UNCTAD/LDC/2008

THE LEAST DEVELOPED COUNTRIES REPORT 2008

Growth, Poverty and the Terms of Development Partnership

Prepared by the UNCTAD secretariat

Chapter 3:

Changes in the Terms of Development Partnership

UNITED NATIONS
New York and Geneva, 2008

Changes in the Terms of Development Partnership

Chapter 3

A. Introduction

Achieving more sustainable economic growth, accelerated poverty reduction and better progress towards the Millennium Development Goals (MDGs) requires action by both the least developed countries (LDCs) and their development partners. The fundamental priority for LDC Governments is to formulate and implement national development strategies that effectively promote development and poverty reduction. Their development partners need to (a) scale up aid flows to meet their commitments within the Programme of Action for the Least Developed Countries for the Decade 2001–2010; (b) align aid flows with the priorities expressed in LDCs' national development strategies; and (c) deliver aid in ways which respect country leadership in the formulation and implementation of national development strategies and help to strengthen their capacity to exercise such leadership. Moreover, the international community needs to design international regimes for trade, investment and technology which address the special needs of the weakest members of the international community and which reinforce, rather than work against, the positive impact of national development strategies and official development assistance (ODA).

Achieving more sustainable economic growth, accelerated poverty reduction and better progress towards the Millennium Development Goals requires action by both the least developed countries and their development partners.

This chapter examines some recent policy trends in LDCs which are at the heart of balanced and effective development partnerships between LDCs and donor countries. It focuses in particular on progress towards country-owned development strategies in LDCs and seeks to identify ways to enhance country ownership.

The notion of country ownership is complex, and difficult to define and monitor. However, it is at the heart of the partnership approach to development cooperation which has been elaborated since 2000. There is a broad consensus amongst policy analysts that country ownership of development strategies and policies is essential for the effectiveness of those strategies and also for aid effectiveness. The principle of respecting country ownership has also received strong political support at the highest level. Thus, for example, at the G8 summit at Gleneagles in 2005, in addition to bold commitments to cancel debt and scale up aid, the following was agreed: "It is up to developing countries themselves and their Governments to take the lead on development. They need to decide, plan and sequence their economic policies to fit with their own development strategies, for which they should be accountable to all their people" (Gleneagles Communiqué, "Africa", para. 31). Moreover, enhanced country ownership is one of the main components of the 2005 Paris Declaration on Aid Effectiveness, the implementation of which will be assessed in Accra, Ghana, in September 2008.

The notion of country ownership is complex, and difficult to define and monitor. However, it is at the heart of the partnership approach to development cooperation which has been elaborated since 2000.

This chapter contributes to the policy debate on country ownership in LDCs in three ways. Firstly, it focuses on aspects of progress towards country ownership which are contained within the Paris Declaration but which are not currently being assessed in the monitoring of its implementation. Secondly, it provides a brief overview of the second-generation poverty reduction strategy papers (PRSPs) and synthesizes evidence from case studies within the published literature which

indicate processes through which PRSPs in LDCs are designed and implemented and how aid works. These studies, which cover 12 LDCs, were in all but one case not prepared specifically for UNCTAD, but together they enable the identification processes which are working to strengthen or weaken country ownership and their consequences.[1] Thirdly, it makes proposals to enhance country ownership, in particular through the introduction of recipient-led aid management policies at the country level.

Significant steps are being taken to enhance country ownership within the partnership approach to development cooperation...

This chapter shows that all parties agree that country ownership of development strategies is essential for development effectiveness and aid effectiveness, and significant steps are being taken to enhance country ownership within the partnership approach to development cooperation. However, its major message is that various processes continue to weaken country ownership in LDCs and that this is having adverse consequences for development effectiveness, but that there are practical measures which can rectify this situation.

The first part of the chapter — sections B and C — summarizes key features of the partnership approach to development cooperation and looks at the changes in the PRSPs written in LDCs, which are the main operational instrument of the partnership approach and the key locus where country ownership is being forged. The second part of the chapter — sections D, E, F and G — focuses on evidence relating to country ownership. Section D summarizes the assessment of country ownership in LDCs according to the monitoring process used in the Paris Declaration, as well as assessing the adequacy of the indicator used to monitor ownership. Sections E, F and G are based on a broader concept of country ownership, which is still compatible with the Paris Declaration, and uses the case studies to identify the major processes through which country ownership can be weakened in the formulation and implementation of the poverty reduction strategies. The next part of the chapter — section H — identifies some adverse outcomes of these processes, which are indicative of a malfunctioning of development partnership. Finally, section I discusses some possible ways to increase ownership, focusing in particular on country-level coordination of aid through recipient-led aid management policies, a policy innovation which is encouraged by the Paris Declaration. The conclusion summarizes the major messages of the chapter. The annex provides a road map, based on the innovative experience of a few LDCs, of the steps which other LDCs might take to introduce aid management policies at the country level.

... but various processes continue to weaken country ownership in LDCs, with adverse consequences for development effectiveness...

B. Country ownership and the partnership approach to development

... but that there are practical measures which can rectify this situation.

1. The introduction of the partnership approach

Since 2000, a new approach to development cooperation has been introduced. The roots of the approach can be traced to the Organisation for Economic Co-operation and Development's (OECD's) report, *Shaping the Twenty-first Century: The Contribution of Development Co-operation*, which was published in 1996. That report not only argued that aid should be focused on achieving a limited set of international poverty reduction and human development targets (a list which later formed the basis for the Millennium Development Goals), it also stated that the key to making a difference in achieving those targets was the establishment of development partnerships between donor and recipient Governments. The basic principle, as the report put it, was that "locally-owned country development

strategies, according to DAC good practice principles, emerge from an open and collaborative dialogue by local authorities with civil society and with external partners, about shared objectives and their respective contributions to the common enterprise. Each donor's contributions should then operate within the framework of that locally-owned strategy in ways that respect and encourage strong local commitment, participation, capacity development and ownership" (OECD, 1996: 14).

In 1999, the World Bank launched the Comprehensive Development Framework, which was also based on the partnership approach. Ownership was one of the four key principles of this approach. It is clear that "ownership is essential", the World Bank's then-President James Wolfensohn said, adding, "Countries must be in the driver's seat and set the course. They must determine goals and the phasing, timing and sequencing of programs" (Wolfensohn, 1999:9).

PRSPs have become the main operational instrument for implementing the development partnership approach and enhancing national ownership of strategies and policies.

A major practical impetus to these proposals was provided when it was decided in late 1999 that qualification for debt relief under the Enhanced Heavily Indebted Poor Country (HIPC) initiative would be conditional upon a recipient country preparing a PRSP. One of the key principles of the PRSP approach was that these documents would be prepared within the countries and be country-owned, including broad participation of civil society (IMF and World Bank, 1999). Although the PRSP approach was initially linked to debt relief, the application of its basic principles has since widened. As the OECD (2000: 21) insightfully and succinctly put it, "The decision to place the implementation of the Enhanced HIPC into the larger context of the new development partnership paradigm has in effect leveraged political support for debt relief into a reform of the whole concessional financing system". In effect, the PRSPs have become the main operational instrument for implementing the development partnership approach, and enhancing national ownership of strategies and policies.[2]

2. The Paris Declaration and the drive to improve aid effectiveness

One important reason for the shift to the new approach to development assistance was the realization that both development effectiveness and aid effectiveness had been undermined during the 1980s and 1990s by policy conditionality and all-pervasive coordination failures in the delivery of aid. Traditional policy conditionality did not work well, firstly, because the local commitment to implement the externally-devised policies was low; and secondly, because the policies were inappropriate for the local context.[3] Aid inflows were also very volatile, with conditionality triggering disruptions and uncertainty. On top of this, the dismantling of the institutions and capabilities of development planning, which occurred particularly in sub-Saharan Africa, opened a vacuum in which donors had no national framework into which to fit their assistance. The lack of coordination and integration of the aid system led to a fragmentation of decision-making and a proliferation of projects and procedures, which put increasing pressure on the meager human resources of recipient countries. Moreover, a vicious cycle often began to set in, as the internal brain drain from Government service to donor projects further undermined State capacity and further encouraged donors to set up parallel systems and institutions to ensure effective implementation of their own projects and programmes as a response.

During the 1980s and 1990s development effectiveness and aid effectiveness were undermined by policy conditionality and all-pervasive coordination failures in the delivery of aid.

As analysed in *The Least Developed Countries Report 2000*, many LDCs found themselves during this period in a very complex situation, in which country ownership was very weak. They faced, on the one hand, a budgetary squeeze arising from policy conditionalities which sought to control public expenditure and

bring down the domestic budget deficit, and on the other hand, a proliferation of fragmented aid projects, often financed through parallel channels and procedures, sometimes bypassing any government oversight and aligned with donor priorities rather than national priorities. While the projects and programmes being implemented were often controlled by donors, the debt service on aid funds was very much "owned" by the central government budget (UNCTAD, 2000: 171–207).

Strengthening development partnership has been at the heart of the drive to improve aid effectiveness.

Strengthening development partnership has been at the heart of the drive to improve aid effectiveness. The development partnership approach was endorsed in 2002 in the Monterrey Consensus on Financing for Development, which states: "Effective partnerships among donors and recipients are based on the recognition of national leadership and ownership of development plans and, within that framework, sound policies and good governance at all levels are necessary to ensure ODA effectiveness" (United Nations, 2002: 14). Important further milestones in this process were the Rome Declaration on Harmonization in 2003 and the Paris Declaration on Aid Effectiveness in 2005 (OECD 2005a), which identified the following key principles for enhanced aid effectiveness:

(a) *Ownership:* Support for developing country leadership on development strategies, plans and policies;

(b) *Alignment:* Linking donor support to developing country strategies, greater use of country systems and capacity-building;

(c) *Harmonization:* Improved donor coordination, rationalized procedures, and common arrangements;

(d) *Managing for results:* Improving management of resources and decision-making in support of development results; and

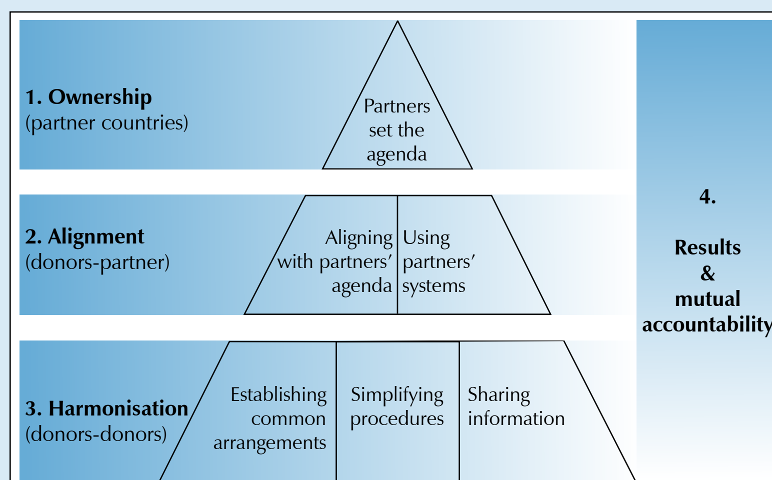
(e) *Mutual accountability:* Shared accountability for development results (chart 20).

"Effective partnerships among donors and recipients are based on the recognition of national leadership and ownership of development plans and, within that framework, sound policies and good governance at all levels are necessary to ensure ODA effectiveness" (Monterrey Consensus).

3. The importance of country ownership

As the discussion of the introduction and deepening of the partnership approach to development cooperation shows, it is universally agreed that country

Chart 20. The aid effectiveness pyramid



Source: OECD (2005b).

ownership is the foundation of balanced and effective development partnerships. However, there are many different ways of understanding what country ownership means in practice (box 4).

The degree of ownership of development strategies and policies cannot be solely attributed to the practices of donors per se, or to recipients per se; rather, it depends on the nature of the aid relationships, involving the practices of both parties.

This chapter is particularly concerned with country ownership in the sense that national Governments have the ability to freely choose the strategies which they design and implement, and to take the lead in both policy formulation and implementation. Assessing country ownership in this sense is very difficult. The degree of ownership of development strategies and policies cannot be solely attributed to the practices of donors *per se*, or to recipients *per se*; rather, it depends on the nature of the aid relationships, involving the practices of both parties. Moreover, the nature of that relationship is an active ongoing process in which the various representatives of each party are constantly negotiating and bargaining in relation to their interests, needs and concerns. These interests, needs and concerns are not necessarily held in common by all participants on each side of the bargaining process. To get at this process requires intense anthropological analysis and access to normally-closed discussions. Nevertheless, it is possible to identify some of the mechanisms by which country ownership is weakened through the nature of the aid relationship. Moreover, it is possible to identify the outcomes of these processes, which are indicative of dysfunctionality within the development partnership.

Whilst there is a conviction on the part of IFIs and donors to give LDCs greater policy space for formulating and implementing their own strategies, there remains a tension between country ownership and what IFIs and donors regard as credible strategies.

It must be stressed that whilst this Report identifies mechanisms which are weakening country ownership, it is not arguing that donors or international financial institutions (IFIs) are intentionally undermining country ownership of development strategies and policies. It is clear that there is a strong conviction on the part of IFIs and donors that they should stand back and give country authorities greater policy space for formulating and implementing their own strategies, and strong efforts are being made to do this. However, there is a constant tension between country ownership and the need for IFIs and bilateral donors to be assured that their assistance will be used to support what they regard as credible strategies. Ensuring that high levels of aid dependence do not result in donor domination is a very complex challenge for both aid donors and aid recipients. Understanding how development partnership actually works in a context where there are major inequalities between the parties in terms of resources, capabilities and power can provide the basis for effectively strengthening country ownership, an outcome which all parties wish for and intend through their practices.

C. The transformation of the PRSPs

1. The early phases of the PRSP approach

Ensuring that high levels of aid dependence do not result in donor domination is a very complex challenge for both aid donors and aid recipients.

Most LDCs undertook policy reforms financed by the IMF's Enhanced Structural Adjustment Facility (ESAF) in the 1990s (UNCTAD, 2000: 101–134). Borrowers from this facility were required to prepare a Policy Framework Paper which set out the country's overall policy objectives and strategy as a basis for support from the International Monetary Fund (IMF) and World Bank. Although it was supposed to be the country's own document, it was usually prepared in Washington by the staff of the World Bank and IMF, with help from country authorities (Broughton, 2003). In 1999, ESAF was replaced by the Poverty Reduction and Growth Facility (PRGF) and borrowers from that facility were required to prepare a PRSP in the country itself with broad participation from civil society. Concessional lending from the IMF and World Bank were conditional on endorsement of the PRSPs as satisfactory by the boards of the IMF and World Bank.

Box 4. The elusive concept of country ownership

Although almost all analysts agree that country ownership of development strategies and policies is the foundation for effective development partnerships, the concept of country ownership is difficult to define and also to measure.[1] Indeed, behind the consensus that "ownership is essential", there are different interpretations of what country ownership means. It is possible to identify at least five different approaches to defining country ownership within the literature. These are:

(a) The existence of local commitment to the policy reforms of international financial institutions;

(b) The existence of national development strategies which are "operational";

(c) The ability of national Governments to choose freely the strategies and policies which they design and implement;

(d) The ability of national Governments to choose freely these strategies and policies, including consideration of "home-grown" solutions; and

(e) The ability of national Governments to choose freely strategies and policies and the exercise of that choice through a democratic process.

The first approach is exemplified by the definition of national ownership put forward by the IMF Policy Development & Review Department as "a willing assumption of responsibility for an agreed programme of policies, by officials in a borrowing country who have responsibility to formulate and carry out those policies, based on an understanding that the programme is achievable and is in the country's own interest (IMF, 2001:6). This definition follows the critique of policy conditionality in the 1990s which found that it did not work if local agents responsible for implementing policies were not committed to them (see Broughton, 2003). Against this background, country ownership was considered vital for the success of policy reform. But in essence, ownership here is equivalent to the acceptance and assumption of responsibility for programmes and their associated conditionalities.

A second approach is the way in which ownership is monitored in the context of the Paris Declaration. The basic indicator of ownership is that a country is judged to have an operational development strategy. In this approach, evidence of ownership is provided by "a track record of sound policy implementation" (World Bank, 2005: 28). A strategy is defined as operational when it is "a prioritized outcome-oriented national development strategy that is drawn from a long-term vision and shapes a country's public expenditures" (World Bank, 2007: 4). The judgment as to whether a country has such a strategy is made by the World Bank and it is in effect centred on the quality of a country's PRSP (see annex to World Bank, 2007).

