senior management time by both donors and Government to achieve concrete results. Since many actors are involved with many head offices that must be consulted, the process will require patience and understanding on all sides.

- A lot of detailed work is required to understand the procedures of each actor, identify where the differences lie, and find possible options that can be acceptable to all parties.
- Any change generates resistance. Where resistance is encountered, it is important that management steps in, and that agreements in principle are followed up by solidarity in practice.
- Formal agreements are preferable because with written contracts the various parties cannot resort to *ad hoc* solutions every time an issue arises: the parties have to work things out in terms of the framework already agreed to.
- The trend should be to move from administrative controls and permissions prior to implementation (“red tape”), to verification and audits afterwards, with resource incentives and penalty clauses spelled out. If reporting improves and losses are reduced, aid resource levels can be increased and donor conditions relaxed. If targets are missed, more audits and controls may be put in place and resources may be reduced or control transferred back to donors.

The concern for *institutional development* as perhaps the most important spin-off of the Government-donor collaboration is a hallmark of the health sector work, and one that should be studied more carefully. The reason why this has been so important, is that the donors involved felt that *implementation* is a greater problem than formal *policy consensus*. If this is a correct concern, one implication may be that while PROAGRI has generated agreement on an impressive range of key issues, the ability to actually carry out all the activities that these agreements imply may not have been strengthened much by the process, and that the follow-up to the agreements may thus be lagging.

### 1.1.3 Trade-offs: Scope versus Focus

In-depth sector work is time intensive. This forces donors to choose between putting a relatively high share of their own time into a few limited areas, or participate in a wider range of activities to get the broad picture. There clearly is a trade-off here, and the tendency till recently by most donors was to participate in a wide range of sectors rather than focus on a few more in-depth.

The role of focal donor is particularly time demanding. Most donors are hesitant about taking on such a commitment because the task seems not only very time-intensive at the moment, but it appears as almost an endless responsibility. One reason is that there is often not a clear agenda on the table, so even the in-depth

tasks widen out and take on a whole range of dimensions that had not been envisaged initially. Many times this is unavoidable: if one wants to look into how to establish donor pools of resources for the recurrent budgets within a sector, and particularly ensure that the funds are made available at provincial level, a number of collateral issues need to be addressed: how does the internal management of Provincial Departments of Planning and Finance function; how can accounting at district level be improved so that the reimbursement procedures for renewed recurrent budget funds can be released in a timely manner; where are the key constraints on the audit side so that obvious cases of fraud can be prosecuted and malpractice reduced; etc.?

Another reason donors hesitate, is that it requires considerable technical insights. It is not enough to have a general feel for the issues - one must contribute quality and value-added to the debate. Particularly for smaller donor offices in Maputo, this is a problem because they often do not have the staff to both cover the overall program and at the same time have specific sector skills.

The trend now seems to be, however, that more donors are focusing their financial and therefore also their administrative resources on fewer sectors. The review of donor strategies and their financial assistance shows that three or four sectors often take 80-90 percent of a donor's aid. Much of this is a pragmatic administrative decision: projects are being merged into fewer but larger programs, since this makes both strategic sense but also reduces organizational overhead. But it also releases time to focus on policy framework issues rather than project implementation detail, so that both the ability and interest in participating in policy discussions seems to be increasing.

#### **1.1.4 Lessons from Implementation/Procedural Coordination**

Whether donor coordination is successful or not is revealed when words are to be turned into actions. Experience shows that if there is a conflict between a *principle* or a *policy* that a donor has agreed to, and a *procedure* or *regulation* that somehow makes the follow-through of the policy difficult, procedure will win! Donors are aware of this dilemma, and they are more flexible and willing to adjust to local rules and procedures if these are seen to provide a similar guarantee of control and insight as their own would. In order for them to be able to judge this, detailed understanding of local procedures is required, since "the devil is in the details". While moving support away from individual projects towards sector budget support is a major step forward that opens up for local donor collaboration to a much greater extent than project

coordination can, the attention is moved from project implementation towards public financial management problems. In the short run, this does not make donors' life easier!

