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Organizational challenges for an effective aid  
architecture – Traditional deficits, the Paris  
Agenda and beyond

Jörg Faust / Dirk Messner

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## **Abbreviations**

|          |   |
|----------|---|
| AfDB     | African Development Bank  |
| CAS      | Country Assistance Strategy                                     |
| CDF      | Comprehensive Development Framework                             |
| CGD      | Center for Global Development                                   |
| DC       | Development Cooperation   |
| DFID     | Department for International Development                        |
| DIE      | Deutsches Institut für Entwicklungspolitik                      |
| DPG      | Development Partners Group                                      |
| DAS      | Debt-sustainability Analysis                                    |
| EU       | European Union  |
| FAO      | Food and Agricultural Organization                              |
| FIMS     | Financial Information Management System                         |
| GTZ      | Gesellschaft für Technische Zusammenarbeit                      |
| HIPC     | Heavily Indebted Poor Countries                                 |
| HIV/AIDS | Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome |
| IBRD     | International Bank for Reconstruction and Development           |
| IMF      | International Monetary Fund                                     |
| MCC      | Millennium Challenge Corporation                                |
| MDG      | Millennium Development Goal                                     |
| MTEF     | Medium-Term Expenditure Framework                               |
| NGOs     | Non-governmental Organisations                                  |
| OD       | Operational Directive   |
| ODA      | Official Development Assistance                                 |
| OECD     | Organisation for Economic Co-operation and Development          |

|          |   |
|----------|---|
| OECD/DAC | Organisation for Economic Co-operation and Development/Development Assistance Committee |
| OP       | Operational Policy  |
| PER      | Public Expenditure Review   |
| PRGF     | Poverty Reduction and Growth Facility   |
| PRSC     | Poverty Reduction Support Credit  |
| PRSP     | Poverty Reduction Strategy Paper  |
| UNDP     | United Development Programme  |
| UK       | United Kingdom  |
| UN       | United Nations  |
| UNCTAD   | United Nations Conference on Trade and Development                                      |
| UNDP     | United Nations Development Programme  |
| UNICEF   | United Nations Children's Fund  |
| USAID    | United States Agency for International Development                                      |
| WHO      | World Health Organization   |
| WTO      | World Trade Organization  |
| ZOPP     | Zielorientierte Projektplanung  |

## 1 Introduction

A broad consensus has emerged in the social sciences that a country's political institutions function as "regulatory" variables, influencing its economic development. In countries that effectively constrain corruption and clientelism through the rule of law and inclusive democratic participation, governments give stronger priority to market-friendly, but also inclusive, economic policies.<sup>1</sup> Consequently, it is in countries with relatively high levels of "good" governance that development cooperation (DC) finds relatively favorable conditions for effective interventions. Nevertheless, econometric research has been unable to come up with any robust results demonstrating that DC in relatively "well" governed countries has produced a significant impact on economic development (Easterly / Ross / Roodman 2004; Roodman 2007). Even worse, existing evidence suggests that increasing aid dependency has tended to have a negative impact on crucial aspects of governance such as rule of law and quality of bureaucracy (Knack 2001; Brautigam / Knack 2004).<sup>2</sup>

The increasing criticism levelled in recent years against both the structures of DC and the interventions in which it engages indicates that it is not only the institutional context in recipient countries that matters for the effectiveness of DC. Additionally, the institutional and organizational makeup of DC itself is of equal importance for its effectiveness. "Governance matters" – this aptly formulated observation (Kaufmann / Kray / Zoido Lobatón 2003) thus applies not only for recipient countries but also for the organizational structures of DC. Actors of DC are faced with a multiplicity of rules, procedures and incentives that have a massive impact on their behaviour and thus on the effectiveness of their interventions.<sup>3</sup>

Given this background, the present essay starts out by outlining some fundamental challenges for DC from a principal-agent perspective. We then discuss some of the most relevant regulatory deficits of "traditional organizational patterns" of DC, before going on to analyze the extent to which the reform efforts undertaken in connection with the 2005 Paris Agenda have led to a more effective organizational setup of international DC. We find that the Paris process neglects, and in part even exacerbates, a core problem of DC: the continuing large number of DC actors engaged in most recipient countries without a strong demand-driven orientation. This unresolved problem has driven – in principle reasonable – coordination and harmonization processes toward costly bureaucratic patterns of donor-driven planning procedures that hold little promise of sustainable success. Finally, we attempt to derive a number of institutional and regulatory recommendations.

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1 Following some path-breaking empirical work (Keefer / Knack 1997; Hall / Jones 1999, Acemoglu / Johnson / Robinson. 2002), there is today broad consensus on the impact of governance features such as the rule by law and secure property rights on economic growth. While there is less agreement on this point, evidence also suggests positive effects of democracy on the provision of public goods and economic productivity (Lake / Baum 2001; Faust 2007).

2 For an overview on aid effectiveness, see Faust / Leiderer (2008).

3 For some recent and critical perspectives on the structures and instruments of DC, see e. g. Chakravarti (2005); Wolff (2005); Easterly (2006); Gibson et al. (2006).



## 2 Multiple principals, multiple agents and information asymmetry as challenges for DC

DC formulates a set of objectives that, while welcome in normative terms, prove to be highly challenging in empirical terms. DC aims at contributing to poverty reduction, peaceful domestic stability, democratization, and – increasingly – global governance (Messner / Scholz 2007). Yet, as we now know, there are often fundamental tensions between broad collective goals and the preferences of specific organizations (Olson 1965). As such, the organizations involved in DC, be they donor governments, ministerial bureaucracies, implementing agencies, multilateral organizations, or freelance consultants, do not act only on behalf of the collective goals formulated but also have special interests of their own.

Research has increasingly recognized this tension between collective and individual rationality. In fact, some of the most challenging constellations typical of DC can be viewed through the lens of a principal-agent perspective.<sup>4</sup> This perspective allows us to more clearly identify regulatory challenges that need to be mastered if the effectiveness of DC is not, in consequence, to suffer fundamental damage.

According to an interpretation encountered in the relevant literature, the principal at the beginning of the delivery chain of DC – at least in democratic donor countries – is the taxpayer or citizen whose resources are used to fund the activities of official bi- and multilateral DC (Martens / Mummert / Murrell 2002). Opinion polls conducted in the Organisation for Economic Co-operation and Development (OECD) donor countries indicate that citizens express relatively clear-cut preferences. In the course of recent decades, ample majorities of respondents have constantly expressed their preference for seeing DC funds used primarily for humanitarian aid and poverty reduction (see McDonnell / Solignac / Wegimont 2003). Opinion polls also indicate that a majority wishes DC funds to go to needy countries with development-oriented governments.<sup>5</sup> These preferences stem not exclusively from altruistic values but also from the increasing awareness that economic development in poor countries also creates markets for rich countries, fosters political stability, and reduces external effects of conflict, violence, and state failure.<sup>6</sup>

Additionally, if the ownership principle is taken seriously, the needy target groups at the end of the delivery chain of DC must be seen as equally important principals. The ownership principle unflaggingly propagated by DC agencies since the 1990s amounts to a realization that recipient governments are in need of considerable policy space in shaping DC activities if they are to effectively translate the interests of their citizens into public policy. Accordingly, DC activities should ultimately be geared to the collective interests of poor, excluded and marginalized groups in partner countries. Fortunately, the interests of these two principals, needy target groups and taxpayers in the OECD-donor countries, seem to converge well. The average taxpayer, like the average citizen of the target group, has a primary interest: that both donor organizations and recipient governments use aid resources provided by rich societies to respond to the socioeconomic needs of poor societies.

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4 See, among others, Martens / Mummert / Murrell (2002); Michaelowa / Borrmann (2005); Milner (2006).

5 For a short overview on polling results sustaining this argument, see Faust (2008).

6 To cite an example, an opinion poll commissioned by the Department for International Development (DFID) found that two thirds of the respondents were of the opinion that extreme social stress and poverty in developing countries had negative external effects on the United Kingdom (UK) (DFID 2000).

Unfortunately, those who should behave according to the principals' interest – the agents – also pursue special interests, which are not necessarily in harmony with the preferences of the former. The principal thus needs at least a critical mass of information on the behavior of the agents in order to be able to monitor and to evaluate the appropriateness of their actions.

