The International Development System: Southern Perspectives on Reform

By Roy Culpeper and Bill Morton
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Executive Summary

This synthesis report presents the key findings and results of a research program that explores Southern perspectives on reforming the international development architecture. This architecture has long been criticized by developing countries as inequitable, and by developed countries as ineffective. The earliest post-war reform initiatives were launched by developing countries. Involving system-wide reform that extended beyond the aid arena, these were terminated in the 1980s by developed countries that were unwilling to accept an erosion of their control.

The debt and financial crises during the 1980s and 1990s spurred developed countries to again consider reforms, and led to debt relief initiatives. Despite this, developed countries today still remain largely in control of the development architecture. However, there are indications that they are again open to Southern perspectives on systemic reform. Initiatives such as the 2005 Paris Declaration and the UN Development Cooperation Forum reflect an acceptance that developing countries must be equal partners if development cooperation is to be truly effective. At the International Monetary Fund (IMF), proposals are under review to increase the voice and vote of some developing countries.

Many developing countries believe, however, that such reforms are grossly inadequate. They point out that they continue to be excluded from a significant role in changing the international development architecture. How then would they reform the architecture if they were empowered to do so? What would be their priorities for reforming the system? The “Southern Perspectives” research program sets out to address these questions.

Results from the thematic papers

In the view of many Southern experts and activists, reforming the international development architecture is clearly important. Real reform, however, must address the “development paradigm” that sets the rules for the global development system. Three issues related to the development paradigm were identified as crucial and were addressed in thematic papers.

Development knowledge: Girvan (2007) suggests that reform of the development architecture must be preceded by reform of how development knowledge is produced and disseminated, and of how it is used to inform development policy. The starting point for this is an “up-ending” of the current development knowledge hierarchy that privileges Northern knowledge. This occurs at the expense of Southern and indigenous knowledge that more accurately reflects developing country historical, political and social contexts. Southern centres should be placed at the centre of generating development knowledge and making it widely available.
**Policy coherence:** Oyejide (2007) suggests that there is a fundamental difference in the perspectives of aid donors and recipients across the aid, trade and investment policy areas. Donors expect that aid disbursement will go hand in hand with liberalization of recipient countries’ trade and investment regimes, but recipient countries maintain that trade and investment policies should be coordinated and strategically linked, and that liberalization should be gradual, selective, and differentiated. The challenge is therefore to identify mechanisms to reconcile these donor/recipient differences, in order to enhance policy coherence and the effectiveness of aid.

**Geopolitics and aid:** Aning (2007) describes how the geopolitical interests of powerful nations can determine, and potentially de-rail, the development agenda. During the 2000s, donor priorities have been profoundly skewed by their international focus on security issues and the “war on terror”. Rather than the traditional notion that Official Development Assistance (ODA) should be primarily allocated to needy countries, it now serves as the foundation upon which international and national security is established. As a result, the “security first” paradigm now plays a significant role in determining geographical aid disbursements.

**Results from the country studies**

**“Country ownership”: a disputed concept**

Southern researchers undertook country studies in Burundi, Nigeria, Sri Lanka, Vietnam, and Bolivia. The challenge of retaining – or reclaiming – ownership of the development system stands out most clearly as a central concern for Southern thinkers and stakeholders. The studies emphasized several key aspects of ownership:

**Ownership as “country leadership of development policy and strategy”:** The studies acknowledge the importance of this understanding of ownership. In Burundi, aid dependence, debt burden, and the process of recovery from conflict have all meant that the government has been unable to establish effective leadership or to articulate national development policies or strategies. As a result, it is not yet in a position to “own” its development policy.

**Aid dependence and debt burden constitute major challenges to ownership:** The studies reinforce this widely-held understanding of ownership. In Bolivia during the period from 1985 to 2005, the combination of chronic aid dependence and indebtedness, the major roles played by external actors, and a long history of donor-driven policy conditionality meant that successive governments essentially gave up ownership of the development policy agenda in exchange for foreign finance.