#### ***Local Resistance***

The real coordination costs, to some extent, rear their head when the nuts and bolts are to be put in place. The negotiations over the pooling of resources for technical assistance in the health field took about a year, due to problems on the Government side as well as time required to find solutions acceptable to the donors involved. The streamlining of finances and integrating donor resources into regular Government procedures removed the access some managers had to the donor resources. Now they have to go to the center and fight for resources in competition with other managers within their own political system that they could avoid previously. There were personal benefits from these relations as well: study tours, computers and vehicles, possibilities for consultancies, and so forth. The donor community has created a public service that in some areas has a dual allegiance - to the management of the ministry, and to the donor community. And when the donors try to change what have so far been the rules of the game, there is at times strong resistance to this, which donors should not underestimate.

#### ***Local versus National Coordination: What is Cost-effective?***

Achieving coordination at the district level is often not so difficult - but the benefits in terms of savings to the system are also slight. The big systemic gains are generated when most of the donor resources in an area are pooled and integrated into standard procedures at national level.

#### ***Efficient Coordination: Resource Pooling***

Resource pooling is taking place with respect to medical assistance. Previously, a number of donors provided various categories of medical personnel based on requests coming both from the Ministry but often also from provinces - particularly provinces where that particular donor might be funding other health activities. The pay levels and other conditions of work were largely determined by donor policies, the personnel sometimes were from the donor country, the donor often did the recruiting and thus had the real say in terms of the professional profile of the candidates, the donors decided whether they wanted to continue this support in that post or not, etc.

The pooling means that the Government now identifies which positions are priority, what the qualifications are that they are looking for, offer remuneration packages that are standard and transparent to all, and have a

reasonably predictable flow of funds that permit them to scale back over time if this becomes necessary.

The efficiency gains are substantial. The average cost of medical staff funded by donors has fallen. In addition the total share of each donor dollar available to hire staff has gone up because the real costs of recruiting, monitoring etc. have fallen. Donors did a lot of this previously using high-cost donor administrative staff, both in the home country and in the resident missions. Now the steps required to recruit, monitor and evaluate external staff is part of the regular routines of the ministry, so the marginal cost to the system is low. The medical staff is hired by the Government, which thus can assess the medical qualifications and - if need be - get rid of staff that does not answer to expectations without this creating a diplomatic problem vis-à-vis a given donor.

There have been a number of practical problems, so the transition to a purely Mozambican administration of the funds has not been all smooth. But the process is underway, and it is now possible to identify where bottlenecks and inefficiencies remain, so that progress can be monitored and improvements demanded. But this also points to the need for being willing to stick to a program and “walk the extra mile” in order to get the results.

### ***Changes: Creating Winners and Losers***

The higher up in a system the changes are being introduced, the greater the resistance will be by those who see that they will lose power and direct benefits. Those who benefit from the changes are often not in a position to fight effectively for them: they are often either lower down or further out in the system, so their political power is less. This is particularly true of changes that are linked with the decentralization, and where therefore the major “winners” *inside* the system will be provincial and district level managers while the losers are at ministry level. The gains will be generated over time so it is difficult to see or predict them today, hence difficult to fight for, while the losers see their losses immediately. Those who lose from the changes are usually small, highly articulate, and - due to the donor resources - often powerful groups within the system, and can therefore create serious impediments to change.

In the case of technical assistance, the donors stuck to their guns and refused to accept “business as usual”. In the end, the pooling agreement was signed. In the area of drugs imports, resistance to changes in how drugs and vaccines are to be imported - streamlining procurement with a central pool of donor funds - has not come as far. This has given rise to some managers trying to circumvent the new policies by relying on the

good and direct contacts established with individual donors over the years. This has led to incidents where literally hundreds of thousands of dollars have been wasted in drugs procurement, because what was rational and made sense from an individual program point of view was irrational and duplication for the overall system. The reason this could happen is that donors were not coordinated and did not respect Government policies. This is due to lack of knowledge of what is happening overall in the sector.

### ***Coordination versus Contracts***

While donors are in principle willing to join forces, there are often problems if a formal agreement has to be signed. This is because if a contract is to be signed, it has to be cleared by head office legal departments. Trying to find wording that is acceptable to a number of different donor countries is time-consuming, even when everybody involved is doing their best to be positive and constructive.

Avoiding these headaches by setting up informal or parallel systems is often seen as a lesser evil than trying to get through the home country bureaucracy, and in many cases this undoubtedly is the only solution. It leaves a messy situation on the ground, however, where Mozambique is stuck with the costs of trying to make many different systems compatible.

When a formal agreement can be signed, it is therefore a major step forward, as it signals among other things that local procedures and regulations are taken seriously also by the donors. In principle it allows donors to “sit back” and take advantage of the Mozambican reporting system, whether it is on the financial or performance sides. In practice, all the weaknesses of the Mozambican systems then become in part a donor problem as well.