In the policy field of DC, the recipient government has often been perceived as a “problematic” agent. Traditionally, one challenge for donor organizations has been to evaluate whether governments or other state agencies in recipient countries have been using aid funds for their own special interests or for those of their specific clientele instead of deploying these funds in the collective interests of their society. In broader terms, the fungibility problem on the side of the recipient government presents a principal-agent problem for several principals – the taxpayer, the target group and the donor organizations. It is precisely for this reason plausible to assume that aid will be more effective in places where “good” governance gives politicians strong incentives to behave in the collective interest of their society. Wherever this is not the case, the fungibility problem of DC will become increasingly virulent (Svensson 2000). A sufficient level of “good” governance in a recipient country is therefore a necessary, though by no means sufficient, criterion for aid effectiveness. Moreover, the latter argument justifies the need for aid allocation decisions to take into account the degree to which recipient countries are in possession of development-oriented, political institutions.

Nevertheless, any exclusive emphasis on appropriate political-institutional incentive structures in a recipient country is bound to fall short of the mark. Along the long delivery chain of DC, donor organizations will also pursue interests that are not necessarily in accordance with the formulated goal of promoting development, or with the interests of their respective principals. A large body of literature reveals, for example, that the allocation of bi- and multilateral aid has often been influenced by specific interests of donor countries – geopolitical considerations, export interests, etc. – and has often not reflected neediness or “good” governance of recipients.<sup>7</sup> Beyond this, ministerial bureaucracies, implementing agencies, multilateral organizations, or freelance consultants also have specific interests of their own and may, in pursuing these goals, negatively affect efforts to realize the goals of their principals.

A rigorous interpretation of the overarching objectives of DC can serve to illustrate the latter point. At least as regards poverty reduction, peace building, and the promotion of democracy, implementing agencies are ultimately expected to provide an effective contribution to making themselves superfluous. However, it would be plainly naive to seek to sustain any such purist assumptions on the altruistic behavior of donor organizations. Instead, insights of modern organizational theory and evidence from the policy field clearly show that organizations – as collective actors – have a major and fundamental interest in securing both their own survival and the greatest possible autonomy for their actions. A more realistic perspective of this kind helps to explain why aid agencies' are, for example, reluctant to withdraw from partner countries in which they have developed organizational structures. Instead, aid organizations have incentives to increase their budgets and to expand their planning responsibility into new issue fields. There is, in other words, no reason to expect DC agencies to seek solely to realize the collective aims of the policy field and thus to work purposefully for their own elimination – even though DC is probably one of the policy fields with the most normatively motivated

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7 See, among others, Alesina / Dollar (2000); Alesina / Weder (2002); Neumayer (2002); Dreher / Jensen Nathan (2007); Fleck / Kilby (2006).

personnel. Accordingly, if DC organizations pursue such special interests, which do not necessarily match the interests of their principals, they will use an existing information asymmetry to provide their principals only with selective information.

If, still simplified, we break DC agencies down into ministerial steering units, implementing agencies, and the consulting industry, what emerges is a complex picture of serious principal agent problems. Ministerial steering units or the supervisory boards of multilateral organizations are principals of the implementing agencies. The latter in turn employ hosts of external consultants. Ultimately, research departments and academic organizations active in the field of DC are also elements of this organizational structure. All of these organizations have incentives to point out that their work is successful. They present evaluations, recommendations, progress reports, and stacks of publications to prove their success. At the same time, though, all these actors are faced with major incentives to explain why it is that, owing to exogenous factors, the fundamental objectives defined have still not been reached. Highlighting past success and demonstrating still-unrealized objectives then serve as the basis for demands for more funds as well as greater competences in planning and implementation.

Given the above-described incentives and the complexity of socioeconomic development, evaluating the appropriateness of the respective agency's efforts becomes a nightmare for the respective principal(s) (Easterly 2006, 149). As a consequence, the central units of donor organizations, faced with the resulting high degree of uncertainty, tend to augment procedural routines, which are meant to impose control and innovation mechanisms on their agents. As a consequence, the incentives for donor organizations to continue on with once-established projects and activities give rise to a pattern of continuous resource flows, combined with project and planning proliferation. This so-called "Christmas tree phenomenon" (de Renzio et al. 2005, 5) may easily lead to an unremitting and rather incoherent addition of project components, procedures and funding in a recipient country, which in sum may well obstruct any clear-cut incentives for the partner side to engage in better policy-making.

Moreover, the scarcity of funds generally favors high levels of rivalry between individual donor organizations: ministries vie for budget funds; multilateral and bilateral implementing agencies engage in "turf-fighting"; and consultants and scientific advisors are also forced to assert their interests in a competitive environment.<sup>8</sup> These actors will not only underline past successes in order to justify their existence. Pointing to objectives that have not yet been reached or given due consideration, they will tend to generate institutional innovations, new plans and approaches, and other evidence of their specific, irreplaceable role.

But why is rivalry among donor organization considered a problem if sustainable competition normally brings innovation, efficiency and consumer orientation? Unfortunately, DC is not characterized by markedly decentralized market structures and consumer-orientation. In other words, in DC needy target groups, the "consumers" on the demand side, generally lack the market power needed to substantially alter the behavior of supply-side organizations. Because rivalry among donors centers on acquiring funds and responsibilities from upper levels of the delivery chain, rivalry does not drive the supply side toward efforts to more effectively and innovatively satisfy client preferences. As several authors have documented convincingly

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<sup>8</sup> For instance, a respondent to a recent evaluation of the United Nations Development Programme (UNDP)'s activities in crisis countries stated that such "turf-fighting" between donor organizations is among the biggest obstacles to more effective development assistance (UNDP 2006, 51).

(Easterly 2006; Brown 2006), the complexity of planning and implementation processes tends even to worsen the information asymmetry of the most important principals at the beginning and at the end of the delivery chain. Under such conditions, it becomes difficult for the OECD taxpayer or a marginalized target group to monitor, evaluate or even control the behavior of their agents. Consequently, the latter will receive a degree of de facto autonomy which will seriously impede the “consumer” orientation of DC.

### 3 Regulatory deficits of “traditional” DC structures

The growing criticism of the structures of international DC is closely linked to the arguments made in the previous chapter. One aspect often characteristic of the structure of international DC is its self-referential activities and complex planning, factors typical for over-autonomous state or semi-private agencies. As effective control mechanisms have been frequently weak, success has been regularly presented for the outside world, while in reality these overcomplex structures have often showed a high degree of inefficiency. If the majority of agents in the delivery chain of DC are not properly controlled, the rivalry and turf-fighting so typical for the majority of organizations hampers effective coordination among donor organizations. Finally, self-referential planning systems accord little importance to “customer orientation” and taxpayers concerns.

The latter argument should be given special attention, since the two principals of DC have been in a rather difficult position during the last decades. From the perspective of the average taxpayer, the heterogeneity of development processes in poor countries is often very difficult to explain. DC takes place in distant countries about which people in OECD countries know very little. Unlike the case of domestic policies, the consequences of external development promotion are not accessible to everyday experience, and they are not easy to assess. In addition, DC does not rank among the average citizen’s uppermost priorities. This is why taxpayers usually invest little or no effort in overcoming their information deficits. This fundamental information problem faced by the financier of DC was especially virulent up to the mid-1990s. Then, non-governmental Organisations (NGOs) still were less interested in providing information about the organizational setup of international DC, and security threats from failing states and marginalized regions were not very present in public debates.

On the other end of the delivery chain, the target groups in recipient countries are obviously better informed about their own living conditions than the taxpayers in donor countries. However, the poor, but also most of the recipient country’s government staff, are often poorly informed about the structures of DC. Complex and inscrutable project procedures, low capacities to compare outcomes and to monitor processes have often had the effect of dramatically reducing the potential influence of recipient governments and target groups. While, starting as early as the end of the 1980s, some DC actors were pushing for more target-group participation in project cycles,<sup>9</sup> the target groups had, overall, relatively little weight vis-à-vis the various donor-side decision-makers on the ground and/or in agencies’ headquarters. William Easterly (2002a), for instance, describes the transaction chain of an “average” World

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9 To cite an example, the *Deutsche Gesellschaft für Technische Zusammenarbeit* (GTZ) introduced its concept of objective-oriented project planning (ZOPP) in the 1980s and included participatory elements in the mid-1990s.