**But ownership can also be problematic in non-aid dependent countries:** The international development architecture can continue to play a strong role in countries even when aid constitutes a very small proportion of the resources available for development. Aid is estimated to make up only 0.5 per cent of Nigeria’s development finance budget, but international institutions continue to exert a strong influence over development policy. This is a knock-on effect of the country’s historically very high debt burden and its associated acceptance of debt-relief measures and conditionalities.

**Donor influence extends to the operational level:**

Donor influence is not restricted to the development policy agenda, but also extends to operational aspects of development activity, in particular in relation to the selection and implementation of development programs. In Sri Lanka, donors use their advantage in knowledge and expertise to influence the types of projects that are proposed, and to signal the projects that they prefer and eventually go on to fund.

**The Poverty Reduction Strategy: an ill-conceived mechanism for ownership?** In many countries, development strategy is articulated in a national Poverty Reduction Strategy (PRS), which is devised by governments but often framed by the Bretton Woods Institutions (BWIs). National consultations are seen as a means of building country-wide ownership of the PRS. However, the studies suggest it is misguided to believe it is possible to achieve “national ownership” of a PRS, and that it is unlikely that a process of national consultation can facilitate this. National ownership develops over time and is an expression of the socio-economic, ethnic and political fabric of a
population. Such qualities cannot be generated through a PRS process that is at least partially designed to gain donor funding.

Ownership — a political issue that goes beyond development finance: When sections of the population feel they do not have sufficient ownership of the country’s development agenda, there are likely to be political consequences. From the mid-1980s, many Bolivians felt excluded from the benefits of economic liberalization reforms and surmised that foreign interests were excessively present in the country’s development. In the early 2000s, this sense of exclusion became stronger and took the form of popular protest by civil society groups and mass movements. This led to a complete upending of the country’s political and economic order.

Vietnam: managing reforms, achieving growth, retaining ownership? Until the late 1980s, Vietnam reflected a “typical” aid dependent country, and it continues to be one of the top worldwide recipients of aid. Underlying this, however, is an important exit from aid dependence: aid now accounts for just over 4 per cent of GDP. Vietnam was able to undertake liberalization on its own terms. It achieved high growth through domestic reforms, and through openness combined with stabilization. Its determined government ownership, continued economic growth and decreasing aid dependence has enabled it to operate from a position of strength in relation to the development architecture.

New moves to regain ownership: Other country governments are beginning to strengthen the terms of their relations with the international development architecture. In Nigeria, the government’s new policy on ODA is designed to assert domestic ownership more strongly and to achieve donor alignment with its national development strategy. In Bolivia, the government is operating with a strong vision of regaining Bolivian “sovereignty”, and its agenda applies not just to the external development finance architecture, but to the full range of foreign interests at play in the country.

Aid in perspective: the importance of non-aid policies

The studies reinforce that aid will be more effective if the development architecture allows recipients to assert ownership more strongly. At the same time, however, the studies also emphasize that aid should be seen in perspective. Remittances, Foreign Direct Investment (FDI) and exports constitute extremely important resource flows in such countries as Vietnam, Sri Lanka and Bolivia. Policies in “non-aid” areas, in particular in relation to trade and investment, can have an equal and often greater impact on development than international or national aid policy.

The architecture’s size and diversity: efficiency versus choice

In Vietnam and Sri Lanka, three donors provide the large majority of aid. However, the complexity of the aid management systems in these countries is significantly increased by the presence of an additional large number of donors that provide relatively small amounts of aid. The complexity and associated transaction costs within the development finance system could be reduced through a “division of labour” in which equivalent (or greater) amounts of ODA is provided by a small number of donors. However, the studies suggest support for the choice and diversity offered by a large range of donors.

The Paris Declaration

Except in Vietnam, only a small number of government officials interviewed for the country studies knew about the Paris Declaration, and these were usually located in the central aid management unit. Lack of awareness of the Declaration raises serious questions about its relevance and usefulness at the country level. While awareness is expected to increase in the lead up to the 2008 High Level Forum meeting in Accra, this suggests there is a major gap between those development issues at the top of the policy agenda in official arenas such as the Organisation for Economic Co-operation and
Development (OECD), and those that are considered important within the framework of day-to-day donor/recipient relations at the country level.