This, however, is probably how it should be - that donors and Government jointly struggle to get the existing institutional arrangements to function better, to satisfy the quality demands that a public administration has to face today. But it requires a level of understanding of how local institutions are supposed to function that many donors do not currently have.

### ***Focal Donor***

This is where focal donors are of great help. It may not be necessary for *all* donors in a sector to know that level of detail if one or a group of donors on behalf of the community can delve more deeply into the mysteries of local administration.

This requires considerable coordination built on trust, and this coordination should be spelled out more carefully and explicitly than is the case today. Some

donors feel frustrated on the one hand by some playing a more central role in the dialogue with the authorities, and on the other realizing that they themselves do not have the capacity to take on such a time-intensive dialogue.

There may be a need to separate the *policy* and *technical* dialogues more clearly. What is causing some friction is that focal donors are perceived to “block the entrance” at the policy level, which is where a focal donor should open doors but not monopolize the entry. At the *technical* level, however, focal donors can be expected to do a lot of the detailed work required to come up with specific proposals. These kinds of arrangements need some thinking through, and a review of experiences so far might help to better define such a division of labor.

### ***Public Financial Management: The Weak Link***

There are clearly some *systemic* dimensions of public finance management that require a qualitative improvement before donors are going to have greater trust in the financial reporting that is being produced, and the public sector audit system should perhaps become an area of priority concern over the next years. In principle, the system has three levels, starting with each ministry’s own internal inspectorate. The Inspector-General’s office of the Ministry of Planning and Finance has a mandate to audit all public funds, whether at ministerial, provincial or district levels. Finally, the Administrative Court has the responsibility to close the public accounts and also to prosecute suspected cases of fraud. All three levels are weak today, which means that the ability of the system to monitor use of public funds, detect problems, correct them and effectively pursue cases of mismanagement, is not satisfactory.

### ***The Objective: Un-tying Aid***

Strengthening these functions will have an important impact on the ability of the Government to convince donors to un-tie more of their aid. And un-tying aid is still an important point on the agenda. As Mozambique moves towards a more market-based economy, inefficiencies that exist with respect to accessing funds become impediments to the structural transformation of the economy.

### **Summing Up:**

#### ***Cost Effectiveness***

- There has, till recently, been limited concern regarding what kinds of coordination is most efficient to the various parties. Coordination, however, is expensive! There should be some costing of resources being used, to get a picture of what the total costs of various key activities in fact is.

- A costing exercise can assist in re-directing attention from high-cost, low-impact activities to more high-impact areas. In particular, mechanisms that have out-lived their cost-effective usefulness should be abandoned. Inefficient coordination vehicles are being maintained for reasons of inertia or prestige. Perhaps a maximum of six or ten working groups should be active at any one time, with clear agendas defined for the following 6 to 24 months, with some monitoring of performance and costs.
- There is considerable potential for administrative cost reductions once new ways of doing business are agreed to. These are linked to capacity building and institutional development on the Mozambican side. One criterion for successful coordination may be “did it lead to sustainable quality improvements within Mozambican institutions?”. If one cannot answer an unqualified ‘Yes’ to this question, one should perhaps ask what has in reality been attained.
- Coordination at the programming/policy setting stage is usually more cost-effective than trying to mobilize around already defined programs, because there is little ownership and understanding of the total program by those who did not participate in its formulation. On the other hand, joint programming can become costly if not carefully planned and managed. Good understanding of the tasks and divisions of labor between actors may lessen the coordination costs considerably.
- Donors should be more willing to take risk when new or difficult issues come up. Many donors are risk averse, pushing the costs of this onto Mozambique by holding back on potentially more efficient implementation modalities.

### ***Policy versus Technical Coordination***

- There should be a clear distinction between coordination at the *policy setting* and *technical implementation* levels. Some of the friction between donors may stem from this. The mechanisms required for coordination to function at these two levels is different. At the first level, all actors are essentially equal and have as much legitimacy with respect to their viewpoints, whereas technical coordination can be more entrusted to focal donors with particular skills or capacity in that area.

### ***Resistance to Change***

- There is often resistance to change from the Mozambican public service. This is in part due to fear of loss of resource control and power by indi-

vidual managers. It may be important to identify “champions of change” within the individual institutions, and show the entire agency that performance is rewarded. This requires that donors are able to respond flexibly to superior performance in sectors, and may be one argument for step-by-step implementation rather than trying wholesale change. If the latter approach succeeds, gains are spectacular - if it fails, it may be costly to get the change process moving again.