The third approach is exemplified by Killick (1998) who defines government ownership as "at its strongest when the political leadership and its advisers, with broad support among agencies of State and civil society, decide of their own volition that policy changes are desirable, choose what these changes should be and when they should be introduced, and where these changes become built into parameters of policy and administration which are generally accepted as desirable" (Killick, 1998: 87). From this perspective, ownership is not necessarily about who designs the programme, with different degrees of ownership related to the level of active participation of nationals and outsiders in programme design. It is rather a question of freedom of choice. In this vein, for example, Johnson (2005) writes that, "ownership is about (i) the right of county representatives to be heard in the process of diagnosis and programme design; and (ii) the freedom and ability of the country to choose the programme to be implemented, without coercion" (Johnson, 2005: 3). This approach to defining country ownership is also closely related to the concerns expressed in the Paris Declaration that countries should "exercise leadership" in policy design, policy implementation and aid coordination.

The fourth and fifth approaches accept this view of ownership, but go further. In the fourth approach, it is argued that local ownership must be based on "home-grown solutions". This approach is founded on the view that the sound policies are locally-specific rather than universal, and that local actors are best situated to mobilize indigenous knowledge effectively. From this perspective, home-grown solutions "mean the generation, by local actors, of knowledge and policy interventions that are specific to the local environment" and ownership is defined as "acceptance of, commitment to and responsibility for the implementation of home-grown solutions" (Girvan, 2007: 2). Such ownership is evident in a wide degree of policy heterodoxy vis-à-vis the role of the State as well as a trial-and-error approach to development policy which adapts best practices to local circumstances though policy learning.

Finally, in the fifth approach, the process of policy choice must be democratic to be fully owned. This approach is adopted by some NGOs that criticize the degree of participation in the PRSP process. ActionAid International (2006: 9) argues that "to be truly owned, government policies should be adopted through democratic means involving a wide range of stakeholders in society, and Governments should be accountable to citizens when implementing policies". The emphasis in the Paris Declaration on the importance of developing and implementing development strategies through broad consultative processes also relates to this democratic view of ownership.

This chapter focuses on the third approach.

[1] See Buiter (2004) for a critical deconstruction which argues that it is simply too difficult to be meaningful.

As of 7 May 2008, 39 LDCs had prepared some kind of PRSP document and presented it to the boards of the World Bank and IMF. Only four of these countries — Comoros, Liberia, the Maldives and Togo — are at the earliest stage of the process, having presented interim PRSPs. Moreover, of the 35 LDCs that have prepared full PRSPs, 17 have now finalized a second PRSP document (table 33).

Table 33. Progress in preparation of PRSPs in LDCs[a]

Country	Region	I-PRSP	PRSP	PRSP II
Afghanistan	Asia	25 May 2006	9 May 2008	
Angola	Africa			
Bangladesh	Asia	19 June 2003	26 January 2006	
Benin	Africa	13July 2000	20 March 2003	28 June 2007
Bhutan	Asia	08 February 2005		
Burkina Faso	Africa		30 June 2000	05 May 2005
Burundi	Africa	22 January 2004	13 March 2007	
Cambodia	Asia	18 January 2001	20 February 20003	17 July 2007
Cape Verde	Island	09 April 2002	25 January 2005	
Central African Republic	Africa	18 January 2001	17 November 2006	
Chad	Africa	25 July 2000	13 November 2003	
Comoros	Island	16 May 2006		
Dem. Rep. of the Congo	Africa	11 June 2002	31-May-07	
Djibouti	Africa	27 November 2001	08 June 2004	
Equatorial Guinea	Africa			
Eritrea	Africa			
Ethiopia	Africa	20 March 2001	17 September 2002	28 August 2007
Gambia	Africa	14 December 2000	16 July 2002	19 July 2007
Guinea	Africa	22 December 2000	25 July 2002	21 December 2007
Guinea-Bissau	Africa	14 December 2000	10 May 2007	
Haiti	Island	21 November 2006	01 March 2008	
Kiribati	Island			
Lao People's Dem. Republic	Asia	24 April 2001	30 Novermber 2004	
Lesotho	Africa	6 March 2001	12 September 2005	
Liberia	Africa	12 February 2007		
Madagascar	Africa	19 December 2000	18 November 2003	06 March 2007
Malawi	Africa	21 December 2000	29 August 2002	16 January 2007
Maldives	Island		23 January 2008	
Mali	Africa	7 September 2000	06 March 2003	03 April 2008
Mauritania	Africa		06 February 2001	16 January 2007
Mozambique	Africa	06 April 2000	25 September 2001	19 December 2006
Myanmar	Asia			
Nepal	Asia		18 November 2003	
Niger	Africa	20 December 2000	07 February 2002	05 May 2008
Rwanda	Africa	21 December 2000	08 August 2002	06 March 08
Samoa	Island			
Sao Tome and Principe	Island	27 April 2000	25 April 2005	
Senegal	Africa	20 June 2000	23 December 2002	30 January 2007
Sierra Leone	Africa	25 September 2001	06 May 2005	
Solomon Islands	Island			
Somalia	Africa			
Sudan	Africa			
Togo	Africa	25 April 2008		
Tuvalu	Island			
Uganda	Africa		02 May 2000	28 July 2005
United Rep. of Tanzania	Africa	04 April 2000	30 November 2000	09 May 2006
Vanuatu	Island			
Yemen	Asia	27 February 2001	01 August 2002	
Zambia	Africa	04 August 2000	23 May 2002	21 August 2007

Source: World Bank and IMF, online.

Note: The date indicates when the PRSP was presented to the Boards of the IMF and the World Bank. I-PRSP is an interim PRSP. PRSP II is a second-generation PRSP.

a As of May 2008.

To date, 35 LDCs have prepared full PRSPs, and 17 have finalized a second PRSP document.

In the initial phases of the process, even though IFIs and donor countries stepped back somewhat from the policy formulation process, it proved difficult to promote country ownership. As *The Least Developed Countries Report 2002* put it, the PRSP process was "a compulsory process in which Governments that need concessional assistance and debt relief from the IFIs find out through the endorsement process... the limits of what is acceptable policy. In such a situation, it is very difficult for governments to take the risks which would enable the full potential of the PRSP approach to be realized. Even if there is no outside interference in the PRSP preparation process, and also no sign of threat to interfere in the process, the mere awareness of dependence on the Joint Staff Assessment and on endorsement by the Boards of the IMF and World Bank places constraints on freedom of action of those designing the PRSPs. In effect, the country owns the technical process of policy formulation, but it still lacks the freedom which would release the creative potential of the approach" (UNCTAD, 2002: 193). Moreover, the report went on to state that, unless the international financial institutions have total open-mindedness as to what is regarded as a credible strategy, "the consequences for governance will be adverse as politicians and policymakers will feel inhibited from saying and doing certain things, and thus the political qualities of a free-thinking society, which are meant to be encouraged through the PRSP process, will atrophy" (ibid.: 193).

The initial PRSPs thus just added a social dimension to the structural adjustment programmes of the 1990s by focusing on increasing public expenditure in social sectors (UNCTAD, 2000 and 2002). However, after mid-2002, there has been a significant shift towards growth-oriented PRSPs. As *The Least Developed Countries Report 2004* put it, "the PRSPs are evolving away from the old structural adjustment programmes towards new growth strategies which seek to include the poor" (UNCTAD, 2004: 273). But the transition at that time was still incomplete. The first batch of the later PRSPs tended to have a common template with four basic pillars: (a) ensuring strong and sustainable growth; (b) developing human resources; (c) improving the living conditions of the poor; and (d) ensuring good governance.

2. The second-generation PRSPs

The evolution of the PRSP approach has gone even further now in many of those countries which have prepared a second full PRSP. With these second-generation PRSPs, many LDCs are striving to transform their poverty reduction strategies into national development strategies.

With second-generation PRSPs, many LDCs are striving to transform their poverty reduction strategies into national development strategies.

The shift towards a development orientation is signaled in the names, the time-horizon and the policy content of the second-generation PRSPs. Of the 17 which have been prepared, only five still name themselves "Poverty Reduction Strategies" — those of Burkina Faso, Gambia, Guinea, Mauritania and Senegal. Mozambique and Uganda call their strategies "an Action Plan for the Reduction of Absolute Poverty", and "a Poverty Eradication Action Plan", respectively. The other countries describe their PRSPs as development plans, growth strategies or development and poverty reduction strategies.[4]

The second-generation PRSPs also have a different time-horizon than the earlier PRSPs. Of the 17 which have been prepared, only five now retain the three-year planning horizon of the first generation PRSPs. The rest have five-year planning horizons. These documents appear to be a return to five-year development planning in a new guise. This is explicitly expressed in the Zambian PRSP, where it is argued that "the resurgence of planning to tackle wealth creation and poverty reduction is both timely and imperative"; and that "one of the

important lessons learnt from the 1990s was the realization that, in a liberalized economy, development planning is necessary for guiding priority setting and resource allocation" (Republic of Zambia, 2007:1).

The policy content of the second-generation PRSPs is also evolving. All the second-generation PRSPs are based on a balance between economic and social pillars, and they also all give priority to improved governance as a third basic strategic pillar. The economic pillar is concerned with promoting macroeconomic stability and accelerating economic growth and development. The social pillar is concerned with human resource development and social service provision. Good governance is included as the third pillar, including public administration reforms as well as the institutionalization of the rule of law.

Second-generation PRSPs appear to be a return to five-year development planning in a new guise.

In effect, the second-generation PRSPs are seeking to place poverty reduction and the achievement of the MDGs within a broad economic development framework. Most of the PRSPs now include actions for the development of productive sectors and economic infrastructure. Agricultural development is identified as critical in all the PRSPs. But other sectors are also referred to. Increased investment in economic infrastructure, particularly power and transport, is also a ubiquitous priority. Some also identify building science, technology and innovation capabilities as important concerns. Employment generation is identified as a key challenge for poverty reduction in some of these documents. Moreover, local development initiatives are often identified as a key mechanism to promote employment and also link economy-wide growth to household-level poverty reduction.

The second-generation PRSPs are seeking to place poverty reduction and the achievement of the MDGs within a broad economic development framework.

This shift in the policy content of the recent PRSPs is indicative that countries have been emphasizing country ownership and seeking to take a greater lead in the design of their poverty reduction strategies. This has also been encouraged by shifts by the IFIs. Following the review of the poverty reduction strategy process in 2004, the Joint Staff Assessment assumed a lower profile advisory status and the PRSPs are now less formally received by the two institutions (Marshall, 2008). Moreover, international financial institutions have also been signaling their willingness and desire to work with more ambitious and less one-size-fits-all strategies. This is particularly evident in the *2005 Review of the Poverty Reduction Strategy* approach (IMF and World Bank 2005). The review argues that (a) the poverty reduction strategy approach provides a framework for countries to elaborate comprehensive medium-term development programmes (p. 31); (b) they should be incorporate productive sectors as well as social sectors (pp. 77–78); (c) they should include growth diagnostics as well as poverty diagnostics (p. 79); and (d) overall, they should support "ambitious development plans" (p. 79) and provide a framework for scaling up aid, using alternative scenarios (p. 81) and discussing macroeconomic policy options (p. 49).

Most of the PRSPs now include actions for the development of productive sectors and economic infrastructure.

3. The challenge of reinventing development governance

As the PRSPs evolve into national development strategies, major policy and institutional challenges arise. These go far beyond poverty-oriented public expenditure and budgeting, which were critical for the early PRSPs, and concern the role of the State in national development. Seeking to put poverty reduction and the achievement of the MDGs in a broad economic development framework, the second-generation PRSPs are in effect a return to development planning. But what is required now is not a return to the past; rather, it is necessary to devise new modes of development governance which do not repeat the weaknesses of old forms of development planning. These should also be tailored to the context of weak State capacities which is prevalent in LDCs.

The rebalancing of the poverty reduction strategies to cover not only social sectors but also economic infrastructure, private sector development and productive sectors has major implications for development governance.

The increasing diversity of the second-generation PRSPs is an indication of increased ownership of the formulation of the documents...

... however, the generally weak treatment of the complex issues of development governance raises questions as to how much progress towards country ownership has been made.

The term "development governance" is used here to refer to refer to the political processes and institutional arrangements which are dedicated and devoted to the purposeful promotion of economic development, poverty reduction and the achievement of internationally-agreed development goals. Development governance occurs whenever people and their organizations interact to solve development problems and create new development opportunities. It involves defining problems, setting goals, choosing strategies, identifying appropriate policy instruments, creating institutions and allocating resources. The State must play an active role in this process, and in particular seek to animate and channel the energies of the private sector, driven by the search for private profits, towards the achievement of publicly-agreed national development goals.

This is a major challenge. But, in general, the second-generation PRSPs are only just beginning to address the complex policy issues involved in the shift from poverty reduction strategies to development strategies. Three weaknesses in meeting the challenge seem to characterize most second-generation PRSPs.

Firstly, there is little discussion in the second-generation PRSPs of the question of choice of development strategy. This is a critical issue which affects the priorities given to different sectors and courses of action. It was a central issue of the old development planning, and gave rise to discussions on the role of agriculture, relative importance of domestic and external sources of growth, intersectoral dynamics and sequencing of global integration (Lewis, 1986). But this is absent in the second-generation PRSPs. Discussion of the relationship between short-term macroeconomic stabilization goals and long-term development goals is also absent.

Secondly, the rebalancing of the poverty reduction strategies to cover not only social sectors but also economic infrastructure, private sector development and productive sectors has major implications for development governance. It is no longer possible to envisage this process solely in terms of public expenditure allocation. It is also necessary to focus on the policies which will shape the incentives and capabilities of private sector actors in order to achieve the objective and targets of the strategy. But the current strategies still largely rely on privatization and liberalization as major tools for productive sector development, and are founded on the expectation that, even in LDC-type economies, the reduction of fiscal deficits and low rates of inflation will "crowd in" the private sector. There is no discussion of the validity and relevance of this development model in circumstances where private sector capabilities are very weak and the majority of the population is very poor.

Thirdly, there is weak analytical discussion of the relationship between growth, poverty and the achievement of the MDGs in general. Instead, more emphasis is generally placed on description of poverty profiles. Placing poverty reduction and the achievement of the MDGs into a broader economic development framework is proving difficult to accomplish.

To sum up, the increasing diversity of the second-generation PRSPs is an indication of increased ownership of the formulation of the documents. However, the generally weak treatment of the complex issues of development governance listed above raises questions as to how much progress towards country ownership has been made and what processes are impeding such progress.

D. The Paris Declaration assessment of progress towards ownership

One source of evidence for assessing progress toward country ownership in the LDCs is the systematic appraisal that is conducted as part of the monitoring of the Paris Declaration. In this context, country ownership is assessed according to whether aid recipients have an "operational national development strategy". Their national development strategy (including poverty reduction strategy) is operational when it has "strategic priorities linked to a medium-term expenditure framework (MTEF) and annual budgets". This involves: (a) having "a long-term vision and medium-term strategy derived from that vision which is common reference point for policy makers, nationally, locally and at the sector level"; (b) "the long-term vision and medium-term strategy identify objectives and targets linked to MDGs but tailored, with some specificity to local circumstances" and "the medium-term strategy focuses on a prioritized set of targets" and "adequately addresses cross-cutting issues such as gender, HIV/AIDS, environment and governance"; (c) "the government is progressing towards performance-oriented budgeting to facilitate a link of the strategy with the medium-term fiscal framework", and (d) "institutionalized participation of national stakeholders in strategy formulation and implementation (World Bank, 2007: A5). The results of the World Bank's evaluation of country ownership for 37 LDCs on the first three of these assessment criteria are summarized in table 34. Progress is graded according to (a) whether little action has been taken; (b) elements for progress exist; (c) action has been taken and some progress, though not enough, is being made; (d) significant action is being taken and so progress on the criteria is largely developed; and (e) significant progress has been made and it is sustainable.

According to the World Bank's evaluation, no LDC yet has a "sustainable" operational development strategy.

According to the World Bank's evaluation, no LDC yet has a "sustainable" operational development strategy and only six of the 37 LDCs have "largely developed" operational development strategies (World Bank, 2007). These countries are Burkina Faso, Ethiopia, Rwanda, Uganda, the United Republic of Tanzania and Zambia. However, some action to develop operational development strategies has been taken in 23 of the 37 LDCs, and there are elements to build on in the remaining eight LDCs in which progress is least advanced. These countries are all designated as fragile states by the World Bank assessment and include Afghanistan, Central African Republic, Democratic Republic of the Congo, Guinea-Bissau, Haiti, Liberia, Sao Tome and Principe, and Sudan. In terms of the three criteria used to assess the status of operational development strategies, more progress has been made in terms of elaborating a unified strategic framework and prioritization rather than making a strategic link to the budget. The weak progress on the latter criteria is particularly evident in countries which are described as fragile States. Nevertheless, a number of LDCs are identified by the World Bank as examples of best practices in the elaboration of operational development strategies according to the Paris targets. These countries are Burkina Faso, Ethiopia, Mozambique, United Republic of Tanzania, Uganda and Zambia (box 5).