**Policy implications and recommendations**

**Country ownership and leadership**
Ownership is a highly complex and difficult issue that is bound up within a country’s economic, social and political make-up. Current notions of ownership that concentrate on leadership of the development policy agenda are important, but they are too narrowly defined. Most importantly, they do not sufficiently reflect Southern understanding of ownership. Deeper analysis of the political economy is required to understand the dynamics of ownership and the implications of striving to attain it. At the same time, developing country processes to establish national ownership should include civil society, the private sector, and representative institutions such as Parliament and local governments.

Initiatives to take ownership continue to be constrained by the overarching “development paradigm”. To alter the paradigm, the development system must invest in the generation of Southern development knowledge, and in its legitimization in making policy choices that are appropriate to local contexts and circumstances.

The Poverty Reduction Strategy mechanism, as framed by the BWIs, is an unsuitable vehicle for national ownership, even with extensive consultation. This model needs to be re-thought, and donors need to pull back and allow low-income countries to develop their own plans and strategies.

A low level of aid dependence does not guarantee ownership. This indicates that more attention must be paid to reforming conditionality. In particular, the BWIs and other donors should make greater efforts to remove macroeconomic and political conditionality. Developing countries’ strategies for exiting aid dependency could include their own “conditionalities” for continued (but time-limited) receipt of aid. Exit strategies should establish development financing scenarios that provide for increased domestic resource mobilization, and growth in export earnings, FDI and other non-aid resources.

**Policy coherence**
Donor countries should ensure their policies in the aid, trade, investment and other arenas are consistent with developing countries’ priorities and development objectives. Donors should be more flexible on issues such as economic liberalization and institutional reform. Developing countries must themselves articulate and implement coherent national strategies and consistent priorities. They should also consider reviews of donor policies and programs, particularly with a view to increasing their coherence.

**Legitimacy**
The development architecture lacks legitimacy in the eyes of many developing country governments and much of civil society. A more equitable balance in decision-making and voting power is required in global economic organizations such as the IMF, World Bank (WB), and the World Trade Organization (WTO). New mechanisms of accountability are also required to ensure the legitimacy (from the perspectives of Southern stakeholders) of bilateral agencies.

The geopolitical security imperatives related to the War on Terror have a perverse impact on development, and these must be overturned to restore legitimacy to the aid system. The legitimacy of the architecture would also be enhanced by strengthening regional actors and the UN system. Major change is also required in how international agreements such as the Paris Declaration are arrived at and agreed upon; otherwise, they will continue to lack legitimacy in the eyes of stakeholders.
Effectiveness

Greater mutual accountability between donors and recipients is imperative in order to enhance the effectiveness of aid. At present, accountability is heavily weighted toward donors. The Peer Review process of individual OECD donors should be widened to include developing-country participation. Accountability should be enhanced in each aid recipient country through more systematic monitoring and evaluation of donor performance.

Deeper reform is required in the area of technical assistance (TA). The provision of TA through donor, rather than country systems, continues to erode ownership. There is still too much emphasis on costly foreign consultants, and the quality of the technical advice is often poor. Donors should allow domestic institutions to build their own capacity through experience and direct involvement in the development process.

More budgetary support is needed to minimize multiple donor coordination and harmonization problems and to improve the quality of the budget process via multi-year donor commitments and disbursements, streamlined procedures to strengthen predictability, and less volatility. Greater efforts should be made to decrease “off budget” donor funding and programming.

Further research should be undertaken on the question of fragmentation and complexity within the development architecture. This should consider whether division of labour is needed to reduce the number of active donors at the country level, while also maintaining a level of diversity and choice within the system.
Introduction

This synthesis report presents the key findings and results of a project launched in 2005\(^1\) by The North-South Institute (NSI) to examine and analyze Southern perspectives on reforming the “international development architecture”.\(^2\) The goal of the project is to increase knowledge of Southern views on these issues, in order to feed into and influence policy debates and reform processes internationally and at the developing country level. The project aims to do this through research that identifies Southern views on the broad development policy framework, as well as on specific aspects of the architecture itself. The ultimate objective of the project is to advance a reform agenda for the international development architecture that genuinely reflects the priorities and concerns of low-income countries.