### **Role of Government**

- There is a need to hear from the Mozambican authorities how they view the different experiences, and what they see as preferable modes of collaboration in the future.
- Sector working groups are producing integrated activity plans and budgets, where the MPF is playing a central and constructive role in assessing ceilings on financing levels.
- Sector working groups also represent dangers in terms of “ganging up” by donors in areas where there are policy disagreements with Mozambican authorities. This issue requires some explicit analysis, so as to agree on “rules of the game” that allow Mozambique to have a clear voice in such debates.

### **Differences among Donors**

- There are important differences regarding how some donors view coordination. These are rooted in factors that are not subject to negotiation at field level, and thus are important to note in terms of how far coordination in fact can go.

### **Differences between Sector Working Groups**

- Different working groups have followed very different processes. There should be a more careful review of what the lessons - positive and negative - have been in each case, to ensure that there is systematic learning. One interesting comparison is between PROAGRI and the Health SWAP, including the different points of departure: PROAGRI being a comprehensive strategic exercise, while the Health SWAP has been based on incremental learning.

### **Coordination of Implementation Procedures**

- The major gains are had when real institutional development takes place, which usually requires formal contracts or agreements between the parties. This is the only way to ensure that *ad hoc* arrangements do not appear, as these undermine the gains otherwise being realized. Such formal agreements are time-consuming and often costly

to attain. The more actors involved, the more difficult, because each donor must return to its head office for legal clearance. One strategy is to develop a contract between Government and a few donors who are willing or able to engage in reasonably quick dialogue and reach closure. After a period of implementation, other donor offices can then point to actual practice as an argument vis-à-vis their own head offices as an argument for *joining* existing arrangements. There is then no longer an issue of negotiating everything from scratch, but of getting dispensations from the head office to join what in practice has proven to be an acceptable alternative to home-country procedures.

- Public accounting and audit functions must receive more assistance in the period to come, to strengthen credible public finance management that extends to effective pursuit of identified cases of corruption and mismanagement.

## **1.2 Donor Strategies**

Donor assistance strategy documents vary considerably in size, content and form. Some donors do not have a formal strategy document, others have a one page summary of what the donor is doing, prepared by the embassy in Maputo. Others have documents of several hundred pages, following detailed instructions laid out in manuals and guidelines prepared by their head offices. Some documents contain careful reviews of sectors or issues that are of particular relevance to their country’s aid policies, while others emphasize local participation and ownership of the stated objectives and strategies.

### **1.2.1 Perceptions of Development Challenges**

Most donors take as their point of departure some description or reference to the situation in Mozambique, the major development challenges the country is facing, as well as government policies and priorities. The thoroughness of these analyses varies, with only a few donors referring to the Five-year Plan or the annual Economic and Social Plan. More use the Poverty Reduction Strategy and the Policy Framework Paper. Donors’ familiarity with these documents also varies considerably. Some donors were not aware of the existence of the Five-year Plan, and gave different answers as to which Mozambican planning document should be considered the most important.

To the extent that strategy documents include a description or analysis of the development challenges, there is a lot of common ground, with particular focus on:

- The transition from war and emergency to peace, and the resulting implications for changes in the needs for, and role of, development assistance in Mozambique.
- The encouraging political developments, but a situation which is considered fragile and therefore a need to further build and strengthen democratic institutions.
- The need to improve living conditions, in particular for the poorest in the population.
- The need to create a basis for economic growth and private sector development.
- The need to gradually reduce aid dependency.

Even if there is much agreement, it tends to be at a general level, and is not often used for the development of the specific strategy. Continued engagement in a sector seems to be more a function of having established a presence and thus have knowledge of the sector rather than flowing from the strategic analysis. Some donors, however, have carried out a review, looked at the assistance program in place at the time, and have decided to aggressively change their aid profile to make it fall into line with their situation analysis and new strategy.

### 1.2.2 Donor Development Objectives

Independent of the written analyses or references to Mozambican Government documents, most donors have formulated objectives for their development cooperation program in Mozambique. The most common overall objectives are

- poverty reduction;
- sustainable human development;
- peace and stability;
- democratic development/good governance;,
- improved living conditions;
- economic growth;
- creation of a market economy;
- reduced aid dependency.