Bank project and the various DC agencies involved in it, demonstrating the extremely limited options available for final beneficiaries to influence project design.<sup>10</sup> This is why the DC structures that developed in the 1960s, solidifying and holding sway until far into the 1990s, were beset by a serious accountability problem.

As a result, there were for a long time few incentives among individual donor organizations to undertake efforts aimed at coordination and the crafting of joint strategies (Birdsall 2004, 8–9). Instead of collective action with regard to project design, implementation and evaluation, what gradually developed in the second half of the past century was a highly fragmented and overcomplex donor landscape. As the new century got underway, the architecture of international DC consisted of about 40 bilateral donors – disregarding a specific differentiation of donor organizations into specialized implementing agencies – 47 United Nations (UN) agencies, funds and commissions, the Bretton Woods Organizations, 12 regional banks and funds, and a growing number of sector-specific global funds (Messner et al. 2005; Mavrotas / Reisen 2007). Moreover, new donor countries like Turkey, Korea, China, India, and Venezuela and new private donors such as the Gates Foundation have been gaining importance in international DC. As illustrated by the examples in Box 1, the effect of a rather uncoordinated proliferation of donor organizations resulted in an enormous increase of transaction costs for recipient countries and donor organizations alike.

*“The problem is that there are too many cooks in the kitchen. Since it came into existence about sixty years ago, the aid system has expanded continuously. The latest newcomers include the Millennium Challenge Corporation (MCC), the Global Fund to Combat Aids, Tuberculosis and Malaria, and the still unborn International Financing Facility Account. This multiplicity of agencies, each striving to demonstrate relevance, is compounded by a multiplicity of agendas” (de Renzio et al. 2005, 1).*

**Box 1: Examples for the over complexity of international development cooperation**

- The WHO has 4,600 separate agreements with donors and has to provide some 1,400 reports to donors each year.
- Uganda has over 40 donors delivering aid in-country. The government of Uganda’s own figures show that it had to deal with 684 different DC instruments and associated agreements for aid coming into the central budget alone.
- A 14-country survey by the OECD and the World Bank showed - aside from the DC offices on the ground - an average of 200 donor missions per year. Cambodia and Vietnam received some 400 missions each, Nicaragua 289, Bolivia 270, Bangladesh 250.
- There are at present a total of 90 (!) global health funds.
- In Vietnam, 11 UN agencies provide between them only 2% of total development aid.
- St. Vincent, with a population of 117,000, was asked to monitor 191 indicators and Guyana 169 indicators on HIV/AIDS.
- The number of registered NGOs in Banda Aceh rose from 80 before the tsunami to 180 by 2005.

Source: Burall / Maxwell (2006, 3)

<sup>10</sup> Already in the early 1990s, a DIE study on Bolivia noted that the recipient government was often unable to even adequately monitor the large number of donor activities in the country. Obviously, capabilities to align or to steer donor activities were even more limited (Messner 1993).

While, on the one hand, donor agencies have increasingly been complaining about the over complexity of the international aid architecture, on the other hand, neither donor organizations nor donor governments have been able to overcome the lack of coordination. After all, effective coordination and strategic cooperation with regard to design, implementation and evaluation could have severely restricted the discretionary scope for pursuing special-interest politics.

Instead, given the principals' low level of influence, this low degree of coordination enabled donor governments to apply, on a case-by-case basis, criteria of their own that did not necessarily reflect aspects of effective aid allocation, project design and evaluation. Foreign-trade, foreign-policy, and security-policy rationales dominated development-oriented allocation criteria. Furthermore, lack of joint standards made it possible to adapt the funds available to the budget priorities of the donor organizations in question. Finally, the relatively high degree of donor government autonomy also enabled the latter to increase their own visibility vis-à-vis their own electorates. In other words, by constantly indicating the high-priority goals of their own agencies and pointing to their "effective" interventions, donor governments were able to boost the legitimacy of their aid agencies in the eyes of the – uninformed – taxpayer.

This is one reason why the incentives of international DC worked, on the one hand, in favor of creating donor organizations with rather ineffective planning machineries. On the other hand, the lack of coordination between these organizations led to the lack of a common and coherent strategic approach. Forced to justify themselves, all of the actors involved continuously generated new concepts, methods and project designs, which further obstructed the setting of a coherent and credible incentive structure for aid recipients. Finally, the various principal-agent problems outlined in Section 2 led to structures characterized by low levels of ownership on the recipient side, a donor landscape sharply fragmented in institutional terms, and a high level of often self-referential planning activities. The deficient patterns of traditional DC structures find expression mainly in five interrelated symptoms:

- 1) *Low degree of systemic embeddedness*: The relatively high level of planning efforts in DC found itself increasingly at odds with recommendations from development research (Kanbur 1999). Development studies increasingly spoke out in favor of decentralized and market-driven development models and strategies – which nevertheless were to be sustained by a democratic state able to provide a regulatory framework against market failure. Consequently, state-society relations capable of promoting development have increasingly come to be perceived as complex, systemic relations (Evans 1985; Esser et al. 1996; Messner 1997). These findings posed a challenge for DC interventions, namely to appropriately embed microproject or macroprogram design in a complex systemic setting.

On the one hand, the past focus on clearly identifiable projects carried out by a large number of donors worked in favor of a growing proliferation of small-scale projects. On the micro-level, many implementing agencies planned, evaluated, and modified their projects in great detail, but often without properly adjusting their perspective to the systemic interrelationships in recipient societies. This gave rise to isolated projects with a logic of internal consistency but without a logic of systemic appropriateness.<sup>11</sup> The outcome was

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11 In Germany, for instance, only in the 1990s, did project assessments begin to consider a broader sectoral, regional or national impact perspective. In this regard, it was in particular the case of Bolivia that served to

that fragmented donor structures and the planning- and control-intensive implementation of a large number of individual projects contributed to the emergence of fragmented and overstrained institutional structures in recipient countries (Kanbur 2003). Thus uncoordinated project proliferation has been increasingly criticized for overstraining recipient absorptive capacities as well as increasing donor transaction costs.<sup>12</sup>

On the other hand, in parallel to the uncoordinated proliferation of microprojects, structural adjustment programs at the macro-level came to play a growingly important role in DC, especially among the multilateral donors. In contrast to small-scale projects, the primary goal of these programs was to strengthen economic policies designed to strengthen market forces and deregulation processes. However, these macroprograms, too, responded only to a limited degree to the systemic challenges posed by most developing countries. Instead, they were largely “donor-driven” and involved burdensome conditionalities derived from macro-blueprints such as the Washington Consensus. In substantive terms, these macro-level approaches proved undercomplex as well, because they accorded only limited importance to country-specific social and political actor constellations, interest structures, and specific institutional systems “concealed” behind macro-economic constraints. Consequently, structural adjustment at the macro-level was increasingly criticized for not responding to the country-specific political economy of policy transformation.

- 2) *The volatility of resource and implementation modalities:* Particularly for highly aid-dependent countries, the volatility of aid flows and implementation modalities introduced a further source of policy uncertainty. In the past, the volatility of DC resource flows was only to a very limited extent the consequence of reasonable and consistent conditionality; in fact, it was more often a result of political and/or budgetary considerations of donor interests, a circumstance that undermined budgetary and policy planning on the recipient side. The altered priority issues, project designs, transaction procedures, and evaluation patterns incessantly generated by the many headquarters of DC agencies resulted in a discontinuity on the recipient side that often proved detrimental to project effectiveness.<sup>13</sup> Complex sector and policy programs at the macro-level call for difficult institutional adjustments in recipient countries that take considerable time to effect. If they are exogenously driven instead of being justified on endogenous grounds, constant changes in priorities, project conceptions and project implementation tend to obstruct adjustment processes of this kind. Finally, high levels of donor fragmentation have sharply exacerbated the volatility problem (Kanbur 1999).
- 3) *Neglect of governance in aid allocation:* Until the late 1990s, levels of corruption had no significant impact on aid allocation across countries, and even level of democracy had no more than a minor role to play (Alesina / Dollar (2000); Alesina / Weder 2002). Thus, with only a few exceptions, most donor agencies failed in the past to put in place a credible incentive system with regard to political institutions as crucial determinants of economic development. Instead of insisting on conditionality credible in both ex ante and ex

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highlight the tensions between the logic of internal project consistency and the logic of systemic appropriateness (Messner 1993; Hillebrand / Messner / Meyer-Stamer 1995; Messner 2001).