The project is timely, given a number of key events and conferences on the international agenda. The International Conference on Financing for Development was held in 2002 at Monterrey, Mexico, under the auspices of the United Nations (UN). Discussions during 2007 resulted in agreement on a follow-up conference to be held in November 2008 in Doha, Qatar. Secondly, the 2005 Millennium Review Summit led to the creation of the “Development Cooperation Forum”, also under the auspices of the UN. This Forum, to be held every two years beginning in July 2008 in New York, is mandated to examine and enhance the relationships between aid donors and recipients. Finally the 2003 and 2005 High-Level Fora on Aid Effectiveness, held at Rome and Paris respectively (the latter gave birth to the “Paris Declaration on Aid Effectiveness”), are being followed by a third High Level Forum convened in Accra, Ghana, in September 2008.

Multilateral institutions like the World Bank and the United Nations Development Programme (UNDP), and bilateral aid agencies such as the Canadian International Development Agency (CIDA) and the UK’s Department for International Development (DFID) comprise a significant part of the international development architecture. But other agencies that do not provide “aid” as such but instead influence trade and economic policies — such as the World Trade Organization (WTO) and the International Monetary Fund (IMF) — also play significant roles. All these organizations have been controlled, by and large, by the donor countries, through the provision of funding or by dominating their governance structures.

The development architecture has been criticized by developing countries as inequitable and by developed countries as inefficient or ineffective. The earliest post-war initiatives to reform the architecture were launched by developing countries during the 1960s and 1970s. These aimed more broadly to create a “New International Economic Order” (NIEO), including the trade and investment system as well as the development aid system. The NIEO debate was effectively terminated in the North-South dialogue of the early 1980s, largely because of the unwillingness of developed countries to contemplate an erosion of their control over the system.

However, the severe debt and financial crises of the last two decades spurred developed countries to bring about a number of reforms, such as the debt relief initiatives of the 1980s and 1990s (including the Heavily-Indebted Poor Countries Initiative [HIPC] and the Multilateral Debt Relief Initiative [MDRI]). Moreover, in the current decade donor countries are evidently keen on reforming the aid system: the 2005 Paris Declaration is singularly focused on enhancing the effectiveness of aid. Reform initiatives have also been launched at the UN and the International Monetary Fund (IMF). For example, the UN Development Cooperation Forum brings together donors and recipient countries on a more equal footing than has been possible at the Organisation for Economic Co-operation and Development (OECD). At the IMF, proposals are under review to increase the voice and vote of some developing countries in the organization, although these are not likely to be adequate from the standpoint of many developing country members.
How would developing countries reform the architecture if they were empowered to do so? That is the central question addressed by this synthesis paper. After all, the international development architecture has been created ostensibly for the benefit of the developing countries, and they should therefore have, at the very least, a significant role in the reform process. But given the sobering precedents of North-South dialogue and the demise of the NIEO over two decades ago, it is important to ask why such a question is more than academic. Does it matter how the developing countries would reform the system as long as control is clearly vested in the developed countries?

At present, developed countries remain largely in control of the development architecture. But there are reasons to believe that donor countries are now more open to a serious consideration of Southern perspectives on systemic reform. The 2005 Paris Declaration involved the participation of a large number of developing countries, reflecting acceptance by the donors that recipients must be more equal partners if aid is truly to become more effective. For similar reasons there is also an appreciation among donors of the importance of “ownership” by developing countries if their strategies and policies are to be successful. In addition, there are new actors on the development stage: China, India, Brazil and Venezuela, among others. In many ways, these countries are not behaving like traditional aid donors in the OECD “club”. They do not impose (the same kind of) policy conditionality, and they offer support for projects (e.g. large-scale infrastructure) that are often avoided by the Northern donors. This “competition” from new actors opens up space for developing countries to press for changes from both traditional donors and new players alike.

If there is indeed now more space for developing countries to participate significantly in reforming the international development architecture, in which ways would they change it? What would be their priorities for reforming the system? Would these be significantly different from those of donor countries? Indeed, would there be uniformity and consistency among the developing countries themselves, or within each developing country?