The finding that none of the current PRSPs for LDCs can be described as "operational development strategies" indicates the very weak State capacities of most LDCs.

The current approach to assessing ownership within the framework of the Paris Declaration is limited.

The finding by the World Bank that none of the current PRSPs for LDCs can be described as "operational development strategies" is very important in itself. It indicates the very weak State capacities of most LDCs. However, the current approach to assessing ownership within the framework of the Paris Declaration is limited. The evaluation and judgments reflect a particular view of what constitutes an operational national development strategy. It is striking, for example, that Bangladesh is not assessed as having an operational development strategy, even though its strategic approach has been one of the most successful of all the LDCs and its PRSP is amongst the most technically sophisticated of the PRSPs

Table 34. Progress of LDCs towards operational national development strategies: The Paris Declaration assessment

	Overall score	Unified strategic framework	Priorization	Strategic link to budget
PRSP II countries:[a]				
Benin	3	3	3	3
Burkina Faso	2	2	**2**	3
Cambodia	3	3	**2**	3
Ethiopia	**2**	**2**	**2**	3
Gambia	3	3	3	4
Guinea	3	3	3	3
Madagascar	3	**2**	3	3
Malawi	3	3	3	3
Mali	3	3	3	3
Mauritania	3	3	**2**	3
Mozambique	3	3	**2**	3
Niger	3	3	3	3
Rwanda	**2**	**2**	**2**	**2**
Senegal	3	3	**2**	3
Uganda	**2**	**2**	**2**	**2**
United Rep. of Tanzania	**2**	**2**	3	**2**
Zambia	**2**	**2**	**2**	**2**
Other countries:				
Afghanistan	4	4	4	4
Bangladesh	3	3	3	3
Bhutan	3	**2**	**2**	4
Burundi	3	3	3	4
Cape Verde	3	3	3	3
Central African Republic	4	4	4	4
Chad	3	3	3	3
Dem. Republic of Congo	4	3	4	4
Djibouti	3	3	3	4
Guinea-Bissau	4	3	4	4
Haiti	4	4	4	4
Lao People's Dem. Republic	3	3	3	4
Lesotho	3	3	3	3
Liberia	4	4	3	4
Nepal	3	3	3	3
Sao Tome and Principe	4	4	4	4
Sierra Leone	3	3	3	4
Sudan	4	4	4	4
Timor-Leste	3	3	3	3
Yemen	3	**2**	**2**	4

Source: World Bank (2007).

Key: **Level 1:** sustainable, **Level 2:** developed, **Level 3**: actions taken, **Level 4**: elements exist, and **Level 5**: little action.

a These countries have prepared two PRSPs.

A major aspect of what is being monitored is the actions which recipient countries should take in order to increase the confidence of donors that their financial aid will be well-managed.

produced by LDCs. The evaluation and judgement also reflect a particular view of ownership.

In the current approach, a major aspect of what is being monitored is the actions which recipient countries should take in order to increase the confidence of donors that their financial aid will be well-managed. Such confidence is of course critical for country ownership in the sense that, if donors think that aid will be mismanaged they will set up parallel implementation systems which may not be well-aligned with country priorities. But, in effect, what ownership

Box 5. Paris Declaration review of operational development strategies in LDCs: Examples of best practices

In the latest World Bank review, six LDCs — Burkina Faso, Ethiopia, Rwanda, the United Republic of Tanzania, Uganda and Zambia — are identified as having "largely developed" operational development strategies.

Burkina Faso has used the medium-term strategy to achieve the goals identified in an existing vision and long-term sectoral plans. It has conducted yearly reviews to adjust strategy targets in accordance with lessons learned and resource availability.

Ethiopia has merged multiple strategies into a unified strategic framework that builds on MDG needs assessments to base its objectives on country reality.

Rwanda has used existing sector strategies to inform its medium-term strategy. This has facilitated linking the strategy to the budget, on the basis of sector strategies, line ministries prepare sectoral MTEFs.

United Republic of Tanzania has shifted toward an outcome-oriented strategy that includes cluster strategies as the road map to achieve development objective. This shift is promoting greater use of performance data in the budget process, requiring sectors to justify their bids in terms of the relevant cluster strtegies. Sector policymakers thus have a material incentive to develop outcome-oriented rationales for their budget submissions.

Uganda has built strongly on a well established planning tradition to move incrementally toward a stronger focus on results. It has progressively improved its development data set, complementing this with participatory poverty assessments that have brought the perspective of the poor into planning. Better and more comprehensive data have in turn fed into strategy revision, making the strategy more balanced and focused, and have helped to inform budgetary allocations.

Zambia has used MDG needs assessments to fine-tune the focus and balance of the strategy and better cost it. This in turn has created a stronger basis to move toward a closer link between the budget and the strategy.

In addition the following countries are identified as examples of good practices in relation to relation to (a) developing a consolidated strategic framework; (b) prioritization; and (c) linking strategies and budgets:

Unified Strategic Framework:

Bhutan, Burkina Faso, Ethiopia, Rwanda, United Republic of Tanzania and Uganda have built on existing long-term vision studies to guide the preparation of a medium-term strategy linked to the country's long-term goals. **Madagascar** has built on the revision of their medium-term strategy to align it with existing the long-term vision. **Ethiopia, Yemen and Zambia** have consolidated parallel medium-term strategies into a single national development strategy. **Ethiopia** has build on sector strategies under implementation to revise the medium-term strategy.

Prioritization:

Zambia has built on MDG needs assessment and MDG progress reports to help improve costing and financial projections for its second PRSP. **Bhutan, Ethiopia, Mauritania and Yemen** have used information on progress toward meting the MDGs to better tailor MDG targets to country circumstances. **Ethiopia** has it has built strongly on sector strategies under implementation to revise their medium-term strategy. In **Cambodia**, detailed assessments of challenges toward meeting the MDGs have shaped the choice of country-specific goals and medium-term targets that inform the medium-term strategy. Clarity on the country objectives has in turn made it easier to prioritize strategy in line with expected resources. **Burkina, Faso, Ethiopia, Mauritania, Mozambique, Rwanda, Senegal, Uganda and Zambia** have taken into account implementation progress and lessons learned to achieve a better balance within their medium-term goals and short-term priorities, focusing on sectors and themes relevant for country development, including productive sectors, governance, gender , HIV/AIDS and the environment.

Link to budget:

Rwanda has conducted bi-annual review assessing expenditures against planned outputs and future budget allocation. **Tanzania** has introduced a Strategic Budget Allocation System that, when combined with timely information on outturns, shows some promise to link strategy to budget. The government has developed a Local Government Planning and Reporting Database to allow local governments to formulate MTEF plans and budgets linked to the national strategy and better monitor local expenditures. **Uganda** has established a clearer link between budget ceilings and strategy objectives, with sector working groups identifying sectoral outcomes, outputs, and targets based on the medium-term strategy, to justify budget ceilings. **Zambia** has introduced an activity-based budget classification, which informs summary tables presented to the National Assembly during the budget submission.

Source: World Bank (2007).

means here is local commitment to a process conditionality in relation to how a country undertakes development planning. In equating ownership with whether a development strategy is deemed operational, and specifying the meaning of an operational development strategy in a particular way, the monitoring of ownership has become a way in which process conditionality in relation to

financial governance is being reinforced. At the same time, the deeper issues of freedom of choice of national Government, as well as the exercise of leadership, are sidelined.

Some LDCs are beginning to exercise leadership in the policy formulation process and establishing complex institutional mechanisms to get inputs to the process from national stakeholders...

This approach to monitoring ownership ignores the other important aspects of ownership which are identified in the Paris Declaration. In the Declaration, under the principle of ownership, aid recipients committed to:

- Exercise leadership in developing and implementing their national development strategies through broad consultative processes;
- Translate these national development strategies into prioritized results-oriented programmes as expressed in medium-term expenditure frameworks and annual budgets; and
- Take the lead in coordinating aid at all levels in conjunction with other development resources in dialogue with donors and encouraging the participation of civil society and the private sector.

Donors also agreed to "respect country leadership and help strengthen their capacity to exercise it" (OECD 2005a: 3). The systematic monitoring of progress towards country-led development strategies now examines only the second of the aid recipient's commitments.

... however, weak national technical capacities undermine the ability of LDCs to exercise leadership in designing and implementing their national development strategies.

The rest of this chapter focuses on the extent to which LDCs are exercising – and, given the complex nature of the aid relationship, are able to exercise – leadership in the design and implementation of their development strategies, as well as the extent to which they are taking the lead in coordinating assistance at the country level. It also identifies factors which weaken country ownership, as well as some adverse consequences for meeting the new challenges of development governance.

E. Processes weakening country ownership — policy formulation

Evidence from the case studies referred to at the start of this chapter show that some LDCs are certainly beginning to exercise leadership in the policy formulation process and establishing complex institutional mechanisms to get inputs to the process from national stakeholders. This has progressed to a different extent in different countries. However, AFRODAD (2007e: 28), in its synthesis of African case studies, notes that "recipient Governments have particularly demonstrated greater realism and assertiveness about national objectives and priorities" and "have shown encouraging progress in assuring the realization of ownership and leadership within the context of the Paris Declaration". It exemplifies this with the cases of Malawi, Mozambique, Uganda and United Republic of Tanzania. It also indicates that participation in policy dialogue has broadened and is becoming institutionalized, although "participation by the mass media and the parliament are not sufficiently developed" (AFRODAD, 2007e: 29).

LDCs still rely heavily on donor support in the design of the national strategy.

This overall picture of progress must be tempered by two factors which weaken country ownership. Firstly, weak national technical capacities continue to undermine the ability of countries to exercise leadership in designing and implementing their national development strategies, meaning that countries have to rely heavily on donor support in the design of the national strategy. EURODAD (2008b: 17), for example, reports the case of one LDC where, following the request from the national PRSP secretariat for help from donors, 15 Government

representatives from the LDCs were flown to Washington, D.C., where they met officials from the World Bank, United Nations Development Programme (UNDP), European Commission, Belgium and IMF for a working session to draft their second PRSP. Following this, the World Bank contacted a consultant from a neighbouring country who had worked on his own country's PRSP to help finalize the PRSP. In another country, it was observed that — although the PRSP unit had benefited from increased financial, material and human resources — there was a "chronic problem of weak capacity in macroeconomic and strategic development planning" (Bergamaschi, 2007: 10). The PRSP unit has no macroeconomist and the Ministry of Finance has no capacity to undertake macroeconomic planning. The second-generation PRSP's growth model was elaborated by a consultant hired by the German cooperation agency (ibid.: 10). The general weakness of national technical capacities means that donors can exercise an important influence on the design and implementation of national development strategies through the technical cooperation which they provide.

Freedom of action in policy design is also constrained by the need to mobilize aid inflows, and the sense that signs of lack of commitment to policies favoured by donors and IFIs can work against aid mobilization.

Secondly, even for countries that take the lead in formulating their strategies, the content of those strategies can be influenced through the inequality of power and resources, as well as the potential sanctions which donors can bring to bear if the recipients stray away from what donors regard as a realistic and credible strategy. Studies in three LDCs in which country ownership is generally regarded as quite well developed and where Governments have reached a general policy consensus with donors — but at the same time have publicly disagreed with the donors — have found that the formulation of the policy agenda is still influenced by the high level of reliance on assistance and the past history of continual oversight of policies.[5] In effect, freedom of action in policy design is constrained by the need to mobilize aid inflows, and the sense, justifiable or not, that signs of lack of commitment to the types of policies which donors and IFIs believe are the best ones, can work against aid mobilization.

One area where these factors seem particularly important is in the design of the macroeconomic framework.

One area where these factors seem particularly important is in the design of the macroeconomic framework. In most PRSPs, the macroeconomic framework conforms to that of the IMF's PRGF (AFRODAD, 2007a, b, c, and d). AFRODAD (2006) reports how the first-generation PRSPs which were tightly linked to the HIPC Initiative were rushed and "there was no evidence that the PRSP fed into the PRGF realistically" (AFRODAD, 2006: 11). But the relationship between the PRGF and PRSPs in the second-generation PRSPs remains ambiguous. For example, AFRODAD notes that, in the case of Mozambique — because access to IMF resources requires the Government to comply with macroeconomic conditions in the PRGF which are binding commitments — these commitments are reflected in government plans which then feed into the PRSP. Whatever the case, the macroeconomic framework is usually "owned" at the country level, but only by a narrow circle of officials who are concerned with such policies (Working Group on IMF Programmes and Health Spending, 2007). There is often strong opposition from civil society to the macroeconomic framework, and the limited exploration of macroeconomic policy options means that there is limited scope for choice and political debate.[6]

One important tendency show is that donors increasingly demand to have representation and a voice in forums taking decisions on the utilization of aid.

One important tendency which the case studies show is that donors increasingly demand to have representation and a voice in forums where decisions regarding the utilization of aid are made. This tendency is observed in both Liberia, which has little experience in elaborating a poverty reduction strategy, and Uganda, from which the very idea of a poverty reduction strategy was originally derived (AFRODAD, 2007e: 26–27). In one country, which is regarded as a demonstration case for how an aid-dependent country can negotiate and create space for pursuing its own policy agenda, government officials and donors have increasingly come together "to negotiate and plan development activities from macroeconomic

management to specific thematic initiatives" (Hayman, 2007: 20). This is regarded as one of the "the perverse outcomes of an aid system which aims at increasing local ownership but which leads to heightened external entanglement in internal policy processes" (ibid.: 20).

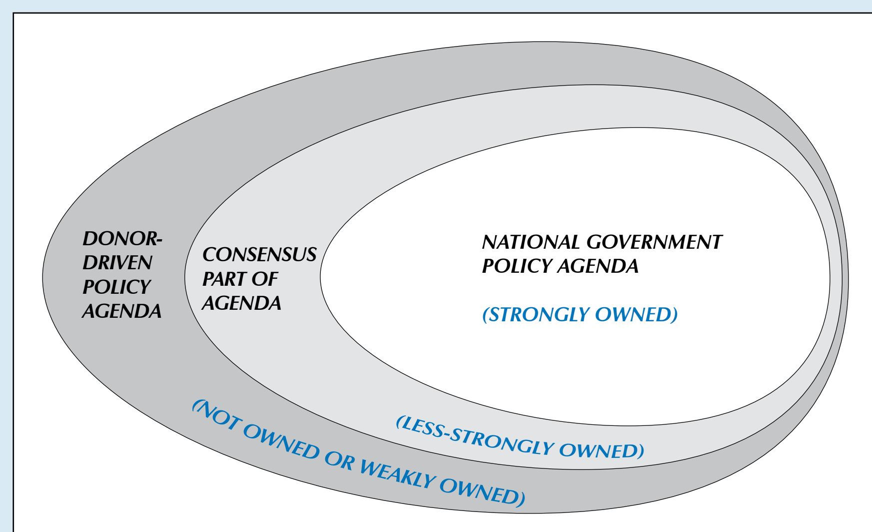
The overall policy agenda of a PRSP has a core policy agenda which is strongly owned by the national Government; a policy agenda which is negotiated with donors, around which there is broad consensus and agreement; and a part of the policy agenda which is donor-originated and donor-driven.

It should be noted that these interactions do not necessarily infringe upon domestic interests.[7] However, an outcome of this involvement is that the PRSPs can be seen as an amalgam of policy elements that include some strongly related to a donor development agenda and others that are related to a national development agenda. With this view, Furtado and Smith (2007) have proposed that the overall policy agenda of a PRSP can be conceptualized as having three spheres: (a) a core policy agenda which is strongly owned by the national Government; (b) a policy agenda which is directly or indirectly negotiated with donors and around which there is broad consensus and agreement; and (c) a part of the policy agenda which is donor-originated and donor-driven and which enjoys very little or very narrow country ownership (see chart 21). In effect, there is an ownership frontier within the PRSPs.

Their broad scope is one of the key features of the second-generation PRSPs. The location of ownership frontier — and the size of the area of strong country ownership — may be expected to vary between countries according to their technical capacity and also leadership in designing the PRSPs. The issues which are matters of dispute also vary between countries. But it is notable that, in the case studies where it is possible to identify areas of disagreement, primary areas of disagreement often related to productive sector development. In Mozambique, areas of disagreement in 2006 were related to land privatization, the creation of a development bank and governance (De Renzio and Hanlon, 2007). In Ethiopia, the areas embraced by donors but enjoying little government support were liberalization of the fertilizer distribution system, financial sectors and telecommunications, whilst the areas which the Government supported but the donors did not share the same view were approaches to the financial sector, industrial development and support for agriculture. In all these cases, Government believed in a more proactive role for the State (Furtado and Smith, 2007).

There is an ownership frontier within the PRSPs.

Chart 21. The ownership frontier within PRSPs



Source: Based on Furtado and Smith (2007: figure 3).