12 On the problematic of project proliferation and donor fragmentation, see Acharya / de Lima / Moore (2006); Roodman (2006); Knack / Rahman (2004).

13 On the problem of aid volatility, see for example Fielding / Mavrotas (2005); Bulir / Hamann (2006).

post terms, even policy conditionality was often applied selectively, in keeping with specific donor interests. This tended to neutralize incentives to engage in reforms with a long-term perspective. A number of empirical studies indicate that the low levels of credibility involved in the enforcement of officially announced conditionalities ultimately led to a situation in which DC even reinforced the persistence of unfavorable macroeconomic policies.<sup>14</sup> The fragmentation of the donor landscape intensified this problem of deficient incentive systems. The lack of uniform standards governing the provision of DC funds, and the possibilities it entails of allocating DC funds on the basis of specific donor interests, is likely to have made it far more difficult to consistently and uniformly apply officially announced conditionalities. In addition, the large number of donor agencies made it easier for reform-averse governments to play donors off against one another.

- 4) *Increase in transaction costs*: High levels of donor fragmentation led to a huge increase in transaction costs on both the donor and the recipient side. On the donor side, the attendant proliferation of planning and implementation activities at least sharply impaired the efficiency of DC activities. Relatively weak state structures on the recipient side were strained by the confrontation with a multiplicity of donor activities. Kanbur (2003, 18) e. g. notes:

*“Aid flows and the mechanisms donors adopt to track and monitor them, are very intensive in terms of recipient capacity. Each donor agency has its own reporting system. In a typical African country, there can be upwards of 20 aid agencies from different countries and multilateral agencies. The hard-pressed civil servants spend much of their time managing the paper flow. At the political level, ministers have to spend a considerable amount of time in turn meeting with donor delegations.”*

If we add the argument that the relatively high salaries of DC actors often attract the best local administrative personnel, it will come as no surprise that donor fragmentation has gone hand in hand with negative effects on the quality of bureaucracy in recipient countries (Knack / Rahman 2004).

- 5) *Deficient evaluation systems*: Finally, despite huge resources invested by implementing agencies in evaluating individual projects, the institutional fragmentation among the implementing agencies often served to hamper effective, independent, and comparable evaluation. These deficiencies obstructed the diffusion of knowledge among donor agencies and recipients. Even though the sheer volume of evaluation work in DC is probably greater than in most other policy fields, the Center for Global Development notes the continuing existence of a qualitative “evaluation gap” (CGD 2006; see also Michaelowa / Borrmann 2006). At least in the past, the incentive structures in most DC agencies for the most part entailed adverse effects on evaluation quality (CGD 2006, 28). Thus the authors of the CGD report point out that if evaluation is not truly independent, incentives for straightforward and constructive evaluation will be rather low.

*“Aid agencies seek first to meet the demands of their own country’s government, legislatures, foreign ministries, staff, and organized interest groups. Recipient governments first attempt to remain in power by targeting resources to constituents. Consultants and*

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14 Empirical studies – be they concerned with macroeconomic structural adjustment, debt-relief programs, or governance indicators – have shown that in the past provision of DC funds did very little to set incentives for policy reforms of a more structural nature (see Alesina / Weder 2002; Svensson 2000; Easterly 2002b, 2005).



*NGOs seek to please their donor-employer. Highly critical evaluations can upset these actor's abilities to achieve their immediate goals. In other words, no effective demand exists for meaningful evaluations of development assistance" (Gibson et al. 2006, 230).*

In the past there were hardly any really independent evaluation actors. While since the 1990s many, formally independent evaluation units have been set up in implementing agencies, the continuing existence of factual dependencies, in particular as far as staff career opportunities are concerned, make it difficult to speak of truly independent units. This is even more the case when it comes to freelance evaluators and experts, who are faced with an enormous conflict of interest. Looking at the multilateral implementing agencies, Nancy Birdsall (2004, 8) e. g. puts the matter as follows:

*"The multilateral banks do fund internal ex post assessments of the projects and programs they finance. But they face tremendous attribution problems, and their results and implications are rarely immediately internalized in new decisions, especially if they challenge conventional wisdom or raise awkward questions regarding donors' strategies. Examples include the HIPC program of debt relief, in which even the second "enhanced" funding was (predictably, given the optimism of the original projections) not adequate to ensure debt sustainability of the recipient countries; the continuing failure of the PRSP (Poverty Reduction Strategy Papers) approach to deliver donor coordination and country ownership; and the structural adjustment programs of the IMF, the World Bank and other donors discussed above. For all of these, it has generally been independent studies that have created the pressure for enhancements and adjustments."*

This problem also worked in favor of other deficits in the practice of evaluation. Evaluations were often input to late into the project cycle; their findings had very few implications for the careers of DC actors, rarely contained the views of those really affected, and were often not effectively integrated into the operational units of implementing agencies and ministerial steering units.<sup>15</sup> The pressure on the organizations evaluated to succeed has tended to induce evaluators to emphasize strengths rather than weaknesses, and thus to come up with relatively positive results. Furthermore, the fragmentation of a large number of competing DC agencies led these agencies to develop internal evaluation methods and to cultivate the use of special jargons of their own that constituted a major barrier to the comparability of evaluations and the transfer of knowledge between the actors involved.

## **4 The reform perspective of the Paris Agenda – potentials and pitfalls**

### **4.1 Origins of increasing reform pressure**

As our analysis suggests, regulatory deficits and institutional challenges of the international DC architecture can be interpreted, above all, as an outcome of the relatively weak position of the two "principals" in the delivery chain of development policy. The "ancien régime" of DC, which Easterly once described as a "cartel of good intentions," was characterized by costly bureaucratic procedures prescribed by a constantly growing number of donor organizations. A self-referential planning logic, together with the proliferation of ill-coordinated projects

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<sup>15</sup> One example here would be the discrepancy encountered in many agencies between the often substantial investments made to carry out evaluations and the weak structures available to implement their findings.

and programs and evaluation systems biased toward the interests of donor agencies' headquarters, led to an inadequate involvement of the recipient countries. At least in highly aid-dependent developing countries, these patterns favored the development of a fragmented institutional landscape and tended more to constrain rather than to strengthen endogenous development dynamics. Thus the structures of this "ancien régime," with its high transaction costs, constituted a structural constraint with regard to the effectiveness of international DC.

However, since the end of the 1990s at the latest, substantial transformation pressure has built up in the international DC system. The gradual process of change toward a new DC regime is clearly indicated by the transition from the logic of structural adjustment to the present Millennium Development Goal (MDG) orientation as well as by the reform agenda of the Paris Declaration. Both the present intention to embark on reforms and the reform dynamics that have become evident in recent years were favored by the interplay of a number of factors that opened up new scopes for a more critical and yet constructive debate on DC structures.

- 1) First, the end of the Cold War served to undercut the legitimacy of approaches geared to using DC for purely foreign-policy goals in the context of the international rivalry between capitalist and socialist societies. Thus the original goals of DC, such as poverty reduction and promotion of economic development, have gained relative weight since the 1990s.
- 2) Second, a growing number of newly industrializing, and anchor countries have become less reliant on DC transfers as their access to international capital markets has increased. Thus, in cooperating with these growingly important countries, DC is forced to offer comparative advantages or mutual benefits. This is the reason why cooperation with these demanding, efficient, and sought-after countries is forcing DC actors to review and further develop their own effectiveness.<sup>16</sup>
- 3) Third, democratization and political liberalization in many African, Asian, and Latin American countries have increased the pressure on recipient governments and elites to become more accountable to their own citizenry. This development, in turn, has also stepped up the pressure on donor organizations to deliver effective results with regard to the original goals of DC. In other words, to the extent that political transformation strengthens the target groups in developing countries, the incentives of donor agents to respond to the principals' needs will increase.
- 4) Fourth, the new security and migration scenarios have at least gradually raised the awareness of a rising number of taxpayers in OECD countries for the fact that poverty and social stress in developing countries may entail negative externalities for the prosperous societies of the North. Development policy is thus perceived no longer only as an altruistic engagement in faraway societies. Instead, it is now also seen as a strategic instrument for pursuing an enlightened self-interest. This insight into international interdependencies has moved development cooperation somewhat closer to the immediate experience and the lifeworlds of the "financiers and principals" of DC.