This list is quite general and uncontroversial, but donors weight the individual components differently. Very few donors have a conscious strategy with respect to peace and stability, for example, except sup-

port to formal multi-party activities and elections. Only one donor seems to have developed an explicit program for working with and strengthening civil society.

Many focus on economic growth through private sector development, but where the term “private sector” covers quite different concepts. In some cases it focuses on the firm sector, while in others it clearly includes small-holder farmers and petty traders, so that it becomes virtually everything that is “non public sector”. In some cases, it seems like the agency in fact wanted to talk about “civil society” rather than “private sector”.

Investments in human resources have different rationales. Some speak of “human capital formation” in an implicit capital accumulation model. Others argue more from the point of view of the realization of individual potential, as a pre-condition for the development of democracy and participation, and that human resources development has value in itself since education and health have important direct welfare/“consumption” dimensions in addition to economic investment ones.

Donor objectives are generally consistent with Government ones. This is largely because the objectives presented in Government documents do not constitute a very focused development agenda that forces donors to avoid certain activities. It is thus not difficult to pick and choose a range of objectives that suit each donor.

This is not necessarily a bad thing, since many donors are constrained by their head offices in terms of where they are to provide support. The Nordic countries must pay attention to poverty reduction, gender and environment, the US has provided a lot of support to development of a market economy, etc. But there has been a trend towards convergence of views within the donor community, to some extent sparked by the working groups established by the SPA program. Here donors have over the years worked on a range of key issues that the African economies are facing, and have come up with a series of pragmatic answers to these that have been discussed with the partner countries in Africa. Mozambique has for a number of years been an active participant in this dialogue, and it should therefore come as no surprise that there has been a convergence also between donors and host government during the 1990s in Mozambique.

### 1.2.3 Donor Strategies and Sector Priorities

All donors have defined and to some extent explicitly formulated sector priorities in their assistance strategies. These are often linked with the country analysis, but other factors also come into play. These include

historical involvement in certain areas; commercial interests in the donor country; comparative advantage in terms of the skills and other factors they can offer Mozambique as part of the total aid “package”; the desire to focus on areas that are relatively easy to manage in terms of following impact and how resources are being used. In some cases, priorities are extended to cover geographic areas. Within the EU system, this has gone so far that there is a “focal EU donor” for each province that is given a particular responsibility for ensuring that all EU-country funded activities in a given province are, to a greater or lesser extent, coordinated, with the expectation that the donor in question will also concentrate a significant share of own resources in that province.

An assessment of how to achieve the greatest impact has often led to a combination of sector and geographic focus. Finland and Denmark both support the health sector, and chose to work in a particular province since their experience till then had been that weak capacity at the provincial level had held back successful implementation of critical health programs. Switzerland saw the same problem but decided somewhat later to attack it differently, by making resources available at the national level for programming to provinces that needed additional resources the most. Switzerland would then in addition provide technical assistance for key activities that would strengthen management and implementation capacities.

Different strategies have been developed at different points in time, so that what was seen as useful three years ago is no longer seen as helpful. This reflects in part the quickly changing situation in Mozambique, where certain systems and institutions are developing, permitting less intrusive and direct management by the donors. Donors are therefore also willing to provide a greater share of their aid financing in more un-tied forms, either as direct budget support at the macro level, or shifting funding for certain sector programs from project aid to sector budget support. The intense dialogue taking place in some of the sectors is contributing to this shift in how donors think of their sector support, as confidence is being built that certain tasks that previously were not carried out in a satisfactory manner can now be entrusted to national entities. This also implies that there is less need to earmark such a great share of funds to particular sectors or programs, but instead let the overall budget and programming process on the Mozambican side determine more of where resources ought to go.

Many donors mention health, education, rural development and agriculture. Some of these strategies therefore are “politically correct”, but may not be followed up on the funding side. Other areas are hardly

mentioned, including key issues such as financial sector reform, employment creation, public sector restructuring and modernization, and strengthening and reform of the legal system.

Some strategy documents are only available in the donor country’s language, one donor stating that it was their understanding that they were not at liberty to show the strategy to Mozambican authorities. This underlines the fact that a key audience is home country decision makers - Parliamentarians and ministers. The strategy must show that current activities and funding are in line with political decisions back home, to ensure continued home country support.