### Box 1: Southern writing on the international development architecture

A survey of Southern writing on the international development architecture highlights three themes consistently addressed by authors: development financing, debt, and the policies and governance of the international financial institutions (Morton 2005). Other problematic aspects of the architecture receive less attention than in the donor community: humanitarian aid, the UN system, the accountability and transparency of bilateral agencies, the poor record of technical assistance, and the implications of emerging phenomena such as budget support, and vertical funds.

Southern writing reveals four preoccupations regarding the international development architecture: developing country ownership; conditionality; aid dependence; and power imbalance between rich and poor nations. Some writers address these issues within the context of broader global and structural factors and policies that affect development. In general, however, Southern writers are not writing specifically about reform of the international development architecture. Instead, they are concerned with the steps that low-income countries themselves can take to further their own development.

Southern writers’ interest therefore lies with the implications of national policies and decision making, with development challenges at the regional, national and local levels, and with the roles of government, other institutions, the private sector, civil society, and other actors at these levels. It is at these levels, which can be termed the “domestic development architecture”, that Southern writers consider that change is the most important and urgent.
The project sets out to address these questions. It calls for different ways of thinking about, and resolving, the urgent issues confronting the development architecture than those commonly assumed by Northern governments and experts. It is clear, for instance, that Southern thinkers, practitioners and writers conceptualize the issues concerning development in ways distinct from their Northern counterparts, and that they have different perceptions of what constitute the key problems and how they can be resolved (Box 1, opposite).

Moreover, practitioners and policy-makers from the South have historically addressed a broader range of issues affecting developing countries than just foreign aid. Trade, international finance and investment and technology have also been central to Southern initiatives on reforming the international system (Box 2).

**Box 2: Historical antecedents**

Debates about reforming the way in which the international system supports or undermines development go back the 1950s (Culpeper and Wangwe 2005). Much of the earlier initiative for reform — revolving around the New International Economic Order — originated in the South. The deflection by the North of the demands for a NIEO (and in Africa, for the Lagos Plan of Action) in the 1980s is the backdrop against which current discussions on reforming the international development architecture must be viewed. Several lessons can be drawn from this history. First, reform proposals that resonate in the South were more comprehensive and holistic, not confined just to “development” institutions, but to all trade, finance and other organizations that have a development impact. Second, while Northern principals (donor institutions) focus on “doing things right” (e.g. enhancing aid effectiveness), Southern principals (governments or civil society) emphasize the larger issue of “doing the right thing” (e.g. ensuring that policies are appropriate to developing countries’ needs and capabilities). Finally, echoing the findings from the survey of Southern writing, conditionality and developing country voice emerged as particularly contentious issues from a historical review of the North-South dialogue.
Principal Results of the Project

The following section summarizes the project’s principal results. These emerged from the project’s core outputs — three background “thematic” papers and five country studies — as well as from the deliberations of the project Steering Group.\(^3\)

Overarching issues: the thematic papers

In the view of many Southern experts and activists, reforming the international development architecture is clearly important. But this may not be sufficient to address the full range of issues concerning international development co-operation today. The architecture, comprising the institutions and “machinery” of development co-operation, constitutes a vital means toward achieving development objectives. But the articulation of development objectives or ends is itself contested. Real reform must therefore address the “development paradigm” that sets the rules and determines the overarching framework for development cooperation. Moreover, how development plays out at the international level, and also at the country level, depends on a range of policy issues, institutions and mechanisms that extend beyond those strictly aimed at “development”. Sometimes these work at cross-purposes rather than in harmony with the aid architecture. In addition, no matter how effective the architecture may be, geopolitics often intrudes in ways that are not friendly toward development.

With these considerations in mind, the project’s Steering Group identified three overarching issues that affect the current development architecture: power imbalances and development knowledge; policy coherence; and the geopolitics of aid. These were addressed in the three thematic papers prepared for the project.\(^4\)

Development knowledge

Development knowledge forms the basis for development policy and action. Who produces and disseminates development knowledge, and to what ends is it used? How do North-South power imbalances affect the production and dissemination of development knowledge?