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16 A good illustration of this context is the ongoing German debate on cooperation with anchor countries (see Stamm 2004; Altenburg / Weikert 2006).

These – more structural – changes at the international level worked in favor of a number of trends toward a more critical approach to existing DC structures. Since the mid-1990s a growing number of critical NGOs (like e. g. Oxfam), studies from independent think tanks, and publications by reliable former staff members of relevant international DC agencies (Kanbur 1999; Chakravarti 2005; Easterly 2006) have contributed to sensitizing a broader public and experts in both donor and recipient countries to the structural problems besetting international DC. Because most of this criticism is more constructive than fundamentally opposed to development cooperation, the chances are good that it will have an impact on development agencies (see Birdsall 2004). For instance, since the appearance of Boone's study (1996) the use of cross-country empirical studies has triggered an intensive debate over aid effectiveness that donor agencies had little choice but to engage in. The resulting self-critical look at their own practices further increased skepticism among donors with regard to the success of orthodox structural adjustment programs and the impact of "traditional" projects.<sup>17</sup>

In sum, these factors have – albeit slowly – worked in favor of a more dynamic and enlightened discussion on the effectiveness of development cooperation. Again, this dynamic can best be explained with reference to the relative position of principals and agents in the delivery chain of development cooperation. Independent research on the effectiveness and the structures of DC has contributed to pinpointing the weaknesses of the ancient aid régime, thereby at least partly diminishing the information asymmetry between principals and agents in DC. Political changes at the international level as well as in many developing countries have increased incentives for recipient and donor governments alike to increase their responsiveness toward the interests of taxpayers and needy target groups as the ultimate principals of development cooperation.

## 4.2 Principles of the Paris Agenda

Given this background, the Paris Declaration of 2005 (High Level Forum 2005) must be seen as a forthright and challenging approach to overcoming some of the structural problems besetting the traditional aid regime. Simon Maxwell (2005) describes the Paris Agenda as a "new and improved orthodoxy." Andrew Rogerson (2005, 531) emphasizes the contribution it makes to defining "*a set of memorable targets for changes in donor, recipient, and joint behavior which could well embody the core of a new compact on mutual accountability.*" These positive comments mainly refer to the five core elements or principles of the Paris Agenda, which take up criticism that has been levelled against the traditional aid regime:

- 1) *Alignment*: First, the agenda calls for greater efforts to adapt development projects to national strategies, planning processes, budgets, and institutional structures of recipient countries as a necessary means to strengthen ownership of recipients and accountability of donors. Stronger alignment of donor activities with regard to recipient countries is thus intended to counteract the strain on recipient institutional structures caused by uncoordinated donor structures.

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<sup>17</sup> Starting in the late 1980s, the World Bank conducted a number of critical evaluations of the results of these structural adjustment reforms (World Bank 1988, 1989). The mid-1990s saw the start of a discussion in German DC on the effectiveness of development projects as well as on the paradox presented by a picture including "successful projects" and at the same time blocked development (Hillebrand / Messner / Meyer-Stamer 1995).

- 2) *Harmonization*: Second, and closely related to the principle of alignment, the agenda calls for harmonization of DC procedures in planning, implementation, disbursement mechanisms and evaluation. Again, the potential of this principle is perceived as a possible means to lower transaction costs, to increase transparency and to strengthen recipient management capacities.
- 3) *Donor coordination*: Third, the agenda calls for an increase in donor coordination in order to avoid parallel or even contradictory project and program structures. Thus one aim of coordination is to cluster projects in sector programs, avoiding overlaps and even – although this is not formally defined in the Paris Agenda – promoting a functional distribution of labor among donors.
- 4) *Decentralization*: Fourth, donor agencies are called on to decentralize their institutional structures, thus shifting an increasing share of decision-making processes from headquarters to their local agencies in recipient countries. Decentralization is expected to facilitate donor coordination on the ground, in this way enhancing flexibility and improving the problem-solving orientation of aid agencies.
- 5) *MDG orientation*: Finally, the Paris Agenda gives priority to the MDGs, thus reducing the relative weight of structural adjustment programs, with their itemized policy targets. In this context, the development-related targets of the MDGs are moved to the forefront of DC, while developing countries themselves are at the same time expected to assume a high degree of responsibility for their implementation.

Taken together, the Paris Agenda has clearly addressed some of the most serious structural problems of the traditional aid regime. What remains to be debated, however, is the extent to which the transformation process implied by the principles of the Paris Agenda has in fact had the normatively desired consequences. While the Paris Agenda has indeed generated a huge amount of activities among donors, it is not yet clear whether the reform process has led to a comprehensive approach to increasing aid effectiveness or whether the agenda must instead be understood as a list of desirable policies, especially given the well-organized self-interests of many donor agencies involved in the process.

#### 4.3 The Paris Declaration between structural reform and attempts to combat symptoms

Given the traditional deficits, one must bear in mind that the traditional regulatory patterns will – at least for a certain period of time – continue to exist side by side with efforts to implement the Paris Agenda. Even if the former gradually lose some of their significance, institutional path dependence tends to slow down the dynamic of reform.<sup>18</sup> Beyond this challenge,

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18 In their study on the implementation of the Rome Declaration, which calls for harmonization in selected donor countries (the United Kingdom, Switzerland, Sweden, Spain) and multilateral donor organizations (World Bank, EU Commission), De Renzio et al. (2005) e. g. show that processes of change for the most part start out at the political level (political declaration by the ministries concerned, the decision-makers of DC organizations). On the other hand, efforts to initiate progress at the institutional level (including actual decentralization, creation of harmonized units, etc.) and at the individual level (capacity-building measures, career incentives conducive to an effective implementation of harmonization, etc.) have lagged far behind, if they have been undertaken at all.

which confronts institutional transformation in all policy areas, the reform agenda could also fail to meet its objectives because it has focused primarily on symptoms but not on the core regulatory problems of the traditional aid architecture. It is especially problematic that the Paris Agenda did not explicitly tackle three crucial problems that constrained aid effectiveness in the past: 1) first, the “problem of the large number” of donor organizations; 2) second, the inbuilt - and development-impeding - logic of centralist planning; 3) third, the field of unresolved tensions between donor responsibility and recipient ownership. Only if these challenges are placed in the forefront of reforms will efforts such as harmonization and donor coordination, project clustering, MDG orientation, and an expansion of budget-financing lead to more ownership, declining transaction costs, and thus greater effectiveness of DC.

*Ad 1) The remaining “problem of large numbers” is undermining the Paris Agenda:* Looking at the international aid architecture, de Renzio et al. (2005) note succinctly that there are still “too many cooks in the kitchen.” From the perspective of the Paris Agenda, the resulting problems of bureaucratic burdens and transaction costs should be mitigated above all through harmonization of procedures as well as by efforts to strengthen recipient responsibility. This may at first sound convincing. However, the recommendations of the Paris Agenda serve only to manage and administer the symptoms of a structural problem while leaving its causes untouched. Even worse, promotion of harmonization and coordination, without concomitant efforts to reduce the number of actors involved, has often tended to aggravate existing problems. The marked growth of parallel coordination and harmonization of sector and cross-sector planning and implementation at the international and recipient country level has led to an increasingly opaque, never-ending bargaining system. Results tend to be oriented toward the smallest common denominator among a variety of interests, without leading to any clearly identifiable accountability for outcomes. Thus, instead of bringing together several dozen bilateral, multilateral, and private donor agencies for endless coordination rounds, what would be needed first to boost alignment and accountability is a significant reduction of the number of donor agencies.