F. Processes weakening country ownership — policy implementation

The fact that the new PRSPs cover a very broad policy agenda and include an ownership frontier within them is a critical feature of how ownership is now working in LDCs. Even though the strategies contain priorities which are expressed in their key pillars, these now cover so many issues that it is possible for conditionalities to be drawn from the strategy and for donors to allocate aid in ways which are aligned and harmonized with their priorities but focus more on the donor priorities within the national agenda. Policy implementation is thus critical to how ownership works in practice.

That the new PRSPs cover a very broad policy agenda and include an ownership frontier within them is a critical feature of how ownership is now working in LDCs.

1. Policy conditionality

In the past, policy conditionality was a principal mechanism through which country ownership was undermined. However, both the World Bank and IMF have made major efforts in the last few years to reduce the intrusive and negative effects of policy conditionality. The IMF issued new Guidelines on Conditionality in 2002 which reaffirmed that the key purpose of conditionality is to ensure that fund resources are used to assist a member resolve its balance of payments problems. The design of conditionality should be formulated through a mutually acceptable process led by the country itself and programmes supported by the PRGF should normally be based on the PRSP. Policy conditionality should be parsimonious, focusing on conditions that are critical to the achievement of programme goals, and should be integrated within a coherent country-led framework. Since 2000, the World Bank has sought to streamline conditionality and exercise more selectivity by focusing its support on countries which were committed to the policies it was advocating. In 2006, following an extensive review of conditionality, the World Bank adopted five "Good Practice Principles" that are intended to govern the way Bank staff apply conditionality, namely: (a) reinforce country ownership; (b) agree up-front with the Government and other financial partners on a coordinated accountability framework (harmonization); (c) customize the accountability framework and modalities of bank support to country circumstances; (d) choose only action critical for achieving results as conditions for disbursement; and (e) conduct transparent progress reviews conducive to predictable and performance-based financial support.

Policy implementation is critical to how ownership works in practice.

In the past, policy conditionality was a principal mechanism through which country ownership was undermined...

There is only limited evidence of how the switch from the old-style conditionality, which was applied in the 1980s and 1990s, to the new-style conditionality is working out in practice. The IMF Independent Evaluation Office (IEO) (IMF, 2007a) evaluation of progress found that "there is no evidence of a reduction in the number of structural conditions following the introduction of the streamlining initiative" (p. 24) and "arrangements continued to include conditions that do not appear to have been 'critical to programme objectives'" (p. 26). A sectoral analysis shows that "programmes contained a large number of structural conditions dealing with many aspects of policymaking" and "often these conditions were quite detailed, even when they covered areas over which the Fund had little expertise and that were outside its core areas of responsibility" (p. 14). It also found that the use of specific structural conditions in the period 2004–2005 were no better justified than in 1999–2003, and that "well-specified medium-term roadmaps were present in PRGFs only in those countries whose Poverty Reduction Strategy Paper contained a well-developed medium-term policy assessment" (p. 26). Mozambique was the only example which the evaluation found in the countries it studied.

... however, both the World Bank and IMF have made major efforts in the last few years to reduce the intrusive and negative effects of policy conditionality.

The Review of World Bank Conditionality found that, in the early 2000s, there was a drop in the number of binding conditionalities but a rise in the number of indicative benchmarks which guide rather than compel policy action. Public sector governance was the fastest-growing conditionality theme in IDA loans, with half of public sector governance conditions relating to public expenditure management, financial management and procurement-related conditions. The share of social sector conditionality is also growing and public expenditure management conditions are used more in countries with lower social sector spending, lower social conditions, and higher poverty. Compared with the 1990s, there has also been a shift to tailor conditionality in ways more appropriate for very poor countries (World Bank, 2005a).

Compliance with IMF macroeconomic conditions is still of major importance for bilateral donors.

From the country cases studies within the published literature, a number of tendencies associated with new-style conditionality can be discerned in LDCs. Firstly, compliance with IMF macroeconomic conditions is still of major importance for bilateral donors. ODA inflows to both Malawi and Zambia were cut in 2003, owing to failure to meet macroeconomic targets (AFRODAD, 2006: 13) and the same thing occurred in Sierra Leone in 2007 (EURODAD, 2008a). Compliance with the conditions within the PRGF is also becoming an entry-level condition for budget support, as the Sierra Leone case shows.

ODA inflows to both Malawi and Zambia were cut in 2003, owing to failure to meet macroeconomic targets, and the same occurred in Sierra Leone in 2007.

Secondly, IMF macroeconomic conditionality is strongly oriented towards achieving macroeconomic stability and, with this in view, it has been targeting low financial deficits and inflation lower than 5 per cent, and also setting wage bill ceilings. These policies are often vigorously opposed by civil society groups. They are usually strongly supported by a narrow circle of officials. But the scope for choice and political debate about the costs and risks of alterative macroeconomic frameworks has been limited because of the limited exploration of more expansionary but feasible policy options (Working Group on IMF Programmes and Health Spending, 2007).

Thirdly, there is a greater division of labour between the World Bank and IMF, and together they continue to recommend privatization and liberalization. AFRODAD (2006) reports that, in Ethiopia, conditionalities under PRGF are greater than under ESAF and encompass (a) liberalization of the external sector and interest rates; (b) the reorientation of spending to poverty alleviation; and (c) the speeding up of tax reform, privatization and the strengthening of the private sector, including removing barriers to foreign bank entry. EURODAD (2007) found that the overall number of conditions the World Bank is attaching to its development finance (including legally binding conditions and structural benchmarks) is falling in poor countries. However, this is related to the practice of bundling a number of policy actions related to one objective as one condition. Moreover, "more than two thirds of loans and grants (71 per cent) from the IDA still have sensitive policy reforms attached to them" (ibid.: 3). In this context, privatization and liberalization remain important themes, often now classified as part of public sector reform. The research found that, on average, loans contained six privatization-related conditions each (ibid.: 17). Examples are Bangladesh (privatization of health), Rwanda (privatization of tea plantations), Burkina Faso (private management of electricity sector) and Afghanistan (privatization of State-owned enterprises).

For LDCs there has been a very slight decline in the number of structural conditions attached per IMF programme between 2003–2004 and 2005–2007.

Using a broad definition of policy conditionality, Molina and Pereira (2008) show that there has been an increase in IMF structural conditionality recently. But for the LDCs in their sample of countries, their data indicate there has been a very slight decline in the number of structural conditions attached per IMF programme between the periods 2003–2004 and 2005–2007 — from 13.5 to 13 per programme. This analysis includes prior actions (policy reforms that have

to be acted upon prior to receiving funds), performance criteria (policy reforms that have to be acted upon during a PRGF in order to gain access to subsequent disbursements) and structural benchmarks (which are not legally binding but are used to assess performance of a loan). The total number of binding conditions per loan has stayed almost constant at seven per programme. Nevertheless, a third of all structural conditions attached to PRGFs approved for LDCs since 2005 focus on "sensitive" policy reforms. "Sensitive" policy reforms are defined as reforms which limit fiscal space conditions, increase regressive taxation conditions, or require public sector restructuring, banking and financial sector privatization and liberalization, or other kinds of privatization and liberalization. The share of sensitive reforms is significantly down from a half in 2003–2004. But the share is higher in some countries. For example, in Benin, 7 of 13 conditions in 2005 required privatizing State-owned enterprises in the infrastructure, telecommunications and cotton sectors (Molina and Pereira, 2008). Both privatization and liberalization of the banking and financial sectors remain key conditionalities for LDCs (table 35).

A third of all structural conditions attached to PRGFs approved in LDCs since 2005 focus on "sensitive" policy reforms.

Fourthly, there is a tendency for policy conditionality to be increasingly drawn from Government documents. But the tensions between conditionality and ownership still remain. The IMF IEO interviews with national authorities found that some LDCs saw IMF structural conditionality as being imposed on them and not adapted to the country's institutional circumstances, implementation capacity or political constraints, whilst others saw it as excessive and inflexible in the face of shocks (IMF, 2007a: 20). Case studies of conditionality in relation to privatization and liberalization in Bangladesh, Mozambique, Uganda and Zambia found a range of interactions (Bull, Jerve and Sigvaldsen, 2006). In Zambia, pressure was put on the Government to privatize State-owned banks and utilities. In Bangladesh, privatization of parts of the energy sector was viewed as aligned with governmental priorities and earlier reviews of the sector. However, the World Bank was heavily involved with those reviews, and some government officials said that the policy agendas did not reflect government priorities and pressure was

Macroeconomic stabilization, privatization and liberalization are still important types of conditionality, and these are now being complemented with more governance conditionalities.

Table 35. Structural conditionality[a] attached to PRGF loans in LDCs: 2003–2004 and 2005–2007

	2003/2004	2005/2007
Number of programmes	**11**	**15**
Total conditions	**149**	**196**
of which:		
Binding	77	104
Non-binding	72	92
Total non-sensitive	100	139
Total sensitive	49	57
of which:		
Banking and financial sector liberalisation	19	19
Limiting fiscal space	0	8
Regressive taxation	2	3
Privatisation related	18	15
Public enterprise restructuring	3	7
Liberalisation related	7	5
Total sensitive privatization and liberalisation conditions	44	38
by sector:		
Bank and financial sector	20	19
Trade and prices	7	4
Natural resources	6	4
Telecommunications	1	3
Energy and water utilities	1	2
Infrastructures and transport	0	5
Other	9	1

Source: Personal communication with EURODAD, based on database of Molina and Pereira (2008).
a Includes prior actions, performance criteria and structural benchmarks.

applied to implement the policies. In Mozambique, the World Bank was a major proponent of privatization of the energy sector, but moved away from this when government priorities shifted away from privatization. In Uganda, privatization and liberalization are not major elements of current reforms and all Poverty Reduction Strategy Credit (PRSC) conditionalities are jointly decided by government and donors. AFRODAD (2007b:22) states that in Mozambique, some privatizations which are conditionalities are not clearly spelt out in the PRSP but, nevertheless, are being implemented. These are private concession for management of the major port, private management of water in five cities and private concessions on energy, telecommunications and transport services.

There have been major shifts in the practice of policy conditionality including a greater shift towards administrative guidance through benchmarks rather than legally binding conditionality. But much less shift in its content.

To sum up, it can be said that there have been major shifts in the practice of policy conditionality but much less shift in its content. There is little clear public evidence that conditionalities are imposed on countries and there is an increasing tendency for policy conditionalities to be negotiated based on government documents. There is also a greater shift towards administrative guidance through benchmarks rather than legally binding conditionality related to clearly-specified variables and measures which, in case of non-observance, lead to the interruption of disbursements. Macroeconomic stabilization, privatization and liberalization are still important types of policy conditionality, and these are now being complemented with more governance conditionalities.

Policy conditionality has not been conducive to policy pluralism. The degree of detail of conditionality is also a problem. The effect of conditionality is to focus the tempo and content of policy actions.

Policy conditionality has not been conducive to policy pluralism. One effect of the content of policy conditionality is to ensure that the strategic thrust at the heart of the national development strategies of LDCs is still liberalization and privatization within a tight fiscal and monetary policy. As indicated in the last chapter, in an LDC context, this development model has not been leading to sustainable and inclusive growth.

The degree of detail of conditionality is also a problem. For example, the structural conditionality attached to the PRGF in Sierra Leone included the introduction of a photo verification system for civil servants and teachers as part of structural measures to strengthen wage bill policies (Fedelino et al., 2006: Appendix 3). Whatever the merits of this as a measure to eliminate ghost workers, the example illustrates the level of detail of conditionality and raises the question of whether or not such actions should be a major priority for development planning in Sierra Leone. The effect of conditionality is to focus the tempo and content of policy actions. In the process of policy implementation, what happens is that the task of meeting the conditions must take precedence over the promotion of development.

2. Donor financing choices

Given the broad policy agenda contained in the PRSPs, donor financing choices are an important determinant of which programmes within the PRSP get financed.

Given the broad policy agenda contained in the PRSPs, donor financing choices are an important determinant of which programmes within the PRSP get financed. In one case study, it is suggested that because of the broad nature of the PRSP, any aid money can be aligned to the PRSP and thus “donors select and fund their own priorities from the PRSP as they narrow down what they will focus their spending on” (EURODAD 2008a). In another case, it is reported that the PRSP involves “a vastness of areas and activities, to such as degree that almost all donor areas and activities find a place” (IPAM, 2008: 35).

Donor involvement in what gets financed occurs even when donors commit to general budget support. In that case, performance assessment frameworks are negotiated to set priorities in the way in which budget money is spent. In the best case, this involves mutual commitments, as they have in Mozambique (Castel-

Branco, 2007). However, in another country, one donor official is reported as stating that "initially the donors do a draft to agree on the conditions and then these are taken to the Government to be discussed" (EURODAD, 2008a: 17). In that country, the targets in the Performance Assessment Framework (PAF) priorities were extremely wide-ranging, including (a) specified targets for rural feeder roads in good condition; (b) number of bed nets with long-lasting insecticide distributed annually; (c) improvement in primary school pass rate; (d) civil service reform; (e) implementation of decentralization; (f) the submission of legislation on financial sector reform; and (g) procurement reform to increase international competitive bidding. These are not necessarily undesirable *per se*, but they orient the direction and pace of national development planning in the same way the policy conditionality does.

There are various processes through which the financing of productive sectors is currently getting neglected in the implementation process.

One of the hallmarks of the PRSPs written since mid-2002 is that they are no longer narrowly focused on increased social expenditure, but also include the development of productive sectors. However, there are various processes through which the financing of productive sectors is currently getting neglected in the implementation process.

Although productive sectors often appear among the priority policy objectives, they do not receive the necessary attention in action matrices which focus policy actions.

Firstly, although productive sectors often appear among the priority policy objectives, they do not receive the necessary attention in the action matrices which focus policy actions. This has been observed for science and technology intervention in Mozambique and also on rural productive development in Malawi (Warren-Rodriguez, 2007; Cabral, 2006). In the case of Malawi, the outcome is related to the difficulty of achieving a policy consensus on agriculture and rural development. In the case of Mozambique, the marginalization of science and technology is related to the low priority given by donor agencies to science and technology as well as "the fragmented nature of development aid in Mozambique, with a plethora of donor agencies, non-governmental organizations (NGOs) and international development organizations operating in the country, each using a variety of funding and technical assistance mechanisms and most aid funds, as well as associated technical assistance, being disbursed directly to sectoral ministries or, even, specific projects in priority sectors" (Warren-Rodriguez, 2007:31). Such fragmentation makes it difficult to treat cross-sectoral issues such as science and technology in the action matrix, even though they are identified as central in the plan.

Active policies to promote productive sector development are often on the wrong side of the ownership frontier.

Secondly, as noted above, active policies to promote productive sector development are often on the wrong side of the ownership frontier. In the case of Malawi, strategy disagreements over agricultural development meant it was difficult to get donor support. A lack of policy pluralism in relation to private sector development is also weakening discussion of alternatives. Box 6 illustrates how private sector development and the promotion of structural change were marginalized in the preparation of Mozambique's second-generation poverty reduction strategy.

Donor efforts to support productive sector development are sometimes misaligned.

Thirdly, donor efforts to support productive sector development are sometimes misaligned. Shepherd and Fritz (2005) reported that large shares of donor funds for rural productive sectors were made available through off-budget projects and programmes. They quote a World Bank review of alignment of its PRSC and the rural priority activities in the action matrices of the PRSPs of 12 countries published in 2005 which found that there was very low alignment. Out of 189 rural priority activities, only 38 per cent were taken up in the PRSC.

Fourthly, even where aid is aligned with government priorities through budget support, the allocation of aid is oriented towards social sectors. In Mozambique, for example, the crucial role of small-scale agriculture for income generation

Box 6. The treatment of private sector development, technology issues and manufacturing in Mozambique's second-generation PRSP

Mozambique's second-generation PRSP, PARPA II, has made some progress in incorporating productive considerations in the Government's poverty reduction efforts, including those related to private sector development, especially when compared to Mozambique's first PRSP. But the discussions on private sector development — in which representatives of the Government, the business community and aid agencies participated — essentially focused on investment climate issues, largely leaving aside other considerations. Questions relating to international trade and investment policy, infrastructure development, industrial capacity-building or institutional reform — which could have provided an opportunity to address issues relating to science and technology development — were, for the most part, absent in these discussions. As a result, the document put forward by the PARPA II private sector working group basically consisted of some key measures relating to major investment climate constraints, plus an amalgamation of initiatives put forward by the various ministries involved in these discussions — tourism, agriculture, mineral resources, energy, fisheries, and trade and industry. These initiatives not only did not respond to any coordinated effort to formulate a consistent strategy for private sector development; in addition, their quality was considerably impaired by the weak institutional and — in particular — planning and policy formulation capacities that exist in many of these ministries.