This political task is clearly important, since continued high support for Mozambique by the donor community will only be possible as long as donor head offices are satisfied that funds are going to the areas they have been involved in deciding upon. Changing aid profiles is thus a delicate political process where the local aid representatives have the best understanding of what will and what will not sell “back home”.

Given that this is an important task of the strategy document, it is clear that trying to coordinate the *content* of such documents is of little avail. While one can always find some innocuous general objectives - as is often the case in strategy documents in Mozambique - the *wording* is actually important in terms of the “selling” job in the donor country. This is situation and country specific, and is not something that can be negotiated or for which there are “objective” criteria that can decide what is an appropriate phrasing or priority.

#### 1.2.4 Donor Strategy Processes

In the same way as strategy objectives and content vary considerably among the donors, so do the *processes* leading to the formulation of country assistance strategies. Some donors have detailed guidelines for this purpose, and the process can take a couple of years. Some donors base their work on general overviews, while others carry out detailed studies of sectors or issues, using embassy staff, local or international consultants, involving headquarters, the embassy and to a varying degree the recipient government. In some cases, dialogue with the host country is important, where dialogue partners can be government officials, or representatives from beneficiary groups, or important spokespersons for civil society. In a couple of cases, the country strategy goes to the donor country Cabinet and is thus official policy, while in other cases it is simply cleared by the donor country ministry responsible for aid funding. This clearance can be at the political or even higher technical level.

The cycle for strategy production differs, with some donors following fixed cycles established by the head office. Others produce the documents on an “as needed” basis: when the old strategy is seen as not being an adequate basis for current aid policies, the process of putting a new one in place is initiated. Instructions regarding what the strategy needs to contain, and thus the level of detail and with whom one must work, is highly donor-specific. In only some cases do strategy documents contain resource levels with indicative allocations across key areas.

In most cases, donor offices see the strategy document as a useful reference tool which allows them to prioritize resource use. For many, an important aspect of the strategy is that it allows them to say “No” to certain proposals, because there is a formal document cleared by their head office that they can refer to.

Some donors discuss the strategy in draft form with the Mozambican authorities. This may be simply to inform the Mozambicans of any changes, and receive their comments and reactions before final decisions have been taken. As the strategy is first and foremost the donor’s own document, there is often not a need for any *formal* clearance. Some donors, however, make a point of having the strategy formally acknowledged by the Mozambican authorities, for example by having the strategy presented and discussed during an annual consultation. This is to ensure that the new strategy is known and will be respected by the local authorities when it comes to future project requests.

#### **Summing Up:**

- The use of Mozambican Government documents as a point of departure for donor strategies is often poor, in part because some of them are not well known or seen to be lacking in operationality and focus.
- Despite this, there is a high degree of convergence between donors, and between donors and the Government, on general objectives and development challenges.
- The relative consistency in terms of wording when it comes to choice of priority sectors may in fact hide important differences in terms of priorities and implicit models of how a society (ought to) develop. These differences can only be sorted out at the level of sector policies and programs, however, when concrete choices of implementation are made.
- Geographic focus and choice of sectors is the result of a complex set of factors, including what implementation modalities donors believe will

yield best results. Few of these choices result directly from the rigorous country situation analysis, but are more pragmatic, and thus in principle open to negotiation and change.

- Many of the strategy documents have a donor-country audience as their primary target groups. In these cases, there are limited possibilities for strategy development coordination, as improved efficiency of commonly programmed resources is not a primary concern. In other cases, however, there is clearly an interest in improving relevance and focus of the strategy document, opening up for perhaps group-wise coordination.
- Donor strategy processes vary enormously in terms of structure, guidelines, breadth of participation, time, cost, involvement of local authorities and representatives of civil society, and use of background studies and analyses.
- Donors seldom use each other’s materials when preparing own strategies, and there is thus a lack of knowledge of what other donors are doing and how they might be addressing similar problems.
- The learning process is thus highly internal to each donor: they accumulate experiences from their own strategy work - whether earlier ones in Mozambique, or similar ones in other countries. But they do not learn much from each other, which is another area for potential coordination and savings.

### **1.3 Conclusions**

As long as the Government documentation is considered unsatisfactory, the donors will compensate for this by putting what at the aggregate level are considerable sums into producing their own documents. While donors will always have a need for an assistance strategy that provides the explicit links between home country priorities and local objectives, the costs of producing these will be much lower the better the recipient government documents are. Good local strategy documents can thus generate considerable savings on donor aid administrative budgets, which in the aggregate is also to Mozambique’s advantage.