Thus realization of the Paris Agenda’s potential for increasing aid effectiveness – e. g. donor coordination, harmonization, alignment, partner-country ownership – would require the number of actors present in partner countries to be reduced. For instance, instead of establishing mechanisms in Vietnam designed to coordinate the work of 11 UN agencies – which together account for no more than 2 % of ODA flows to the country – among themselves and with other donor organizations, it would be far more advisable to radically reduce the number of UN development actors in Vietnam. This argument also goes for the EU member countries. At least as far as smaller partner countries are concerned, instead of investing much time and expense in coordinating the development policies of 13 EU member countries “on the ground,” between the capitals of the EU donor countries, and between the latter and the EU Commission, it would make far more sense to seek more division of labor and a clear-cut reduction of the number of European actors in the countries concerned (Mürle 2007).<sup>19</sup> If the latter necessity is ignored, a continuously growing number of actors will serve only to radically increase transaction costs and reduce accountability. Evidently, the major barrier to effecting a reduction in the number of actors involved must be sought in the unwillingness of most donor agencies, which are simply not interested in seeing their geographic and sectoral

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19 The European Union agreed on a Code of Conduct on a Division of Labour in European Development Cooperation in 2007. This is a relevant step in the right direction. Mürle (2007) discusses the options to accelerate this process.

scopes reduced. We may for this reason state that a classic collective action problem (Olson 1965) is threatening the realization of the Paris Agenda.

*Ad2) Planning logic and feasibility illusions:* The framework defined by the Paris Agenda and the MDG process is intended to overcome the inefficiency stemming from uncoordinated project proliferation. Consequently, sector coordination and the formation of common sector programs in recipient countries have been increasingly perceived as an appropriate approach to reduce overlaps and inconsistencies among donors. But coordination “on the ground” as a means of combating donor fragmentation and project proliferation, as plausible as it may appear at first glance, has often triggered a new surge of planning euphoria among agencies involved in multi-donor sector working groups (GTZ 2006; DPG 2006). In Tanzania, for example, around thirty donor coordination rounds have established – among themselves and with the government concerned – strategies for all relevant social sectors (from poverty monitoring to administrative reforms and forest policy). This has entailed the emergence of a quasi-three-dimensional, and opaque, governance system in which (a) the national government machinery, (b) 30 coordination clusters between the government and donors, and (c) 30 donor mechanisms interact.<sup>20</sup>

Vast planning efforts are also characteristic features of the PRSP processes, which were originally introduced to simplify donor-dominated coordination procedures in the context of structural adjustment programs. In this context, the following short description of the PRSP process in Tanzania by William Easterly (Box 2) serves to illustrate the syndrome resulting from the “problem of large numbers” as well as from the need for permanent consultations and endless donor coordination efforts.

As long as a large number of bi- and multilateral donor agencies, each with its own institutional agenda, are forced to work together in a growing number of coordination bodies, attempts to limit the efforts and costs of DC planning are doomed to fail. In these complex and highly political management systems it is virtually impossible to realize essential features of good governance such as accountability, transparency and participation-based legitimacy. Furthermore, due to veto and blockade constellations, “sector planning” carried out by a large number of external actors lead to high transaction costs and functionally suboptimal agreements keyed to the lowest common denominator. What can easily result are sector strategies that are geared less to the challenges of the partner countries than to the complex setting of donor agencies, with their special interests. There is also reason to fear that successful attempts to coordinate DC activities in such complex management systems may well promote the emergence of “donor cartels” that undercut ownership and work counter to the principle of alignment (Klein / Harford 2006). Consequently, Menocal / Rogerson (2006, 9) note that *“the risk of facing a united front of donors – or a ‘donor carte’ – may outweigh the transaction cost savings of no longer dealing separately with multiple aid resources.”*

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20 The individual sector coordination rounds are also characterized by a high degree of complexity, with well over 20 donor agencies and a number of Tanzanian organizations involved in the “poverty monitoring” cluster, 23 donor organizations active in the “HIV/AIDS” donor coordination cluster, and 11 donors coordinating their own activities in the framework of the “Governance and Reform Program”. An exact depiction of the overall panorama can be found on the homepage of the DPG Tanzania Architecture Group: <http://www.tzdp.org.tz/index.php?id=2>. Apart from the donor actors involved in the coordination groups, a number of additional state and nonstate DC actors are also engaged in specific sectors.

**Box 2: The PRSP process in Tanzania**

To get loans from the IMF and the World Bank, the government must complete a satisfactory Poverty Reduction Strategy Paper (PRSP), in consultation with civil society, NGOs, and other donors and creditors. Although they do advocate free markets, the IMF and World Bank show a curious affinity for the national Planners who will create a Poverty Reduction Strategy Paper. The World Bank then follows a series of internal steps to approve a PRSP, including preparation of a Country Assistance Strategy (CAS), a pre-appraisal mission, an appraisal mission, negotiations, and board approval, all in accordance with the Comprehensive Development Framework (CDF), Operational Directive (OD) 8.60, Operational Policy (OP) 4.01, and Interim PRSC Guidelines. The government also seeks qualification for the Enhanced Heavily Indebted Poor Country (Enhances HIPC) Debt Initiative so that the new loan doesn't simply go to service old loans. The creditors and the government conduct a debt-sustainability analysis (DSA). The HIPC, PRSC, and PRGF (Poverty Reduction and Growth Facility) require numerous reform conditions, such as participation of the poor in designing projects, poverty-reducing government expenditure monitored through annual "public expenditure review" (PERs), fiscal deficit targets, revenue-mobilization targets, and structural reforms such as implementation of a Financial Information Management System (FIMS) in the government, financial sector reform in line with the Basel standards and the eleven areas of International Standards and Codes recommended by the IMF and World Bank, control of money laundering, and privatization, lowering trade barriers in ways governed by World Trade Organization (WTO), perhaps by applying the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries. The PRSP plan may or may not include money that could finance road repair for this poor person. The amount of money for road maintenance will depend on a prioritization of various needs for expenditure in a multi-year "medium-term expenditure framework" (MTEF).

Meanwhile, if beleaguered Tanzanian government officials have any time left, the PRSP sourcebook also suggests that they cost out all the various ways the government is making progress toward the Millennium Development Goals for poverty, hunger, infant and maternal mortality, primary education, clean water, contraceptive use, AIDS, gender equality, and the environment. Meanwhile, other international bodies will review the Tanzanian PRSP, such as the United Nations Development Program (UNDP), the African Development Bank (AfDB), the United Nations Conference on Trade and Development (UNCTAD), the Food and Agriculture Organization (FAO), the World Trade Organization (WTO), the World Health Organization (WHO), the International Labour Organization (ILO), the European Union (EU), the United Nations Children's Fund (UNICEF), as well as NGOs and the national aid agencies such as those from Austria, Belgium, Canada, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom (DFID), and the United States (USAID). If IBRD (International Bank for Reconstruction and Development), IMF, UNDP, FAO, WTO, EU, WHO, AfDB, DFID, and USAID approve the PRSP and release new funds to the national government, then the government will allocate the money in accordance with the MTEF, PER, CDF, PRGF, PRSC, and PRSP, after which the money will pass through the provincial governments and the district governments, and the district government may or may not repair the pothole in front of the poor person's house.

Source: William Easterly (2006, 174)

Finally, sectoral coordination of a large number of donor agencies on the ground and their interaction with partner governments appears to be promoting an unexpected renaissance of the planning illusion virulent in the industrialized countries some decades ago. In a sourcebook published by the World Bank, otherwise a more market-oriented institution, this planning euphoria reads as follows:

*"The government should negotiate an external assistance strategy [...] that explicitly identifies the priority sectors and programs for donor financing ... More detailed external assistance strategies can then be developed for key areas through sectoral working groups in which representatives of major donors and line agencies participate [...] Agreeing on financial priorities for individual donors with the framework of a global external assistance strategy, rather than through bilateral agreements"* (World Bank 2002, 12).

The overly complex instruments and procedures presently under discussion as means to increase donor coordination, but also tendencies to overload impact analysis, “need assessments” and budget-financing, are strongly reminiscent of comprehensive social planning strategies once popular among many industrialized countries (Messner 1995, 91 ff.). Unfortunately, there is no reason to believe that this approach, which failed in the 1970s in the OECD world, will work at the beginning of the 21<sup>st</sup> century.