Furthermore, the organization of the PARPA II preparation process into working groups of a sectoral nature, together with lack of effective intersectoral coordination mechanisms prior and during the preparation of PARPA II, made it difficult to address issues cutting across the various policy spheres intervening in the promotion of private sector development. For instance, the private sector's concerns on the lack and cost of investment finance in Mozambique were not incorporated, or even taken into account, in the PARPA II discussions regarding macroeconomic policy considerations, an issue which is largely driven by the Government's PRGF negotiations with the IMF. Similarly, the discussion and definition of initiatives in the spheres of TVET or infrastructure development undertaken by the PARPA II working groups dealing with education and infrastructures did not include the participation of members of the private sector working group, nor explicitly incorporate the private sector's concerns in each of these areas. The same was the case with the incorporation in the PARPA II private sector development strategy of the recommendations made by the science and technology working group, which were generally not explicitly addressed during this process.

The PARPA II strategy for private sector development largely neglects technical capacity and technology upgrading considerations, essentially focusing on investment climate issues. Despite several references in the text to the need to "promote the creation of a strong, dynamic, competitive and innovative private sector", measures to do this are largely absent in the matrix of strategic initiatives included at the end of the PARPA II document, against which the implementation of this strategy is monitored and assessed. The overall outcome reflects the little clout that issues relating to industrial technological development currently hold in the Mozambican policy agenda, as well as the predominance of privatization and liberalization, together with an improved investment climate, as the key policy mechanisms to promote productive development.

Source: Warren-Rodriguez (2007).

In Mozambique, while agriculture and rural development are identified as priority poverty-reducing sectors in the budget, only 3.3 per cent went to agriculture and rural development.

and survival of the majority of the population is widely recognized, but public investments in agriculture and rural development are marginal. Agriculture and rural development are identified as priority poverty-reducing sectors in the budget. But in 2006, amongst the priority poverty-reducing sectors, 20 per cent of the budget went to education, 15 per cent to health, 16 per cent to infrastructure, 13 per cent to governance and the judicial system, and only 3.3 per cent went to agriculture and rural development (IPAM, 2008: table 2). The annual average share of the budget going to agriculture and rural development between 2004 and 2005 was 3.9 per cent. To what extent this is a government preference is unclear. AFRODAD (2007f) notes that in Mozambique some sectors get more assisted than others and the education and health sectors appear to be "donor sectors" (p.23).

Finally, "there are often serious capacity constraints at the sector level that affect the quality of policy development and analysis, planning, costing, budgeting, implementation and M&E" (AFRODAD, 2007e: 28).

G. Processes weakening country ownership — the continuing problem of aid misalignment

In the 1990s, as indicated above, country ownership was undermined by a combination of traditional policy conditionality, the misalignment of aid with national priorities and government processes, and all-pervasive coordination failures in the delivery of aid. These problems are being addressed through the Paris Declaration and the most recent progress will be assessed later this year. However, the OECD/Development Assistance Committee (DAC) *2006 Survey on Monitoring the Paris Declaration* summarized its chief finding with the judgement that, "in half of the developing countries signing on to the Paris Declaration, partners and donors have a long road ahead to meet the commitments they have undertaken" (OECD/DAC, 2006:9). The report also notes "a strong disconnect between headquarters policies and in-country (donor) practices" (ibid.: 10). A recent civil society report, financed by DFID to increase the perspectives of southern civil society on the aid effectiveness process, finds that donors are progressing in some areas but: (a) too little aid is still provided through national systems; (b) parallel management systems continue to proliferate; (c) aid disbursements are still unpredictable, disrupting development planning and implementation; and (d) even though some positive actions are being taken, an accountable aid system is still a distant prospect (EURODAD, 2008b: 7). Similarly, the synthesis study of cases studies of aid effectiveness in Africa found that "there is a clear difference between the structure of central government budget allocation and aid allocation, particularly when off-budget aid flows are included" (AFRODAD, 2007e: 28).

The OECD/DAC 2006 survey found that in half of the developing countries signing on to the Paris Declaration, partners and donors have a long road ahead to meet the commitments they have undertaken.

The degree to which assistance to LDCs remains off-budget, off-plan and uncounted varies between countries. Box 7 illustrates the situation in Afghanistan between 2003 and 2006, a case in which the national Government made strenuous efforts to ensure that aid was well-aligned with government priorities. This is obviously a special case given the security situation. But it is not necessarily untypical of what happens in other LDCs.

In one country, for example, donors provided $361.3 million in 2006, funding 265 different projects at an average of approximately $1 million per project (EURODAD, 2008a). This aid is meant to support the work of ministries, departments and agencies. But the vast majority of this money does not appear in the government budget and is not managed by any government body. Rather, it is spent through separate projects, so-called project implementation units. It is estimated that two thirds of donor project aid is not reflected in the budget. The Government also has incomplete information of how much aid has been spent and on what. Moreover, donors disbursed less than half of the aid that they had committed to the country in 2006. In this country, only 18 per cent of aid is provided as budget support. But access to budget support is conditional upon (a) continued good macroeconomic performance, as evidenced by satisfactory progress under an IMF programme; (b) satisfactory progress in PRSP implementation; and (c) continuous improvements in public finance management, as well as in implementing actions agreed in the PAF. Overall, the authors of this case study argue that the current situation reflects high levels of aid dependence, together with a major Government capacity gap after years of conflict and brain drain. The Government has made some progress in improving aid coordination and information through the establishment of the Development Assistance Coordination Office. But owing to mutual distrust, donors continue the practice of "heavily conditioning their aid, setting up parallel project units to control their aid and trying to mould policymaking" (EURODAD, 2008a: 4).

The degree to which assistance to LDCs remains off-budget, off-plan and uncounted varies between countries.

Box 7. Aid delivery in Afghanistan, 2001–2006

The Government formulated a national development strategy, identified priority programmes, established a set of principles and rules for donor interaction and set up a number of institutional mechanisms for managing donors (including the Afghanistan Development Forum and consultative group process). Its approach to aid implementation had the following characteristics:

(a) Pooling of financing to the budget, either directly or through trust fund or common programming mechanism. The Afghanistan Reconstruction Trust Fund was established to pool donor financing behind a single set of policies and implementation mechanisms, creating cost-effective modalities and policy coherence;

(b) Alignment behind the Government's strategy and policy agenda, most notably through the adoption of the National Development Framework and the budget as the policy basis;

(c) Programme implementation through Government-managed national projects and programmes, tendered through transparent mechanisms to the most effective organization for the job, whether private sector, NGO or international organization;

(d) Reporting on implementation of the budget through a single annual report that was shared with the population, Parliament, media and international community (Lockhart, 2007: 18–19).

Some international organizations and donors aligned behind this approach. But the largest bilateral donors and United Nations agencies, and the humanitarian funding system, did not follow this model. Instead, they adopted a project-based, donor-managed approach whose key characteristics were that:

(a) Financing flows went directly from each donor agency to the respective implementation agency, and not through the Government of Afghanistan;

(b) Strategy and policy for the financing programme was determined by the donor, usually in national or international headquarters, and is not included in the Afghanistan budget process;

(c) Implementation (procurement, accounting, management) took place through projects managed by international staff and project units outside the Government of Afghanistan; and

(d) Reporting took place from the implementing agency to the donor agency and is not incorporated in the national annual report (Lockhart, 2007: 19).

A number of donors provided part of their assistance through the Government's preferred modality but continued to finance "a significant proportion of their assistance through parallel mechanisms" (Lockhart, 2007: 20).

That the Government approach was followed at all depended on: (a) the leadership and vision of the Government of Afghanistan; (b) the quality of the programmes prepared by the Government and consistent progress in implementing them; and (c) trust between national leaders and international counterparts. Donors who did not have a record of channeling money through donor support mechanisms and who met core costs through percentages from projects were more likely to use parallel mechanisms. Those that had experience with budget support, were interested in the cost-effectiveness of aid and which recognized the links between aid for security, humanitarian assistance and economic development were more willing to support the government-led approach. In 2004, it is estimated that international actors spent $15 billion on security and $2 billion on economic and humanitarian assistance; of the latter, $200 million was directed to the Government.

This case shows the high cost to the Government of donor practices. For aid delivered through the second donor-managed approach, it is estimated that "anything between 40 and 90 per cent of a project cost is spent on overheads abroad" and "given the long contractual chain of many donor-managed projects, the resources that were available for a project on the ground would often be a fraction of that allocated to a particular project" (Lockhart, 2007: 25). Technical assistance is also very expensive. In 2005, Afghanistan received $600 million a year in technical assistance, which outweighed the costs of the entire civil service of 260,000 people. There is also a high cost in terms of the effectiveness of state institutions. Firstly, international staff deployed in the country required drivers, translators, secretaries and guards. Because of the high salaries which the Government could not match, these were often recruited from the civil service, where they had previously worked as teachers, doctors and managers. Secondly, the hundreds of different projects each came with specific internal rules for procurement, managing and reporting, and this undermined the coherence of laws and procedures in the country (ibid.:26). Thirdly, government authorities could not focus on formulating and implementing their own policy agenda. "To try to limit the negative impact of one of the parallel processes put into effect in competition with the national budget process, eight senior managers of the Afghanistan Coordination Assistance Authority had to spend six weeks during budget preparation time to review $1.8 billion projects prepared by United Nations agencies, instead of using their time to prepare and implement the national budget. Sixty per cent of these projects were subsequently rejected on the basis of World Bank rules" (Lockhart, 2007: 28).

Source: Lockhart (2007).

This situation is illustrative of what OECD (2003) calls "the low ownership trap". This arises when there is low capacity of the Government in a recipient country and donors fear aid will not be well-managed by the Government, either because of inadequate policies or inadequate management. Donors reduce this risk by bypassing Government and setting up parallel structures, for example, management units run by consultants. The Government has low ownership of what is happening and does not participate. This reduces trust on the part of donors, which reinforces their orientation not to integrate their activities with those of the Government. The parallel implementation units also pull scarce skills away from Government, and this further undermines capacity and reinforces the tendency of donors to seek to bypass government systems.

Some LDCs are caught in a low ownership trap but the problems of poor integration of aid with government plans and budgets are not simply confined to such countries.

However, the problems of poor integration of aid with government plans and budgets are not simply confined to countries which could be described as being caught in a low ownership trap. This is evident in the overview to the Rwanda Aid Policy, published in 2006, which lists the following problems in terms of the way in which aid was being delivered in Rwanda:

(a) "Excessive conditionality arises and this may result in problems of predictability;

(b) "High transactions costs lower the real value of assistance — donors continue to place significant demands on Government in terms of time, reporting needs, and use of other resources through numerous missions and meetings;

(c) "Incomplete reporting of ODA to the Government reduces transparency, and hinders the ability of Government to monitor and manage the assistance Rwanda receives. This information is critical to the planning and budgeting process, as well as the execution of the development budget. It is difficult to obtain a complete picture of external assistance to Rwanda, as some donors are unwilling or unable to meet the Government's request for information;

(d) "Too frequently donors continue to promote their own, often political objectives at the expense of Government ownership. Much assistance remains off-plan and off-budget, reflecting a lack of alignment with Government priorities and systems;

(e) "The existence of large vertical funds, while beneficial to development in some areas, may have a distortionary effect in the allocation of resources across sectors and subsectors; and

(f) "Technical assistance is not always effective, and in some instances is perceived to undermine local capacities rather than improving them" (Government of Rwanda, 2006: 1–2).

Although progress is being made, the slow alignment of aid with recipient countries' priorities, systems and procedures remains a problem which weakens ownership in a range of LDCs.

However, the document also acknowledges that the Government itself has major capacity problems, which result in poor coordination and implementation, and that "the lack of clear process in some cases leads line ministries and decentralized entities to negotiate directly with donors" and that the Government may also put unstructured demands for information on their development partners" (ibid.: 1–2).

To sum up, it is clear that, although progress is being made, the slow alignment of aid with recipient countries' priorities, systems and procedures remains a problem which weakens ownership in a range of LDCs.

H. Adverse consequences of weak country ownership

Weak country ownership has adverse consequences for the effectiveness of the poverty reduction strategies in promoting economic growth, reducing poverty and achieving the MDGs.

Weak country ownership has adverse consequences for the effectiveness of the poverty reduction strategies in promoting economic growth, reducing poverty and achieving the MDGs. There are in particular three features of their design and implementation which can be related to weak ownership but which undermine their effectiveness. These are related to (a) the weak integration of the macroeconomic framework with sectoral and trade policies; (b) the downscaling of ambition in relation to increased aid inflows; and (c) the inadequate level of financing for productive sector development.

1. The weak integration of the macroeconomic framework with sectoral and trade policies

Only 20 per cent of World Bank respondents agreed or strongly agreed that IMF PRGF programmes in Africa focused on growth.

It is widely recognized that the macroeconomic frameworks which LDCs have agreed with the IMF have helped to promote macroeconomic stability, in particular to bring down inflation. However, there is much more controversy about the effects of the macroeconomic framework on economic growth, poverty reduction and the achievement of the MDGs. Results from an IMF survey of views on PRGF design in sub-Saharan Africa found that only 55 per cent of IMF respondents and only 20 per cent of World Bank respondents agreed or strongly agreed that the programmes focused on economic growth (IMF, 2007b). Still fewer IMF respondents believed that they focused on poverty reduction or the MDGs (38 per cent and 13 per cent, respectively), and the numbers were still fewer for World Bank respondents (12 per cent and 3 per cent, respectively). Respondents from national authorities held more or less the same views as the IMF respondents, but a slightly higher proportion agreed or strongly agreed that they were focused on growth and 26 per cent believed that they were focused on MDGs (table 36).

Fiscal and monetary policies generally target low fiscal deficits and inflation at 5 per cent of below. The evidence from African countries indicates that there has been increasing flexibility with the shift from ESAF to PRGF programmes. The PRGF programmes since 2003 have targeted a small (1 per cent) increase in the fiscal deficit before grants, whereas the ESAF programmes targeted substantial cuts (by 3 per cent of GDP over the three-year programme period). But a number of qualified analysts believe that despite the looser policy stance, these targets are still too conservative in relation to economic growth, poverty reduction and the achievement of the MDGs.[8]

An important adverse consequence of the narrow ownership of the macroeconomic policies is that there is a lack of integration between macroeconomic policies and sectoral policies, and also with trade policies.

Wherever one stands in relation to these economic debates, an important adverse consequence of the narrow ownership of the macroeconomic policies is that there is a lack of integration between macroeconomic policies and sectoral policies, and also with trade policies. The lack of integration between

Table 36. The design of IMF's Poverty Reduction and Growth Facility in sub-Saharan Africa: Survey views on growth and poverty orientation

Design of PRGF programmes focused on:	Percentage of respondents "Agreeing" or "Strongly Agreeing":			
	IMF	*National Authorities*	*World Bank*	*Donors*
Macro stability	100	98	98	97
Growth	55	57	20	53
Poverty reduction	38	36	12	23
MDGs	13	26	3	13

Source: Adapted from IMF (2007b), table A5.3.

the macroeconomic policies and sectoral policies means that different policy options cannot be adequately explored. For example, the impact of different spending choices on domestic prices depends on sectoral parameters (such as the composition of spending, the extent of spare capacity, and the ability of public spending to crowd in private investment). In assessing the potential for public spending, it is necessary to integrate sector-level information on costs and consequences (Working Group on IMF Programs and Health Spending, 2007).

The lack of integration of the macroeconomic framework with the trade policies is a further adverse consequence of the narrow ownership of the macroeconomic policies. In this regard, it was proposed in *The Least Developed Countries Report 2004* that the key to integrating trade into poverty reduction policies was through the export and import forecasts which are part of the macroeconomic framework. The detailed trade policies need to be realistically related to these forecasts and export and import policies geared to achieving these goals. However, in practice, despite the increase in trade policy content in the PRSPs, the trade objectives in the macroeconomic framework float freely, having no connection with the more detailed trade objectives and policy measures contained in the main text of the PRSP. This disarticulation is related to weak integration of the macroeconomic framework with the rest of the document.

An adverse consequence of weak ownership is the downscaling of ambition in relation to increased aid inflows.

2. The downscaling of ambition in relation to increased aid inflows

A second adverse consequence of weak ownership is the downscaling of ambition in relation to increased aid inflows. It is clear that most LDC Governments want increased aid inflows. But there is a fundamental mismatch between this desire and the way in which PRSPs are written. This arises once again because the macroeconomic framework is usually based on projections of future aid inflows which dampen expectations of both donor and recipient countries in the scaling up of aid. This results in minimalist poverty reduction strategies rather than poverty reduction strategies which explore the effects of the scaling-up of aid.