Girvan addresses these questions in “Power Imbalances and Development Knowledge” (Girvan 2007). He suggests that reform of the development architecture must be preceded by reform of how development knowledge is produced and disseminated, and of how it is used to inform development policy. The starting point for this is an “up-ending” of the current development knowledge “hierarchy” that is both a cause and a consequence of North-South power imbalances. This hierarchy privileges Northern knowledge, at the expense of Southern and indigenous knowledge that more accurately reflects developing country historical, political and social contexts, and that proposes solutions appropriate to those contexts.

According to Girvan, international knowledge (represented by the neo-liberal paradigm) currently claims universal applicability and, as a result, it has taken on an ideological nature, determining how decision makers view the world as well as the policies that are agreed on. Northern centres of power dominate knowledge production and dissemination because of their vast resources, their role as international centres of intellectual innovation, their close connections to international funding agencies, and because they have managed to “intellectually socialize” and co-opt talented Southern thinkers and decision-makers. Southern knowledge centres (planning ministries, quasi-government agencies, universities and research bodies, civil society organizations and the like) are relegated to the bottom of current knowledge hierarchies.

Girvan emphasizes the key role of Southern centres in generating development knowledge and in making it widely available. He argues for a “context specific and locally driven approach to development,” in which knowledge empowerment of the South is a central element. Development cooperation can (and must) play an important role in overturning current knowledge hierarchies. Development cooperation agencies should recognize diversity and accept policy heterodoxy, and they should more strongly support local capabilities in development knowledge. Multilateral and bilateral organizations should provide complementary resources and collaboration to Southern centres, and regional centres can also play an important role.
Policy coherence
Successful development requires a coherent set of donor and recipient policies that reinforce each other. How does international policy in the areas of aid, trade and investment affect the ability of low-income countries to set domestic policies in these areas? When does incoherent donor policy undermine the development efforts of low-income countries, and what can be done about it?

In “Policy Coherence: Aid, Trade and Investment”, Oyejide suggests that there is a “fundamental difference in the perspectives of aid donors and recipients” across the aid, trade and investment policy areas (Oyejide 2007). Although there is a measure of agreement that the “drivers” of development include macroeconomic stability, openness, good governance, quality infrastructure and strong institutions, there is considerable disagreement, in particular between Northern and Southern interests, on the most favourable approaches and the adjustment processes and timelines in these areas that will provide sustainable growth.

Oyejide identifies openness and institutions as the main sources of policy incoherence, and of controversy. In relation to trade, for instance, standard donor prescriptions that trade openness enhances growth and poverty reduction are at odds with recipient country perspectives. The latter take a more nuanced view, based on experience that shows that in low-income countries supply response capacity is often limited, and that the adjustment process is slow. As a result, the initial costs of liberalization can be real and very significant, while the expected efficiency gains are limited and/or delayed. In the area of investment, donors have again generally pushed full liberalization; this is inconsistent with aid recipients’ policy preference, which is for a “two track” approach that promotes export-oriented foreign direct investment (FDI) through liberalization while retaining protection against market-seeking FDI. Within the aid arena, problems with policy coherence arise because of donors’ ineffective partnership and coordination, policy and institutional reforms that recipients consider unacceptable, and donors’ unwillingness to accept experimentation in reform areas.

Oyejide shows that while donors expect that aid disbursement will “go hand in hand” with the liberalization of recipient countries’ trade and investment regimes, recipient countries see things differently. They maintain that trade and investment policies should be coordinated and strategically linked, and should involve a liberalization process that is gradual, selective and differentiated. The challenge is therefore to identify mechanisms to reconcile and accommodate these donor/recipient differences, in order to enhance policy coherence and the effectiveness of aid. This involves allowing the aid-recipient country to set out a consistent development program, including coherent policies to address constraints, and indications of where and how external assistance is needed.

Geopolitics and aid
How does the global political context affect donor priorities, Official Development Assistance (ODA) flows, and the overall orientation of the development architecture? Specifically, what impact are global preoccupations with security issues and the “war on terror” having on the allocation and distribution of ODA?