The logic behind the traditional planning concept was the idea of a “rationalization of politics” (Ellwein 1968) in the sense of a “*systematic blueprint for a rational order based on all of the knowledge available*” (Kaiser 1965, 7).<sup>21</sup> The current planning orientation of development cooperation resembles these traditional notions, with their idealistic rhetoric of omnipotence. Unlike during the past in OECD countries, however, the renaissance of hierarchical planning attempts in development cooperation is more a creeping process than a deliberate strategy aimed at reviving bureaucratic modes of policy-making. The present logic of planning results from the dynamics inherent in transforming the system of project proliferation into a functionally well-coordinated system of macro-orientation – but without tackling the problem of a huge number of actors with special interests. Nevertheless, many development cooperation strategy papers at least implicitly assume that development policy would in principle be able to set development processes in motion and to gain lasting influence if only the “correct” DC measures were put in place. Yet given current circumstances and the experiences of the past point unmistakably to the illusory character of attempts to build consistent, technocratic, and well-coordinated aid systems in recipient countries.

First, at least official development assistance encompasses only limited resources compared to the growing importance of international private capital flows sustained by private business and NGOs. Second, the empirical evidence strongly suggests that dynamic processes of social development can be set in motion and sustained only by endogenous actors (Esser et al. 1996; Rodrik et al. 2005; Easterly 2000). Development policy can, if properly managed, in many ways provide effective support for endogenous, national development dynamics and development-oriented actors - but it can neither serve as a substitute for nor create an endogenous development potential. Finally, there has been nothing like a single, hierarchically organized coordinating authority in the arena in which donors and recipients have attempted to coordinate their actions, and this has made the traditional planning approach even more illusory. While during the 1970s the “feasibility illusion” was rooted in the perception of a hierarchically organized nation-state, today it is clear that the hierarchically organized nation-state has been a rather naïve analytical construction. Governance and policy implementation are for the most part not a simple top-down procedure – even less in most developing countries, with their weak state structures, and a donor arena characterized by a huge number of actors with highly different interests and ongoing tensions between donor and recipient countries.

*Ad 3) Mutual “ownership” and “accountability”:* The Paris Agenda specifies a number of mechanisms designed to strengthen the “ownership” and “accountability” of partner governments. While this effort points in the right direction, the structural preconditions for effec-

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21 To name a number of premises of the classical concept of political planning of the 1990s that are now implicitly re-emerging: the notion of clearly and unambiguously ordered objectives, clearly attributable means, and clear-cut causality; the notion of clear-cut criteria for goal attainment as well as for viability, effectiveness, and efficiency; and the central basic assumption that a large number of individually rational actions can be aggregated to come up with a rational and optimal overall outcome (Willke 1992, 114).



tively creating ownership and accountability are often weak. Where international actors finance a large share of public investment, the donor community finds itself in the de facto role of a “co-government.”<sup>22</sup> Given such conditions, fine-sounding elocutions – like “recipient countries in the driver’s seat” – serve more to obscure the limited potential available for bringing about ownership and accountability. Thus promotion of ownership implies that it is not only the recipient countries that need to be committed to ownership and accountability vis-à-vis their two principals. Instead, precisely the donors themselves bear a huge share of responsibility for processes of political, economic, and social change. In other words, what is needed are effective instruments and mechanisms designed to increase transparency and accountability on the donor side in order to correctly attribute the responsibility of recipients and donors *alike* for crises and setbacks in developing countries.

If donor organizations in “aid-dependent” countries point, with reference to the Paris Agenda, to the responsibility and the lack of ownership of partner governments or to “unfavorable framework conditions” when their projects, programs, and reform packages fail, then the Paris Agenda’s actually “progressive” discourse takes on the aspect of a close-to-cynical flight from accountability. What we find behind this escapism is a problem of collective action that is neither addressed by the Paris Agenda nor accessible to solution on the basis of donor coordination and harmonization:

*“Operating in the Bolivian mountains are the International Monetary Fund, the World Bank, the Inter-American Development Bank, USAID, the US-Drug Enforcement Administration, the UK for International Development (DFID), just about every other rich country’s aid agency, multiple NGOs ... None of the agencies is responsible for a particular outcome, and the effects of their individual efforts are unobservable. They jointly effect what happens to economic development in Bolivia. When something goes wrong in Bolivia, such as the economic and political crisis in 1999 – 2005, after years of efforts by these agencies, which one is to blame? We don’t know, so no agency is accountable. This weakens the incentive of agencies to behave. ... going along with collective responsibility is an optimal strategy for individual aid agencies to protect themselves from the hostile political environment facing foreign aid. ... It is understandable that aid agencies want to share the blame with as many other agencies as possible if something goes wrong”* (Easterly 2006, 171 f.).

Therefore, even in a situation marked by “successful” donor coordination and sectoral micromanagement, a combination of major ODA dependence, large numbers of donors, and weak governance structures in recipient countries ultimately only further weakens the potential to overcome development barriers on the recipient side. This in turn undercuts the principle of ownership and runs counter to the insight that successful development processes have to be both initiated and sustained endogenously.

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22 Moss / Petterson / van de Walle (2006, 9) identify 22 developing countries, including 16 in Sub-Saharan Africa, in which ODA funds account for over 50 % of public investment. In twelve countries, 10 of them in Africa, this share even exceeds 75 %.

## 5 Conclusions and outlook

We have analyzed traditional DC structures and new reform processes in the international DC architecture from a regulatory perspective. Our analysis of the deficits besetting the traditional DC architecture and the reform efforts currently underway in the framework of the Paris Agenda leads us to several general conclusions and points to some remaining issues that need to be studied in further detail.

- 1) *Strengthening coordination and demand-driven competition:* There is a need to combine the principles of donor coordination and demand-driven competition, which may at first glance appear to clash. There continues to be demand for more strategic coordination between donors. At the operational level, though, there is also a need for more competition. Thus strategic coordination, effected in cooperation with recipient countries, should be limited to the identification of thematic or sector priorities. However, a division of labor should not lead to a discretionary partition of a recipient country's "DC market" among a number of donor countries or agencies. It merely means that a limited number of donors should be responsible for a strategic "monitoring" of the DC activities in a given country. Beyond such strategic monitoring, operational project activities should be steered primarily by the recipient country and project selection should be based on competition-friendly procedures.

Achieving more operational competition could serve to boost "purchasing power" on the recipient side. Instead of offering partner countries certain technical services and specifically project-tied financial aid, recipient countries could be provided with "vouchers" they could use to purchase development services in an international market made up of donor agencies. Recipients then would only need to document that their demand is consistent with strategic priorities previously agreed on by donors and recipient (Klein / Harford 2006). Competition-oriented procedures of this kind would serve to strengthen partner-country "ownership" and at the same time to stimulate customer-oriented competition between suppliers of development services that have until now largely been shielded from competition. Such a procedure would serve to accelerate processes involving specialization and orientation to comparative advantages, to intensify donor organizations' propensity to innovate, to lower transaction costs, and to boost effectiveness.

- 2) *The limits of demand-driven competition and the need to strengthen the demand side:* Unfortunately, the latter orientation toward more market- and recipient-driven processes of project selection and implementation poses a serious challenge on the recipient side. It requires recipient governments capable and willing to organize such a demand driven process. Thus only countries with relatively high levels of administrative capacities and transparent and participatory institutions will be able to organize such tender-oriented procedures. However, these conditions are not in place in a satisfactory manner in many developing countries. Lack of capacity, weak state structures, corrupt bureaucracies and political volatility are extremely counterproductive to efforts to create a competition-friendly and consumer-oriented market for aid services. Given these limitations, one priority of development assistance – and especially of technical assistance – in such contexts consists in strengthening the recipient's institutional capacities to organize a development-oriented and demand-driven aid-allocation process.

The latter task is challenging with regard to two aspects. First, it requires complex and long-term-oriented capacity-building strategies that stand in strong contrast to the current trend to merely employ technical assistance as a short-term, consultant-based means to reduce disbursement pressures in the context of massive budget-support flows. Thus technical assistance will have to strengthen its potential for systemic consultancy and capacity-building and to become even more engaged in political processes. Second, if donors are to promote the organizational capabilities on the donor side in order to strengthen demand-driven aid allocation, then they, again, will have to cope with the problem of donor fragmentation. Currently, consultancy and capacity-building projects of diverse origins and with different conceptual basics are often spread in an uncoordinated manner across the recipient's bureaucratic apparatus. This fragmentation on the donor side tends to undermine a more coherent bureaucracy and policy-making apparatus instead of promoting it.