In general terms, it is possible to project future aid inflows on the basis of (a) the minimum requirements for viable macroeconomic programmes; (b) past aid trends; (c) normative financing requirements to achieve growth, poverty reduction or MDG targets; or (d) the third approach adjusted for absorptive capacity constraints. In general, IMF (2007b) finds that, in African countries with PRGF programmes, the first and second approaches have been followed. Moreover, in general, very modest short-term projections of aid inflows are made because aid inflows are volatile, because there is past experience of actual disbursements falling short of commitments and because the major concern is to ensure that programmes are not underfinanced.

The general approach to forecasting aid inflows is that development strategies are downscaled to be realistic in terms of past aid inflows, rather than upscaled to explore how increased aid inflows can be effectively used to promote economic growth, poverty reduction and the achievement of the MDGs.

Where the forecasts come from is not entirely clear. IMF (2007b) says that IMF staff generally took the forecast of the authorities for the programme year, validated through discussion with donors. But in post-conflict countries where government capacity was limited, IMF staff played a more active role in working with authorities to aggregate donor plans in the context of the programme's macroeconomic framework. Interviewed staff said that the authorities were in many cases very conservative about future aid flows and, for medium-term forecasts, staff often triangulated between the authorities' forecasts, to which they added a premium, and indications from donors.

The consequence of the general approach to forecasting aid inflows is that development strategies are downscaled to be realistic in terms of past aid inflows rather than upscaled to explore how increased aid inflows can be effectively used

to promote economic growth, poverty reduction and the achievement of the MDGs. Recently, the IMF has undertaken some in-depth analyses of alternative scenarios to scale up aid in some countries – Ethiopia, Madagascar, Mozambique, Rwanda and Zambia (Goldsbrough and Elberger, 2007). However, in general, Governments are placed in a very difficult dilemma in drafting their PRSPs. To be realistic in terms of expected aid inflows, a development strategy cannot draw attention to the vast needs of the LDCs in pursuing MDGs, which is necessary to catalyse the extra flows. This catch-22 leads to a downscaling of ambition by both LDC Governments and their development partners.

Donors will only disburse aid if the macroeconomic framework is certified to be sound by the IMF. But the macroeconomic framework, through its aid projections, may at the same time discourage aid scale-up.

The Working Group on IMF Programs and Health Spending (2007) argues that the projections have also risked sending confused signals to donors. The case studies of Rwanda, Mozambique and Zambia also indicate that the notion that an increase in aid levels is undesirable may also have influenced the projections. When only conservative projections are presented, donors may conclude that this means that more resources cannot be usefully absorbed from a macroeconomic perspective. Donors will only disburse aid if the macroeconomic framework is certified to be sound by the IMF. But the macroeconomic framework, through its aid projections, may at the same time discourage the scale-up of aid. Goldbrough and Elberger (2007: 19) state that "the IMF initially sent signals that tended to discourage a substantial increase in aid. Of the 27 IMF programmes and reviews in sub-Saharan Africa that were completed in the 18 months after the Gleneagles Summit, aid projections in only two were as optimistic as the Gleneagles commitments".

The discouragement of aid scale-up is also apparent in the practices which have been adopted in relation to how actually increasing aid inflows are dealt with and what happens to aid windfalls when forecasts are not right (box 8).

Box 8. The use of increased aid inflows in African countries with PRGF programmes

A recent IMF Independent Evaluation Office Report on how aid is used in African countries which have PRGF programmes indicates that macroeconomic policies have tended to favour using additional aid to reduce domestic debt or rebuild external reserves rather than to increase public spending (IMF 2007b). The IEO study found that (a) if external reserves are less than 2.5 months of imports, virtually all aid is programmed to be saved in the form of higher reserves; (b) if reserves are above this level but inflation is above 5 per cent, 85 cents in every extra dollar of aid is channeled into reducing domestic debt; and (c) if reserves are above the 2.5-month threshold and inflation below 5 per cent, most additional aid is programmed for higher public spending.

The consequence of these rules of thumb have been that, across all countries experiencing aid increases during the PRGF programme period, only 27 cents of each dollar of the anticipated aid increases were programmed to be used for expansion of public expenditure. Some adjustments are made during the programme. But for the period 2004–2006, 91 cents of each additional dollar of aid over the level of the pre-programme year was "saved" in international reserves in Mozambique and 47 cents of each additional dollar of aid was "saved" in Zambia over the same period. Between 13 and 20 per cent of all aid which was received in these countries over this period went into international reserves, and 19 per cent of all aid was saved in that way in Rwanda in 2002–2004 (Working Group on IMF and Health Spending, 2007).

Recommendations concerning how unanticipated aid inflows are dealt with further reduce the pass-through of aid inflows to increased public expenditures. This is important because aid projections are often wrong, particularly given the unpredictability of aid inflows. The case studies of Mozambique, Rwanda and Zambia show that the IMF programmes initially required that in the short term, higher-than-projected aid was saved while public expenditure was cut if aid fell short. However, there is some evidence of increasing flexibility in these countries (ibid.: 39). Similarly, a study of eight African countries found that episodes of lower-than-programmed budget aid led to lower public investment, while higher-than-projected aid did not lead to high investment but instead was saved (Celasun and Walliser, 2005).

These practices in dealing with aid inflows at the country level are a major reason for the increase in international reserves in LDCs noted in chapter 1. Whether or not they are the right policy is an economic judgement. But these practices may work to discourage commitments to scale up aid, reinforcing the signaling effect of the unambitious macroeconomic forecasts.

3. The inadequate level of financing of productive sectors and economic infrastructure

A final adverse consequence of weak ownership is that there is now a growing disconnect between the content of the PRSPs, which are emphasizing the importance of productive sectors and economic infrastructure, and the composition of aid disbursements which, as analyzed in chapter 1 of this Report, are still focused on social sectors and social infrastructure. This mismatch between the changes in the policy content of the PRSPs without a change in the composition of aid is a primary indicator of weak country ownership of national development strategies as they are implemented.

The inadequate financing of productive sectors and economic infrastructure implies that, although the PRSPs aspire to place poverty reduction and the achievement of the MDGs within a broad economic development framework, in practice they do not succeed.

This pattern of allocation is related to donor preference for financing social sectors. These financing choices, coupled with the thrust of policy conditionality, mean that the strategic orientation of the PRSPs in practice is basically a combination of policies promoting stabilization, privatization and liberalization, together with increased donor financing for social sectors. The inadequate financing of productive sectors and economic infrastructure implies that, although the PRSPs aspire to place poverty reduction and the achievement of the MDGs within a broad economic development framework, in practice they do not succeed. Moreover, as discussed in chapter 2 of this Report, it is unlikely that this development model can result in sustained and inclusive development.

I. Practical policy mechanisms to enhance country ownership

One first step which can be made to increase country ownership is the adoption of an aid management policy within LDCs.

Increasing country ownership of national development strategies should be a major priority for improving development and aid effectiveness in LDCs. This is a complex issue which depends on changing relations between donors and recipients. This section focuses on the potential of recipient-led aid management policies and identifies some elements for a broader agenda to enhance country ownership.

1. The potential of recipient-led aid management policies

One first step which can be made to increase country ownership is the adoption of an aid management policy within LDCs. This can play an important role in reducing the multiple ways in which aid delivery is undermining ownership through being unaccounted, off-budget or unaligned with the Government priorities.

An aid management policy is designed and used to ensure that assistance received is of such a type, and is so deployed, as to maximize its contribution to the priorities set out in the country's statements of development strategy.

An aid management policy is different from a national development strategy. The national development strategy identifies goals, objective and targets, and the actions needed to achieve them. The aid management policy does not cover this ground. Rather "it is designed and used to ensure that assistance received is of such a type, and is so deployed, as to maximize its contribution to the priorities set out in the country's statements of development strategy" (Killick, 2008: 5). As we have seen, the PRSPs were actually introduced initially as a debt relief management policy instrument, and they still may be used as an instrument for attracting and channeling aid. By adopting an aid management policy, it is possible to separate, but interrelate the role of the development strategy and the aid management policy.

Significantly, the Paris Declaration encourages recipient countries "to take the lead in coordinating aid at all levels in conjunction with other development resources in dialogue with donors and encouraging the participation of civil society and the private sector" (OECD 2005a: 3). LDC Governments should seize the opportunity of the Paris Declaration and seek to elaborate aid management policies. The Declaration also seeks to promote mutual accountability. This idea is an essential element of more equal development partnership, and it directly seeks to address the imbalance of bargaining strength of donors and recipients. As the Declaration puts it, "[b]ecause demonstrating real progress at the country level is critical, under the leadership of the partner country we will periodically assess, qualitatively as well as quantitatively, our mutual progress at country level in implementing agreed commitments on aid effectiveness. In doing so, we will make use of appropriate country level mechanisms" (ibid.: 3). The Paris Declaration thus encourages countries to take the lead in developing locally appropriate mechanisms to ensure mutual, rather than one-sided accountability.

The evaluation of the process of country-led aid coordination in the United Republic of Tanzania indicates a number of positive developments in the nature of the aid relationship.

Following Killick (2008), a well-working aid management policy should:

(a) Improve the coordination of assistance and reduce uncertainties about actual and prospective aid inflows;

(b) Avoid or reduce the proliferation of sources of assistance and of discrete donor initiatives;

(c) By this and other means, increase the policy space of Governments, reduce the proliferation of conditionalities and raise the predictability of receipts;

(d) As a result of improved Government–donor relations and better harmonization and alignment, reduce transactions costs;

(e) Provide a platform for greater mutual accountability; and

(f) Provide a framework through which technical assistance can become increasingly demand-driven and oriented to recipient capacity development needs.

Some developing countries have taken the lead in elaborating aid management policies. Indeed, a few LDCs are global leaders in the adoption of such policies. The countries which have done so include Rwanda, Uganda and the United Republic of Tanzania, whose experience is summarized in box 9, as well as Afghanistan and Mozambique.

The introduction of jointly agreed monitoring indicators at the country level in relation to donor practices seems to be a particularly powerful way to reduce transaction costs and promote alignment and harmonization.

From the experiences of LDCs thus far, it is apparent that aid management policies can offer a powerful bottom-up approach to better aid coordination (Menocal and Mulley, 2006; De Renzio and Mulley, 2006). The evaluation of the process of country-led aid coordination in the United Republic of Tanzania indicates a number of positive developments in the nature of the aid relationship. These include (a) better data on aid inflows; (b) increased levels of trust; (c) increasing assertiveness on the part of the Government in expressing its preferences; (d) greater rationalization and harmonization of processes and procedures amongst donors; (e) increased predictability of aid, with donors making multi-year aid commitments; (f) reduced transaction costs as donors support a joint assistance strategy; and (g) increased mutual accountability, as performance indicators not only relate to Government actions but also donor actions in relation to aid disbursements (Wangwe et al. 2005). The introduction of jointly agreed monitoring indicators at the country level in relation to donor practices seems to be a particularly powerful way to reduce transaction costs and promote alignment and harmonization.

Box 9. Aid management policies in Rwanda, Uganda and the United Republic of Tanzania

Rwanda:

The Government formally adopted its Rwanda Aid Policy in 2006. However, this was the culmination of a number of prior steps, including the creation of a central machinery for aid coordination, the preparation of a PRSP and sector development strategies, and the establishment of a development partners coordination group. In preparation for the drafting of the aid policy, in 2005 it initiated an independent "Baseline Survey of Donor Alignment and Harmonization" to provide a necessary factual base. Although the aid policy document is clearly a statement of government positions, the manner of its preparation was designed to build consensus. It was the outcome of several rounds of consultation, both within the Government and with its principal donors. Designed to give local effect to the Paris Declaration, its goals are stated to be to increase aid effectiveness and to provide a basis for mobilizing the additional assistance sought by the Government. There is a special unit within the Ministry of Finance responsible for implementation of the policy and one of its first steps was to request donors to undertake a systematic self-assessment of the extent to which their existing policies and practices were in line with the aid policy guidelines.

Uganda:

In the late 1980s and early 1990s, public investment in Uganda was characterized by a large number of donor-driven projects, which resulted in significant duplication and chronic recurrent expenditure shortfalls. Thus, the Government of Uganda progressively developed sector strategies that set a coherent framework and established clear priorities for donor support. This facilitated "first-order" harmonization efforts among donors (e.g. common reporting, disbursement and auditing arrangements for basket funds). Sector strategies were then integrated into the PRSP and unified in a medium-term expenditure framework. The Government also centralized donor coordination in one ministry and in 2003 developed a set of "Partnership Principles" as a framework for coordination and dialogue. This included undertakings by the Government on such matters as corruption and public service reform, set out clear preferences for the types of aid it wished to receive, and proposed a variety of other changes to raise aid effectiveness and lower transactions costs. Both the existence of a strong, competent central ministry driving the process forward and sustained support by development partners have been crucial for the Government's ability to play a strong role in managing relations with its donors. In 2005, the Government and several major donors took what they saw as a logical next step and agreed to a Joint Assistance Strategy for 2005–2009. This built on the principles of the Paris Declaration, committed partners to important changes in behaviour intended to raise aid effectiveness and further aligned donors' support with the country's poverty reduction strategy.

United Republic of Tanzania:

In 1994, the Government of the United Republic of Tanzania commissioned an independent group of advisers to investigate the crisis that then existed between the Government and donors, and to propose solutions. Its report facilitated the definition of specific commitments on both sides to improve aid outcomes. Progress against these commitments has been regularly monitored through a formally constituted independent monitoring group. In 2002 the Government's strategy for managing its aid was formalized in the form of the United Republic of Tanzania Assistance Strategy. The strategy was a government initiative "aimed at restoring local ownership and leadership by promoting partnership in the design and execution of development programmes" and outlined the undertakings of the Government and its donors. There were annual implementation reports and it was subsequently used as the basis for the development of a Joint Assistance Strategy. Finalized in 2006, this is viewed as providing a more inclusive set of principles to which donors and the Government can be held accountable. It aims to further improve donor coordination, including through the identification of donors' comparative advantages and the introduction of a single review cycle. It is intended to replace individual donor assistance strategies.

Source: Killick (2008).

Nevertheless, there are limits to improvements. The case of Afghanistan shows that, even where a country implements a strong aid management policy, success is not necessarily assured (box 7). In both Uganda and the United Republic of Tanzania, a number of donors remain outside the joint assistance strategies and, in Mozambique, the aid management policy only covers aid which is provided through budget support. Experience also suggests that country-level efforts to improve aid management are very time-consuming and thus could crowd out thinking and action on effective development strategies. It might be added that aid recipients have no sanctions to bring to bear when donors underperform in relation to agreed goals; this means that there may be an asymmetry in accountability, even when performance indicators are mutually agreed. The main sanctions which recipient countries can use to influence donor behaviour seem to be the donors' sense of reputation and also peer pressure, whilst the recipient is always facing the possibility that aid will be withdrawn. Recipients may have greater leverage in the aid relationship if they have access to multiple sources of aid and also historical relationships with like-minded donors (De Renzio and Mulley, 2006).

There is a need to rebuild State capacity in relation to the broader agenda of growth and development to which the latest PRSPs aspire.

Despite these caveats, the introduction of an aid management policy can offer a practical way to reduce those processes weakening country ownership which are arising from aid being off-budget, unaccounted, unpredictable and unaligned with government priorities. It can also be a keystone to building trust and mutual understanding between donors and recipients which are essential to tackle the other processes which are weakening the ability of countries to take the lead in the design and implementation of their national development strategy. The annex to this chapter thus includes a roadmap for LDCs to set up an aid management policy.

The content of policy conditionality needs to be tempered by its possible negative effects on country ownership and tailored to its underlying rationale.

2. Elements of a broader agenda

Whilst it is possible to make some progress at the country level, there remain systemic issues which must be addressed in a full approach to enhance country ownership. Elements of a broader agenda would include: (a) technical cooperation to rebuild State capacity to formulate and implement national development strategies; (b) further thinking on policy conditionality; (c) enhanced systemic efforts to increase the predictability of aid; (d) addressing systemic biases against aid for productive sectors; and (e) the enhancing of alternative voices, and particularly developing country and LDC perspectives and local knowledge, in the production of knowledge about development processes and practices.

(a) Rebuilding State capacity

Establishing capable States is essential for enhanced country ownership of national development strategies. There is a need to rebuild State capacity in relation to the broader agenda of growth and development to which the latest PRSPs aspire. This involves major questions of development governance, which should encompass both the formulation and the implementation of development strategies and, in particular, new forms of development planning. At the same time, sound financial governance is needed to assure donors that aid money is used effectively.

Increasing the predictability of aid is a key goal to improve country ownership, as the unpredictability of aid makes it very difficult to plan and programme activities in countries which are highly aid-dependent.