#### ***Strengthening Government Planning Instruments***

Donors can make at least two important contributions to improve the current situation. In the first place, the fiscal management reforms require better information in a timely manner regarding donor resource availability and expenditures. This would make a big difference to the quality of the resource documentation that the Government can produce.

The second is to support the processes required for improving the strategic documents - both those that are providing overarching guidelines (like “Mozambique 2020”) and the ones that will create the building blocks (the various budget instruments). This can be both in the form of financing, and technical inputs in those areas where external expertise can provide value-added.

### ***Donor Coordination: Division of Labor?***

Donors are discussing possible divisions of labor amongst them as a means of achieving improved efficiency. Several dimensions are considered:

- Individual donors could focus on a few *sectors* where they have particular skills or insights to offer (“comparative advantage”, “supply capacity”). This would be in line with the concept of *focal donor at the technical level*;
- Individual donors could focus on a few geographic *areas*, to ensure symbiosis between different activities they support in a given zone (“synergies”). This is the EU concept of a *regional focal donor*;
- Individual donors should focus on particular *forms* of assistance where they have a comparative advantage (i.e., UN system in technical assistance, lending institutions in assessing risk in infrastructure investments, etc.) (specialization). This in fact flows from existing mandates for some of the more specialized agencies.

To some extent, these changes are necessary. If donors are going to engage in meaningful policy dialogue, they will have to focus on a few areas and specialize, perhaps by taking on some in-depth technical or policy focal role in the bargain.

On the other hand, some donors clearly are better in certain areas than others. Reaching agreements with the Government and partners in the donor community on such area concentrations can obviously generate efficiency gains both to the individual agency but also to the system as a whole. With fewer but better informed and perhaps more committed donors in a sector, the coordination costs drop - though the risk exposure for Government may have increased. If a key donor suddenly has to pull back from a commitment, for example because of aid funding cut-backs, it may take considerable time for the Government to find alternative sources. It is therefore important that donor strategies contain serious medium-term financing commitments that give the Government the certainty required to carry out long-range planning.

But one should distinguish between coordination at the operational level, and at the planning and resources allocation level. For allocating resources, donors can never have the same amount of information and the same accountability to the public regarding priorities as the host government does. The factual basis upon which donors can try to plan resource allocations is thus faulty, and will always be a second-best option.

One form for coordination that raises serious concern, is the geographic. In a situation where Mozambique is decentralizing its public administration, any move to have different donors provide assistance to individual provinces can have serious distortionary impact on how the overall public administration develops. It should be an absolute pre-condition for this kind of donor coordination that the ministry responsible for public administration, MAE, has a strong voice and coordination and supervision capacity in place - prerequisites that do not seem to be in place today.

### **Summing Up**

- There is no sense in trying to coordinate donors’ strategy *formulation*. The strategies are often for home audiences, and thus serve different functions from one country to another. It may make sense to harmonize certain components, however, such as background information, share sector studies, etc. Sector working groups should provide information on what is available.
- Some donors may not be in a position to coordinate much with others, partly because they are pursuing an agenda largely defined by head office (commercial interests is a typical case), partly because they politically do not feel it is correct to coordinate with other donors rather than with Government. This mixture of principle and opportunism would make an embracing exercise potentially frustrating and costly, with presumably few tangible results to show for it.
- Identifying possibilities of division of labor amongst donors may generate efficiency gains, but should be done with caution: what would be the criteria for “assigning” certain sectors to particular donors (or vice-versa)? What would be the role of Government in such discussions? Since Government clearly should have an important voice in this, what is the purpose of organizing this in terms of a *donor* grouping rather than having a more structured Government-donor dialogue?
- The critical fact is that funds are fungible. Whether donor A finances health or roads, and whether the money is for drugs or a cancer spe-

cialist, the end result is that it impacts on the total resource envelope available to the public sector. What should be of concern to the donors is not if own funds are being spent in a good way or not, but if the overall policy framework guarantees that the public sector as such is providing value for money, and what the distributional outcomes of these expenditures are.

- The most cost-efficient coordination mechanism available to both donors and Mozambican authori-

ties as far as resource allocations is concerned, is *one* integrated Government strategy and budget document. The efficiency gains would be great, not just in terms of where and why external financing should be allocated, but even more as a signaling instrument to local and foreign investors. As private sector development accelerates, private investments, both local and foreign, will be much more instrumental in pushing the overall development efforts forward.

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