- 3) *Common standards, transparency and truly independent evaluation:* If donor coordination and steps toward demand-driven and competition-oriented aid allocation are to be successful, a market for development services is in need of comparable standards and a high level of transparency. As long as most donor agencies have their own standards for tenders and evaluations, transparency of the overall market will be rather low. Thus there is a need for harmonization of crucial standards in tenders and evaluation in order to enhance market transparency. Only with a substantial increase of transparency will donors be able to strengthen the consumer side of the aid market and facilitate the introduction of a competitive selection process and the systemic diffusion of innovative and effective aid instruments.

Consequently, international DC should embark on a fundamental reform of its evaluation practices. As long as a large number of DC agencies continue to have a preference for evaluation practices that elude comparison and are often anything but truly independent, it will be more than difficult to give operational DC measures a more competitive orientation. Independent, transparent, and comparable evaluation methods are an essential precondition for determining the various degrees of effectiveness, efficiency, and impact of DC projects. An evaluation practice of this kind would also boost the management capacities of recipient governments by enabling them to acquire knowledge concerning both effective and less successful DC interventions.

We are aware of the fact that these reforms are politically sensitive because they directly tackle the special interests of donor agencies. Yet they are still necessary to advance transparency, learning processes, and competition in the international "aid industry." International DC, and in particular the two principals of development policy (the citizens and taxpayers of donor countries and the citizens of partner countries), should not acquiesce in a situation in which, in a country like Bolivia, a large number of DC actors for decades influenced or even carried out some 50 % of public investments, but without providing for any comparable data on the procedures, effectiveness, efficiency, and impact of these investments.

- 4) *Reduction of the number of actors:* None of the recommendations set out above can be achieved without effectively reducing the number of DC actors involved in the strategic coordination and shaping of country portfolios. While the number of actors in an operational field more strongly oriented to competition would be regulated largely through the

market mechanism, this would not be the case when it comes to the strategic coordination efforts required. Without any breakthroughs on this issue, the Paris Agenda will fail to achieve its ambitious goals. A truly development-oriented harmonization of donor procedures, ownership, and alignment can in the end only be achieved by a limited number of external players in recipient countries. Cutting the number of donor agencies active in strategic coordination would also serve to reduce the complexity of coordination processes and thus counteract the creeping trend toward a “quasi-planned-economy-style development cooperation.”

Reforms geared to reducing the number of actors can be effected at the bilateral and multilateral level. For instance, the DAC Peer Review Mechanism has been recommended several times as a means to restructure the overly complex structure of the German aid system, where, beyond the ministerial level, at least four major semi-state organizations have been involved in official development assistance. At the multilateral level the situation is often worse. A multitude of multilateral development banks and a highly fragmented system of UN organizations is obstructing effective donor coordination. Here a good number of relevant reform proposals have already been tabled (Dervis 2005; Messner et al. 2005; Cooper / Fues 2005; Fues 2006); the basic thrust of all these proposals is to reduce the number of UN agencies and to bring them together under one roof with a view to strengthening the effectiveness of UN development policy. Finally, the EU could play a pioneering role by achieving a reasonable division of labor between members and the Commission with a view to lowering the number of European actors in partner countries (Mürle 2007).

The EU has common external structures in developing countries. Thus the “withdrawal” of an individual EU member from a developing country would not mean a complete departure.<sup>23</sup> If the EU, which provides some 55 % of worldwide ODA, succeeded in overcoming today’s particularism in favor of a system of functionally closely connected European development policies, this would entail major economies of scale and a sustainable reduction of transaction costs. It could furthermore pave the way for a reform of the international development architecture.<sup>24</sup> In combination with a reduced number of UN agencies, efforts to better dovetail the EU member states’ development policies would not only effectively address the “problem of large numbers.” A process of this

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23 Germany could support the development policies of France, the Netherlands, or the UK in a number of partner countries without having to create expensive and transaction-cost-intensive structures of its own there. Conversely, other EU member countries could provide flanking support for German activities in German priority countries. If it proved possible, in the EU framework, to focus the Union’s – at present – 26 development policies (those of the 25 member states plus the Commission) on the basis of a new division of labor along with a reduction of European actors in developing countries, it would be possible at the same time to increase Europe’s policy space in the field of international development and to boost the effectiveness of development cooperation.

24 There are already approaches with a thrust in this direction: In spring 2007, the EU General Affairs and External Relations Council adopted a set of guidelines on complementarities and division of labor. The guidelines provide, among other things, for efforts to focus the engagement of each EU donor in a given partner country to a limited number of sectors (“in-country complementarity”). The EU donors are also called upon to step up their efforts to define geographic priorities. In addition, the guidelines call for a solution to the problem involved in an unequal allocation of development cooperation to “aid darlings” and “aid orphans” (“cross-country complementarity”). The council also called on all EU donors to analyze their own sectoral strengths (“cross-sector complementarity”). Concrete measures designed to implement these guidelines are the subject of ongoing negotiations.

kind could also mitigate the “Wal-Mart problem” of the present aid architecture (Messner et al. 2005, 20) – the latter characterized as it is by the fact that aside from one extremely influential player (the World Bank), the international aid architecture is made up of a large number of fragmented and relatively insignificant actors. It may be said that, viewed from a regulatory perspective of the “aid market,” a more oligopolistic structure in the international DC architecture would be preferable to the current constellation.

- 5) *Differentiation by country*: Finally, there is a need to differentiate between developing countries. As mentioned already, if international DC is to seek a new orientation along the reform strategy outlined above, the primary consignees will be countries with a satisfactory level of “good” governance and institutional capacity. In such recipient countries it would be possible to achieve alignment and ownership, since recipient governments would be well equipped to manage a complex supply side. However, ownership and alignment are bound to remain unrealistic categories in partner countries with little endogenous momentum and weak governance structures: i. e. in poorly governed and corrupt countries and in failing or conflict-driven states.

This in turn implies that the follow-up process of the Paris Agenda must explicitly deal with the issue of poor performers, autocracies and failing states. For at present the agenda’s principles are appropriate at best for dynamic partner countries whose dependence on development assistance will continue to decline. Thus development assistance will be concentrated on a number of relatively problematic countries, which can be broadly divided into two groups. First, countries with more or less intact state structures and a certain level of democratic participation, but with relatively corrupt and/or intransparent decision-making and no more than limited coordination capacities (e. g. Ecuador, Ghana, Indonesia, Nicaragua, Philippines, Tanzania, etc.).<sup>25</sup> As mentioned above, these countries need special and well-organized assistance focused on strengthening their institutional capacities to organize a demand-driven allocation system. There are, however, a significant number of failing and conflict-driven countries that have gained increasing attention from DC in recent years.

The relatively helpless conceptual debate with regard to these countries and critical evaluations suggests that donors are faced with tough decisions.<sup>26</sup> If they are not able to enter these failing societies with markedly augmented resources, and in a much more coherent manner, reducing the number of international actors involved in operational activities (division of labor) and setting strong and predictable conditionalities; if they fail to seek a substantially more long-term orientation and to improve significantly their coordination with military actors, development policy will not have much structural help to offer. If these requirements are not met, DC should in essence be restricted to strongly conditionalized efforts to strengthen governance structures and to the provision of humanitarian aid. Thus if these requirements are not fulfilled, in particular in poorly governed

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25 For instance, bureaucracies of countries such as Ecuador or Peru, even if not at the bottom of current development standards, are far away from being capable to organize the complex donor supply side in a coherent manner.

26 Currently, the conceptual debate in practitioner circles with regard to failing states is characterized by a high degree of eclecticism. What we find is an intertwined, complex bundle of potentially causative and constitutive elements of failed states. This limits our ability to differentiate between cause and consequence – which is necessary for targeted engagement and increases the potential for discretionary intervention.

countries with authoritarian rule, strong patterns of rent-seeking structures, and failing state structures, DC should be more prepared than it has been in the past to withdraw from sector policy fields and to restrict its activities to efforts to strengthen civil society, political reformers and future-oriented elites as well as to conflict and crisis management in the security sector. And we should realize that one key dimension of intervention aimed at influencing change processes in poorly governed countries is likely to be our own laws and international standards (Collier 2007). Laws in developed countries are obviously critical to containing corruption and money-laundering in the developing world. Furthermore, the Extractive Industries Transparency Initiative and the Kimberley Process must be seen as modest but interesting examples of how international norms can help to enforce transparency criteria and governance standards in resource-rich but policy-poor countries.



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