(b) Policy conditionality

Although there has been a major shift in practices related to policy conditionality, there is a need for further debate on its rationale and effectiveness, and how donors' legitimate concerns about how money is spent are balanced with recipients' legitimate concerns that policy conditionality is still over-detailed and sometimes intrusive, effectively setting the pace and strategic direction of the policy agenda, and doing so in ways which ensure the implementation of what IFIs consider the best policies. The content of policy conditionality needs to be tempered by its possible negative effects on country ownership and tailored to its underlying rationale. The original purpose of IMF conditionality was to ensure that IMF resources are used to assist a member resolve its balance of payments problems, and do so in a way which ensures repayment and thus does not threaten the collective interest. This has also been reaffirmed recently. The question is: what implications does this have for the content of conditionality? Moreover, if aid is provided in the form of grants, what is the rationale for conditionality and how can its scope be focused on that rationale?

(c) Aid predictability and volatility

Increasing the predictability of aid is a key goal to improve country ownership, as the unpredictability of aid makes it very difficult to plan and programme activities in countries which are highly aid-dependent. Aid volatility and the

unpredictability of aid inflows contribute to macroeconomic instability, undermine effective financial management and reduce aid effectiveness. The central issue for Governments is how to prepare effective development strategies with a meaningful financial resource envelope when they are highly dependent on aid, yet ignorant of future aid flows, which are highly volatile. Recent research shows that this remains a significant problem and the disconnect between aid commitments and disbursements is particularly strong in poor countries (Bulir and Hamann, 2006). Although an aid management policy can help to alleviate these problems, there is a need for systemic measures as well, in particular the exploration of ways and means to have more long-term aid commitments. This should also address legitimate constraints on donors, such as their own budget cycles, which make it difficult for them to make forward commitments.

The whole aid system is geared to a model of aid based on Government–to–Government transfers, which are particularly appropriate for using aid to increase public expenditure.

(d) Addressing systemic bias against aid for productive sectors

The shift in aid allocation away from productive sectors raises the question of whether there is a systemic bias in current aid practices which is leading to this. It is possible to suggest a number of ways such a systemic bias could arise. Firstly, a higher proportion of aid for economic infrastructure and production sectors is financed by loans rather than grants (UNCTAD, 2006: 18–20). With the shift from loans to grants, there has been an implicit shift towards social infrastructure and services. Secondly, tied aid was often associated with aid for economic infrastructure and production sectors, and shift away from tied aid has similarly led to an implicit shift away from aid to production sectors and economic infrastructure. Thirdly, the MDGs are leading to specific focus on a few sectors which are deemed particularly important for their realization — education, health, population programmes, water supply and sanitation. Fourthly, the whole aid system is geared to a model of aid based on Government–to–Government transfers, which are particularly appropriate for using aid to increase public expenditure.

Rebalancing the composition of aid may actually need a radical shift in aid practices towards a different paradigm in which aid is not seen as Government–to–Government transfers but as a catalyst for a development process which involves a broad range of stakeholders.

Rebalancing the composition of aid may actually need a radical shift in aid practices towards a different paradigm in which it is not seen as Government–to–Government transfers but as a catalyst for a development process which involves a broad range of stakeholders and is animated in a particular by the private sector (Cohen, Jaquet and Reisen 2005). Such a new approach to aid would not necessarily involve budget support, but would nevertheless have to be well-aligned with Government priorities.

(e) The production of development knowledge

Enhanced country ownership does not simply depend on improved technical capacities, but also the deeper exploration of theoretical and policy alternatives for development.

Finally, enhanced country ownership does not simply depend on improved technical capacities, but also the deeper exploration of theoretical and policy alternatives for development. In this regard, the way in which knowledge is produced is crucial (Zimmerman and McDonald, 2008). A growing number of eminent scholars from developing countries argue that ownership requires independent thought based on the interplay between local knowledge, experimentation, and trial and error (Girvan, 2007). Country ownership of development policies needs to reflect the local realities and conditions. But these perspectives are marginalized by the current way in which the production of development knowledge is dominated by research carried out in developed countries and also IFIs (Wilks and Lefrancois, 2002; Utting, 2006).

The way in which knowledge is produced is crucial.

A major goal of development assistance which seeks to enhance country ownership should thus be to support and the accumulation of indigenous capabilities in developing countries, particularly LDCs. Independent policy approaches require capacities that most developing countries do not yet possess

in abundance. This capacity of developing countries needs to be strengthened through acceptance of intellectual pluralism and critical debate. International agencies and donors need to support the evolution of stronger domestic knowledge systems and promote networking to share experiences. This will provide a sound basis for greater policy pluralism.

This capacity of developing countries needs to be strengthened through acceptance of intellectual pluralism and critical debate.

J. Conclusions

All parties agree that country ownership of development strategies is essential for development effectiveness and aid effectiveness. Since the late 1990s, there have been significant changes in the nature of the aid relationship between LDCs and their development partners. In the context of the PRSP approach, significant steps have been taken to enhance country ownership. But this chapter shows that various processes continue to weaken country ownership in LDCs and this is having adverse consequences for development effectiveness.

The processes weakening country ownership come into play at the level of policy formulation or at the level of policy implementation. The latter may arise because donors deliver part of their aid in ways which are off-plan, off-budget or simply unknown. Alternatively, it may also arise because, even when aid is integrated with Government priorities, processes and systems, the way in which PRSPs are implemented is strongly influenced by policy conditionality, monitoring benchmarks or donor financing choices.

The processes weakening country ownership come into play at the level of policy formulation or at the level of policy implementation.

Although progress is being made in the context of the drive to improve aid effectiveness, the case studies reviewed in this chapter show a continuing problem of poor alignment and harmonization of aid with government plans and budgets. In the process of policy formulation, weak technical capacities undermine the ability of countries to exercise effective leadership, meaning that countries sometimes have to rely heavily on donor support in the design of national strategies. Freedom of action in policy design is also constrained by the need to mobilize aid inflows and the sense, justifiable or not, that signs of lack of commitment to the types of policies which donors and IFIs believe are the best ones can work against aid mobilization. The second-generation PRSPS are now very broad documents with an amalgam of elements which include (a) a core policy agenda strongly owned by the national Government; (b) a policy agenda which is directly or indirectly negotiated with donors, and around which there is broad consensus and agreement; and (c) a policy agenda which is more closely aligned with donor preferences and which enjoys very little or very narrow country ownership. There is thus an ownership frontier *within* the PRSPs. It is possible, therefore, for aid to be aligned and harmonized with the document but to do so in a way which is more oriented to donor priorities within the national plan.

Country ownership may be weakened because donors deliver part of their aid in ways which are off-plan, off-budget or simply unknown, or because the way in which PRSPs are implemented is strongly influenced by policy conditionality, monitoring benchmarks or donor financing choices.

A consequence of this is that processes of policy implementation are now a very important mechanism through which country ownership can be strengthened or weakened. This chapter shows that there have been major shifts in the practice of policy conditionality. There is an increasing tendency for policy conditionalities to be drawn from Government documents and there has also been a shift towards administrative benchmarks rather than legally binding conditionality. However, macroeconomic stabilization, privatization and liberalization are still important types of conditionality. Policy conditionality is not conducive to policy pluralism and the degree of detail is also a problem. The effect of conditionality is to focus the tempo and content of policy actions.

Given the broad policy agenda contained in PRSPs, donor financing choices are also an important determinant of how PRSPs work out in practice. This happens even when donors give budget support, as this usually involves performance assessment framework negotiated to set priorities. Donors are particularly oriented to financing social sectors and social infrastructure.

In many LDCs, the second-generation poverty reduction strategies have the potential to become effective development strategies. However, realizing this potential depends on broader development governance challenges than merely focusing on poverty-oriented public expenditure and budgeting.

The second-generation poverty reduction strategies in LDCs are seeking to place poverty reduction and the achievement of MDGs within a broad economic development framework. In many LDCs, these strategies have the potential to become effective development strategies. However, realizing this potential depends on broader development governance challenges than merely focusing on poverty-oriented public expenditure and budgeting, which have been the key concerns in the first generation poverty reduction strategies up to now. The weak country ownership is having negative consequences for addressing these challenges and also for development effectiveness.

Weak country ownership is having negative consequences for addressing development governance challenges and for development effectiveness.

There are three major adverse consequences of weak ownership. Firstly, the macroeconomic frameworks of the poverty reduction strategies are weakly integrated with sectoral policies and trade policies. Secondly, despite the desire on the part of LDC Governments to receive more aid, the PRSPs are devised in a way which is failing to encourage aid scale-up and explore its possibilities. Thirdly, there is a mismatch between the new emphasis on productive sectors and economic infrastructure in the latest PRSPs and the composition of aid to support the building of productive capacities. The strategic thrust of the PRSPs reflects the combination of policy conditionality focused on stabilization, liberalization and privatization, together with donor financing choices oriented to social sectors. As discussed in chapter 2 of this Report, it is unlikely that this development model can result in sustained and inclusive development.

One positive feature is that aid management policies are being adopted in a few LDCs as part of the process of elaborating new development partnerships.

One positive feature of the current situation is that aid management policies are being adopted in a few LDCs as part of the process of elaborating new development partnerships. These policies are designed and used to ensure that foreign financial and technical assistance is of such a type and is so deployed that it maximizes its contribution to the priorities set out in a country's statements of its national development strategy. Initial experience with these innovative practices suggests that they can be an effective tool to tackle some dysfunctional features of the way in which aid is currently delivered, notably donor coordination failures and lack of alignment with national priorities, and to improve aid effectiveness through mutual rather than one-sided accountability. LDC Governments are therefore encouraged to adopt such policies.

In the end, enhanced country ownership will depend on systemic measures, as well as country-level action.

However, in the end, enhanced country ownership will depend on systemic measures, as well as country-level action. It is necessary to rebuild State capacities for promoting growth and development. Renewed attention needs to be given to the nature of policy conditionality and the problem of aid predictability and volatility. It is also necessary to assess whether there are systemic biases against using aid in a catalytic way to develop productive sectors. Action to promote alternative perspectives — especially from developing-country and LDC voices — in the production of knowledge about development will also be important in order to promote policy pluralism.

Annex: A roadmap for devising aid management policies in LDCs

This annex sets out a roadmap for devising aid management policies in LDCs. This roadmap includes a structured checklist of the parameters which could be included in a statement and the initial steps which could be taken to devise an aid management policy. Overall, it is stressed that the policy should be formed through a consultative process with donors and with strong domestic political leadership if it is to be successful. Constructing an aid management policy is not simply a technocratic exercise undertaken by a small coterie of officials and advisers; it is also the result of a process of building greater institutional trust, transparency and capacity through effective negotiation and political commitment.

1. Elements of the policy statement

The following sets out a possible structure and set of guidelines that might go into a policy statement: (a) background and rationale; (b) objectives and guiding principles; (c) a statement of mutual commitments and obligations; (d) a statement of specific policies relating to volume and effectiveness of aid; (e) the organization of aid mobilization and management; and (f) implementation.

(a) Background and rationale

This should include the need for a brief history of aid and assessment of the current situation in an LDC as a first step, as well as an inventory of recent and ongoing initiatives and an assessment of impact and sustainability.

(b) Objectives and guiding principles

This could include a restatement of the objectives and principles of the Paris Declaration as they relate to the country. The policy statement could be viewed as a 'living' document, to be reviewed periodically.

(c) Statement of mutual commitments and obligations

This would be comprised of two key components: (i) commitments by Government; and (ii) Government expectations concerning the contribution of its donor partners to more effective aid. Regarding the former, this might involve a restatement of the commitments outlined in the Paris Declaration and governance transparency, the pursuit of poverty reduction and other development goals, greater mobilization of domestic resources, Government leadership in promoting aid harmonization and institutional capacity-building. Regarding Government expectations concerning the contribution of its donor partners to more effective aid, this could be based on local agreements with donors and include institutional provisions for the conduct of dialogue between Government and its development partners.

(d) Statement of specific policies relating to volume and effectiveness of aid

This would be comprised of four key components: (i) the volume of assistance; (ii) donor numbers and specialization; (iii) inclusivity and concessionality; (iv) aid modalities; (v) technical assistance; and (vi) transaction costs.

Regarding the volume of assistance, LDC Governments will need to consider factors regarding the macroeconomic management of large increases in aid inflows in developing their approach to aid volumes. A statement on donor numbers and specialization is recommended to improve donor coordination by limiting the number of donors and channels of assistance. As previously noted, it could also specify an appropriate division of labour between donors. Inclusivity requires that all donors (whether new or traditional) should be subject to the same procedures and machinery of dialogue with Government. Similarly, a statement of minimum acceptable levels of concessionality should be included. This should be consistent with external debt sustainability policies where relevant. A statement on Government preferences regarding aid modalities (budget support, technical assistance, etc.) is clearly a very important aspect of any aid management policy. Technical assistance in LDCs needs to be nationally owned, demand-driven and oriented around Government priorities. The aid management policy will also need to specify mechanisms for reducing transaction costs, as outlined in the Paris Declaration.

(e) The organization of aid mobilization and management

It is clear that greater inter-ministerial coordination in terms of streamlining aid management within LDC Governments to avoid fragmentation and unclear divisions of responsibility will be necessary. This may require Government tasking a particular ministry or department with drafting an agreed protocol setting out the roles and responsibilities of the ministries involved. A further possibility might consist of creating small secretariats supported by consultative forums and structured around key sub-themes of the aid management policy. Thematic bodies and forums are especially relevant in contexts where problems and opportunities cut across subsectors, or ministries.

(f) Implementation

This would be comprised of two key components: (i) dealing with matters of mutual concern to both Government and donors; and (ii) dealing with how Government intends to implement the content of the aid management policy. The former concerns matters of mutual accountability such as (a) improving the provision of information on aid flows and plans to strengthen partnerships and efficacy; (b) measures to strengthen monitoring and evaluation through the use of joint accounting and national reporting procedures, which also reduce the transaction costs of aid management; and (c) the policy statement, which should specify how monitoring and evaluation of both donor performance and Government in a given LDC will be organized and managed. This may take the form of periodic independent monitoring and evaluation reviews as in Mozambique and the United Republic of Tanzania. In terms of the execution of the policy, this should outline initial implementation stages or steps as part of an implementation action plan. Potential components of an action plan elaborated to give this effect might include the following: (a) the administration of a donor self-assessment questionnaire outlining the extent to which they conform to the content of the policy; (b) shared dissemination strategies; (c) an evaluation of the adequacy of the resources of the agency/unit responsible for the implementation of the policy; and (d) proposals for enhancing local ownership and effectiveness of technical assistance.

2. Steps to an aid management policy – preparing the policy statement

It is possible to envisage a five-stage process for the preparation of an aid management policy statement:

(a) *Stage 1:* Prepare and distribute a consultation document by Government outlining the policy objectives, process to be followed and a statement of initial issues to be addressed through the aid management policy;

(b) *Stage 2:* Schedule and hold stakeholder (e.g. Government ministries, agencies, NGOs and donors) workshops to solicit reactions to the consultation document. These workshops could be convened jointly by Government with wider stakeholder groups, or solely within Government (involving only ministries and agencies of the State);

(c) *Stage 3:* The responsible executing unit or authority within Government should revise the consultation document in the light of feedback received and then shared with stakeholders;

(d) *Stage 4:* A second round of consultation meetings, which should also include a politically mandated resolution within Government of the division of labour amongst ministries and agencies. At this stage, the implications of this policy for resources, training and location of the agency/body responsible for its implementation should be considered; and

(e) *Stage 5:* The aid management policy is finalized and approved by Government through the preparation of an action plan for its implementation.

This process is vital for building greater trust and transparency. The Government must retain control over what is finally put into the policy, but there is a need to convince donors as far as possible of the desirability of its provisions. It should also be based on a realistic understanding of donor perspectives. The responsibilities of different stakeholders also need to be negotiated.

Source: Killick (2008).

Notes

1 The main country studies on which this chapter draws are: Afghanistan (Lockhart, 2007); Burkina Faso (AFRODAD, 2007a); Ethiopia (AFRODAD, 2006; Furtado and Smith, 2007); Malawi (Cromwell et al., 2005); Mali (Bergamaschi, 2007); Mozambique (De Renzio and Hanlon, 2007; IPAM, 2008; Warren-Rodrigues, 2007); Rwanda (Hayman, 2007); Senegal (AFRODAD, 2007b); Sierra Leone (EURODAD, 2008a); Uganda (AFRODAD, 2007c); United Republic of Tanzania (AFRODAD, 2006 and 2007d; Harrison and Mulley, 2007); Zambia (AFRODAD, 2006; Fraser, 2007); as well as AFRODAD (2007e), which synthesizes the findings of case studies of aid effectiveness which include: Mozambique, Malawi, Tanzania, Liberia, Uganda and Senegal. EURODAD (2008b) synthesizes the findings of case studies of aid effectiveness which include Cambodia, Mali and Niger, as well as IPAM (2008) and EURODAD (2008a). The chapter also draws on De Renzio and Goldsbrough (2007), Goldsbrough and Cheelo (2007) and Goldsbrough et al. (2007), which are case studies of IMF practices in Mozambique, Zambia and Rwanda respectively; and Bull et al. (2006), which examines conditionality related on privatization and liberalization in Bangladesh, Mozambique, Uganda and Zambia. The sources are listed in the references at the end of this chapter.