In “Security, the War on Terror, and Official Development Assistance”, Aning explores how the geopolitical interests of powerful nations can determine, and potentially de-rail, the development agenda (Aning 2007). He suggests that donor priorities, and in particular the geographic allocation of ODA, have been profoundly skewed by their international focus on security issues and the “war on terror”. While the end of the Cold War gave birth to an aid system primarily geared towards the eradication of poverty, “the new security imperatives of the post 9/11 era are leading to the securitization and politicization of ODA”. Rather than the traditional notion that ODA should be primarily allocated to needy countries, it now serves as the foundation upon which international and national security is established. There are two main policy impacts that result: first, a shift in geographical aid disbursements, with the “security first” paradigm determining which countries get ODA, and how much; and second, a broadening of the remit under which development aid can be applied. Aning argues that the indispensability of need and traditional development objectives for ODA “must be made sacrosanct”.
Country studies

The Southern Perspectives program involved five country studies, based on research undertaken by Southern researchers in Burundi, Nigeria, Sri Lanka, Vietnam, and Bolivia. These countries do not, of course, constitute a representative sampling of developing countries. Instead, they provide a “snapshot” of how the development architecture “plays out” at the country level, and of the reforms that are needed.

As Table 1 and Chart 1 (opposite) demonstrate, the five countries are, in fact, very different for a number of reasons. Sri Lanka and Burundi are countries experiencing ongoing or nascent conflict. Two countries (Sri Lanka and Vietnam) are lower middle-income countries; the other three are low-income. Two countries have relatively small populations (Burundi and Bolivia, both under 10 million); Sri Lanka is mid-sized (20 million) while Vietnam (84 million) and Nigeria (145 million) are relatively large. Burundi is the most heavily aid-dependent; Bolivia, Sri Lanka and Vietnam are intermediate cases; while for Nigeria, aid is relatively marginal compared to export earnings and FDI (Table 1). Apart from Burundi, foreign trade is likely a far more important drive of economic development than foreign aid (Chart 1).

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Major themes from the country studies
A number of key themes emerge from the country studies, and these are described in the following section. Of these, the notion of “ownership”, and the challenge of retaining — or reclaiming — ownership of the development system stands out most clearly as a central concern for Southern thinkers and stakeholders.

“Country ownership”: a disputed concept
It is now common for discussions and thinking on development strategy and aid effectiveness to emphasize the fundamental importance of “country ownership”. These discussions are based on the understanding that if ownership is not exercised by a country over its development strategy, it is unlikely to prove successful in the long run. Put otherwise, if development policies are imposed by external agencies (donors, the World Bank, the IMF) on a reluctant government or recalcitrant citizenry, they are likely to fail. For similar reasons, foreign aid is likely to be more effective where domestic ownership over development strategy and key policies is evident.

In some respects, the country studies reflect these widely-held understandings of ownership. The Burundi study, for instance, reinforces the importance of leadership and vision by national government, and suggests that where leadership is weak it is unlikely that government will be able to claim ownership over a development strategy that truly serves the national interest. The Bolivia and Burundi studies show that aid dependence and excessive debt burden have created conditions in which international institutions have been able to exert a high degree of influence over development strategy, and that this has severely compromised national ownership.

In other respects, however, the country studies demonstrate that southern understandings of ownership go beyond those articulated in current aid policy discussions. In particular, the studies emphasize that ownership is a highly complex and difficult issue that derives from, and that is bound-up within, a country’s economic, social and political make-up. Current notions of ownership, including those expressed in statements such as the Paris Declaration, do not capture this complexity, and do not sufficiently reflect Southern understandings of ownership.

Chart 1
Exports vs. FDI vs. Aid (per cent of GDP, 2004)

The following section summarizes key thinking on ownership that emerged from the country studies.

Ownership as “country leadership of development policy and strategy”

International bodies such as the World Bank, the IMF and the OECD’s Development Assistance Committee (DAC) suggest that there is now a consensus on what is understood by country ownership, and describe it in terms of national leadership of development policy and strategy. In the Paris Declaration, ownership is described as a process in which “partner countries exercise effective leadership over their development policies and strategies, and coordinate development actions.”