2 In some ways, this was a return to the past. The Report of the Secretary-General of UNCTAD to UNCTAD II in 1968, entitled "A Global Strategy for Development", not only introduced the target of 0.7 per cent of gross domestic product (GDP) but also argued that finance should be provided to those developing countries which showed the willingness and discipline to promote their own development. A "development plan" which increased their domestic resource mobilization and decreased their aid dependence and external economic vulnerability was seen as "the expression of the primary responsibility of the peripheral countries to solve their own problems" (UNCTAD, 1968: 66). Moreover, "the granting of international finance should closely be linked to the way in which a development plan proposes to achieve these aims" (ibid.: 60). But in the current partnership framework, the focus has shifted from economic development to poverty reduction and human development, a change which raises many important questions about how the one is related to the other.

3 For an extensive review of the debates surrounding conditionality, including the deficiencies of traditional policy conditionality, see the background papers in World Bank (2005) and IMF (2007a).

4 The specific titles are: Benin: Growth Strategy for Poverty Reduction; Burkina Faso: Growth and Poverty Reduction Strategy Paper; Cambodia: National Strategic Development Plan; Ethiopia: A Plan for Accelerated and Sustained Development to End Poverty; Gambia: Growth and Poverty Reduction Strategy Paper; Madagascar: Madagascar Action Plan; Malawi: Malawi Growth and Development Strategy; Mali: Growth and Poverty Reduction Strategy; Niger: Accelerated Development and Poverty Reduction Strategy; Rwanda: Economic Development and Poverty Reduction Strategy; United Republic of Tanzania: National Strategy for Growth and Reduction of Poverty; Zambia: Fifth National Development Plan.

5 In one case, it is noted that high levels of aid dependence make the Government reluctant to insist on its own priorities (Killick et al., 2005: 50). In the other case, "government technicians and planners know very well what kinds of development management discourse appeal to donors and they evoke these terms in order to increase their chances of gaining approval and access to credit" (Harrison and Mulley, 2007: 24). In both these cases, effective partnership depends on some level of strategic ambiguity in terms of agreed priorities. In the final case, it is noted, "[T]he Government needs to keep donors on board, which it does by committing itself to the international norms of development and reminding the international community of its responsibilities… Real policy freedom is therefore constrained by the need to appeal to external financiers" (Hayman, 2007: 20).

6 The relationship between the PRSP and PRGF is also evolving since the introduction by the IMF of the Policy Support Instrument in October 2005. This is designed as a complement to the PRGF for countries which are mature stabilizers, and which may not want or need Fund financial support but still seek IMF policy support and signaling. Uganda (2006), Cape Verde (2006), Tanzania (2006) and Mozambique (2007) have used this facility.

7 In this regard, it is worth recalling that in the consultation with low-income countries on policy conditionality, organized by the World Bank on 22 April 2005, whilst some country representatives wanted no World Bank or IMF role, others "stressed that their Governments welcomed bank and fund participation in helping prepare their PRSPs and welcomed the positive role being played by budget support groups of donors". Moreover, in some cases, they stressed that "close Fund involvement was needed as donors wanted a positive signal from the Bank and the Fund" (World Bank, 2005b:15–16).

8 Case studies of Mozambique, Rwanda and Zambia show that "programmes did not sufficiently explore more expansionary but still feasible spending options, although recent programmes are more flexible in this regard" (Center for Global Development, 2007: 28–29).

References

ActionAid (2006). What progress? A shadow review of World Bank conditionality. ActionAid, London.

AFRODAD (2006). Assessing the impact of the PRGF on social services in selected African countries: A synthesis report on Ethiopia, Malawi, Zambia and the United Republic of Tanzania. African Forum and Network on Debt and Development, Harare.

AFRODAD (2007a). The second-generation poverty reduction strategy papers (PRSPs II): The case of Burkina Faso. African Forum and Network on Debt and Development, Harare.

AFRODAD (2007b). The second-generation poverty reduction strategy papers (PRSPs II): The case of Senegal. African Forum and Network on Debt and Development, Harare.

AFRODAD (2007c). The second-generation poverty reduction strategy papers (PRSPs II): The case of the United Republic of Tanzania. African Forum and Network on Debt and Development, Harare.

AFRODAD (2007d). The second-generation poverty reduction strategy papers (PRSPs II): The case of Uganda. African Forum and Network on Debt and Development, Harare.

AFRODAD (2007e). Aid effectiveness in Africa: A synthesis. African Forum and Network on Debt and Development, Harare.

AFRODAD (2007f). A critical assessment of aid management and donor harmonization: The case of Mozambique. African Forum and Network on Debt and Development, Harare.

Bergamaschi, I. (2007). Mali: Patterns and limits of donor-driven ownership. Managing Aid Dependency Programme: Global Economic Governance (GEG) Working Paper No. 2007/31, The University of Oxford and University College, Oxford.

Buiter, W. (2005). Country ownership: A term whose time has gone. In Koeberle, S., Bedoya, H., Silarszky, P., and Verheyen, G. (Eds), *Conditionality Revisited: Concepts, Experiences and Lessons*. World Bank, Washington, DC.

Bulir, A. and Hamann, A.J. (2006). Volatility of development aid: From the frying pan into the fire? IMF Working Paper No. WP/06/65, International Monetary Fund, Washington, DC.

Bull, B., Jerve, A. M. and Sigvaldsen, E. (2006). The World Bank's and the IMF's use of conditionality to encourage privatization and liberalization: Current issues and practices. Sum Report No. 13, prepared for the Norwegian Ministry of Foreign Affairs as background for the Oslo Conditionality Conference, Oslo.

Broughton, J.M. (2003). Who's in charge? Ownership and conditionality in IMF-supported programs. IMF Working Paper No. WP/03/191, International Monetary Fund, Washington DC.

Cabral, L. (2006). Poverty reduction strategies and the rural productive sectors: What have we learnt, what else do we need to ask? ODI Natural Resource Perspectives No. 100, Overseas Development Institute, London.

Castel-Branco, C.N. (2007). The Mozambique performance assessment framework for donors: Lessons learned. Paper presented at the High-level Symposium "County-level experiences in coordinating and managing development cooperation". United Nations, 19–20 April, Vienna.

Celasun, O. and Walliser, J. (2005). Predictability of budget aid: Experiences in eight African countries. Paper prepared for the World Bank practitioners' forum on budget support, 5-6 May, Cape Town. http://www.cgdev.org/doc/event%20docs/Predictability%20 of20budget%20Aid%20revised.pdf.

Cohen, D., Jacquet, P. and Reisen, H. (2005). Beyond "grants versus loans": How to use ODA and debt for development. Paper prepared for the AFD/EUDN international conference, 15 December, Paris. http://www.eudnet/download/Jacquet.pdf

Cromwell, E., Luttrell, C., Shepherd, A. and Wiggins, S. (2005). Poverty reduction strategies and the rural productive sectors: Insights from Malawi, Nicaragua and Viet Nam. ODI Working Paper No. 258, Overseas Development Institute, London.

De Renzio, P. and Goldsbrough, D. (2007). IMF programs and health spending: Case study of Mozambique. Background paper prepared by the working group on IMF programs and health expenditures, Centre for Global Development, Washington, DC.

De Renzio, P. and Mulley, S. (2006). Donor coordination and good governance: Donor-led and recipient-led approaches. Managing Aid Dependency Project, the University of Oxford and University College, Oxford.

De Renzio, P. and Hanlon, J. (2007). Contested sovereignty in Mozambique: The dilemmas of aid dependence. Global Economic Governance (GEG) Working Paper No. 2007/25, The University of Oxford and University College Oxford, Oxford.

EURODAD (2007). Untying the knots: How the World Bank is failing to deliver real change on conditionality. The European Network on Debt and Development, Brussels.

EURODAD (2008a). Old habits die hard: Aid and accountability in Sierra Leone. The European Network on Debt and Development, Brussels.

EURODAD (2008b). Turning the tables: Aid and accountability under the Paris Framework. The European Network on Debt and Development, Brussels.

Fedelino, A., Schwartz, G. and Verhoeven, M. (2006). Aid scaling up: Do wage bill ceilings stand in the way? IMF Working Paper No. WP/06/106, International Monetary Fund, Washington, DC.

Fraser, A. (2007). Zambia: Back to the future? Managing aid dependency programme. Global Economic Governance (GEG) Working Paper No. 2007/30, The University of Oxford and University College Oxford, Oxford.

Furtado, X. and Smith, J. (2007). Ethiopia: Aid, ownership and sovereignty. Managing Aid Dependency Programme: Global Economic Governance (GEG) Working Paper No. 2007/28, The University of Oxford and University College, Oxford.

G8 (2005). Signed version of the Gleneagles communiqué on Africa, climate change, energy and sustainable development. Document from the G8 Summit, 6–8 July, Gleneagles.

Girvan, N. (2007). Home-grown solutions and ownership. Paper prepared for OECD Development Forum Informal Experts' Workshop on Ownership in Practice, 27–28 September, Paris.

Goldsbrough, D. and Cheelo, C. (2007). IMF programs and health spending: Case study of Zambia. Background paper prepared by the Working Group on IMF Programs and Health Expenditures, Centre for Global Development, Washington, DC.

Goldsbrough, D., Leeming, T. and Christiansen, K. (2007). IMF programs and health spending: Case study of Rwanda. Background paper prepared by the Working Group on IMF Programs and Health Expenditures, Centre for Global Development, Washington, DC.

Goldsbrough, D. and Elberger, B. (2007). The IMF and spending for the MDGs. *IPC Poverty in Focus*, October 2007: 18–19.

Government of Rwanda (2006). Rwanda aid policy, as endorsed by the Cabinet. 26 July, Kigali.

Harrison, G. and Mulley, S. (2007). The United Republic of Tanzania: A genuine case of recipient leadership in the aid system? Managing Aid Dependency Programme: Global Economic Governance (GEG) Working Paper No. 2007/29, The University of Oxford and University College, Oxford.

Hayman, R. (2007). "Milking the cow": Negotiating ownership and aid and policy in Rwanda. Managing Aid Dependency Programme: Global Economic Governance (GEG) Working Paper No. 2007/26, The University of Oxford and University College, Oxford.

IMF (2001). "Strengthening Country Ownership of Fund-Supported Programs" (December 5). http://www.imf.org/external/np/pdr/cond/2001/eng/collab/071701.pdf

IMF (2007a). An IEO evaluation of structural conditionality in IMF-supported programmes. Independent Evaluation Office of the IMF. International Monetary Fund, Washington, DC.

IMF (2007b). The IMF and aid to sub-Saharan Africa. Independent Evaluation Office of the International Monetary Fund, Washington, DC.

IMF and World Bank (1999). Poverty reduction strategy papers: Operational issues. Paper prepared by the staffs of the International Monetary Fund and World Bank, Washington, DC.

IMF and World Bank (2005). 2005 Review of the poverty reduction strategy approach: Balancing accountabilities and scaling up results. Paper prepared by the staffs of the International Monetary Fund and World Bank, Washington, DC.

IPAM (2008). Mozambique: An independent analysis of ownership and accountability in the development aid system. Paper submitted to EURODAD, TROCAIRE and CAFOD.

Johnson, O.E.G. (2005). Country ownership of reform programmes and the implications for conditionality. G-24 Discussion Paper Series No. 35, United Nations, New York and Geneva.

Killick, T., Gunatilaka, R. and Marr, A. (1998). *Aid and the Political Economy of Political Change*. Routledge, London and New York.

Killick, T., Castel-Branco, C.N. and Gerster, R. (2005). Perfect partners? The performance of programme aid partners in Mozambique, 2004. A report to the programme aid partners and Government of Mozambique.

Killick, T. (2008). Aid management policies in least developed countries. Study prepared for UNCTAD as a background paper for *The Least Developed Countries Report 2008,* Geneva and New York.

Lewis, J.P. (1986). *Development Strategies Reconsidered*. Transaction Publishers, Piscataway.

Lockhart, C. (2007). The aid relationship in Afghanistan: Struggling for government leadership. Managing Aid Dependency Project, The University of Oxford and University College, Oxford.

Marshall, R. (2008). Seizing the opportunity of the millennium: Harnessing scaled up aid for the expansion of productive capacities in the least developed countries. Study prepared for UNCTAD as a background paper for *The Least Developed Countries Report 2008*.

Menocal, A.R. and Mulley, S. (2006). Learning from experience? A review of recipient–Government efforts to manage donor relations and improve the quality of aid. ODI Working Paper No. 268, Overseas Development Institute. London.

Molina, N. and Pereira, J. (2008). Critical conditions: The IMF maintains its grip on low-income governments. EURODAD, Brussels.

OECD (1996). *Shaping the Twenty-First century: The Contribution of Development Co-operation*. Organisation for Economic Co-operation and Development, Paris.

OECD (2000). *Development Cooperation Report 1999*. Organisation for Economic Co-operation and Development, Paris.

OECD (2003). Harmonising donor practices for effective aid delivery — good practice papers. DAC Guideline and Reference Series, Organisation for Economic Co-operation and Development, Paris.

OECD (2005a). Paris Declaration on aid effectiveness: Ownership, harmonization, alignment, results and mutual accountability. Development Co-operation Directorate – Development Assistance Committee, Organisation for Economic Co-operation and Development, Paris.

OECD (2005b) *Development Cooperation Report 2005*. Organisation for Economic Co-operation and Development, Paris.

OECD (2006). Aid effectiveness: 2006 survey on monitoring the Paris Declaration – Country chapters. Organisation for Economic Co-operation and Development, Paris.

Republic of Zambia (2007). *Fifth National Development Plan, 2006–2010*. IMF Country Report no. 07/276, International Monetary Fund, Washington, DC.

Shepherd, A. and Fritz, V. (2005). Key issues in sharpening the rural production focus of Poverty Reduction Strategy processes: Literature review for IFAD. ODI Issues paper, Overseas Development Institute, London.

United Nations (2002). Monterrey Consensus of the International Conference on Financing for Development. The final text of agreements and commitments adopted at Conference, 18–22 March, Monterrey.

UNCTAD (1968). Resolution 25 (II). 78th plenary meeting, 27 March. In: *Proceeding of the United Nations Conference on Trade and Development: Volume I – Final Act and Report*, TD/97, Geneva.

UNCTAD (2000). *The Least Developed Countries Report 2000: Aid, Private Capital Flows and External Debt: The Challenge of Financing Development in LDCs*. United Nations publication, sales no. E.00.II.D.21, Geneva and New York.

UNCTAD (2002). *The Least Developed Countries Report 2002: Escaping the Poverty Trap*. United Nations publication, sales no. E.02.II.D.13, Geneva and New York.

UNCTAD (2004). *The Least Developed Countries Report 2004: Linking International Trade with Poverty Reduction*. United Nations publication, sales no. E.04.II.D.27, Geneva and New York.

UNCTAD (2006). *The Least Developed Countries Report 2006: Developing Productive Capacities*. United Nations publication, sales no. E.06.II.D.9, Geneva and New York.

Utting, P. (ed.) (2006). *Reclaiming Development Agendas: Knowledge, Power and International Policy Making*. Palgrave MacMillian and UNRISD, Basingstoke and Geneva.

Wangwe, S., Aarnes, D., Amani, H. and Evans, A. (2005). Enhancing aid relationships in the United Republic of Tanzania. Report of the Independent Monitoring Group, Economic and Social Research Foundation, Dar Es Salaam.

Warren-Rodriguez, A. (2007). Science and technology and the PRSP process: A survey of recent country experiences. Study prepared for UNCTAD as a background paper for *The Least Developed Countries Report 2007,* Geneva and New York.

Wilks, A. and Lefrancois, F. (2002). Blinding with science or encouraging debate? How World Bank analysis determines PRSP policies. Bretton Woods Project and World Vision, London.

Wolfensohn, J. (1999). A proposal for a comprehensive development framework. Mimeo, World Bank, Washington, DC.

Working Group on IMF Programmes and Health Spending (2007). Does the IMF constrain health spending in poor countries? Evidence and an agenda for action. Centre for Global Development, Washington, DC.

World Bank (2005a). Review of World Bank Conditionality. Prepared by Operations Policy and Country Services. World Bank, Washington, DC.

World Bank (2005b). Summary of external consultations. Background paper no. 7 in "Review of World Bank Conditionality." Prepared by Operations Policy and Country Services. World Bank, Washington, DC.

World Bank (2007). Results-based national development strategies: Assessment and challenges ahead. World Bank, Washington, DC.

Zimmermann, F. and McDonnell, I. (2008). Broadening ownership for development. In OECD Development Centre, *Financing Development 2008: Whose Ownership?* OECD Development Centre, Paris.