The country studies acknowledge the importance of these aspects of ownership. The Burundi study suggests that aid dependence, debt burden, and the process of recovery from conflict have all meant that government and has not been able to establish effective leadership; and has not been able to articulate national development policies or strategies. As a result, it is not yet in a position to “own” its development (Baransaka and Girukwigomba 2007).

Aid dependence and debt burden constitute major challenges to ownership

Aid dependence and debt burden have been major factors affecting ownership in Burundi and Bolivia during the last 20 years. Since 1985, Burundi has regularly received financial support amounting to between 50 to 60 per cent of the budget (except during the aid embargo in the period of the 1996-1999 conflict). In 2004, ODA constituted 53 per cent of GDP. Most of Burundi’s development financing comes in the form of loans, and debt remains the largest funding source for public investment. Despite a careful policy on indebtedness, and the receipt of debt relief through the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) programs, current debt levels are unsustainable (Baransaka and Girukwigomba 2007).

Burundi’s donors, and in particular the World Bank and European Union (EU), exert significant influence over economic policy, and this influence extends to the political sphere. As Baransaka and Girukwigomba state, “The economic and political history of the last two decades is replete with examples of the determinant influence of these two institutions in critical decisions affecting the economy, as well as politics.” Burundi’s “extreme dependence” on external finance has allowed these institutions and the donor community access to areas of policy and decision making directly related to Burundi’s sovereignty (ibid).

The Bolivia study reflects a similar picture (Barja 2008). Barja suggests that between 1985 and 2005, Bolivia essentially handed over ownership of the development policy agenda to international institutions in exchange for foreign finance, and that this occurred as a result of chronic aid dependence and indebtedness (see Box 3: “Ownership in Bolivia”, opposite).
But ownership can also be problematic in non-aid dependent countries

The Nigeria country study shows that the international development architecture can continue to play a strong role in countries even when aid constitutes a very small proportion of the available resources for development (Olofin 2008). In recent years, the Government of Nigeria has been able to better harness and manage domestic development resources, in particular oil revenues, and as a result has accumulated substantial financial reserves. According to Olofin, the overall contribution of ODA to the country’s development finance budget is currently estimated to be less than 0.5 per cent (ibid).

In spite of this, institutions of the international development architecture — in particular the Bretton Woods Institutions (BWIs) — continue to exert a strong influence over Nigeria’s development policy. This is a knock-on effect of the country’s historically very high debt burden, its acceptance over many years of debt-relief measures and their associated conditionals, and its continued dependence on additional

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**Box 3: Ownership in Bolivia**

In the Bolivia country study, Barja suggests that chronic aid dependence and indebtedness, the major roles played by external actors, and a long history of donor-driven policy conditionality, all mean that in the past, Bolivia “basically gave up ownership of its development policy agenda in exchange for foreign finance.”

Bolivia’s aid dependence deepened in the early 1980s as a result of the debt crisis, hyperinflation, and the longer-term drop in the terms of trade. During the 20-year period that followed, the government adopted “a highly liberal relationship” with the development architecture in order to ensure access to foreign finance. This relationship operated within the framework of debt negotiations with the Paris Club and the HIPC program, World Bank influence over policy design, and IMF approval of macroeconomic programs. Successive governments implemented policy reforms closely modeled on the prescriptions of the international development architecture. Over the years Bolivia “did it all, and more,” implementing market liberalization policies, private sector development, privatization, regulation, decentralization and local development, health and education reform, a poverty reduction strategy and national dialogues, adoption of the Millennium Development Goals (MDGs) as national development goals, and of alignment and harmonization for aid effectiveness.

In the government’s view, it supported and implemented these policies on its own terms, and this constituted a form of ownership. However, this view was not shared by large sections of the population, most notably the country’s indigenous groups. In their opinion, the policy prescriptions introduced during the period of liberalism were primarily foreign, based on Northern ideology, and delivered through donor/government dialogue and donor-driven policy conditionality. Liberalism and economic reforms delivered benefits for those who could participate in a market-based economy, but marginalized many others who could not, in particular the very poor in rural areas and those on the urban periphery. This generated a deep disconnect between government and these groups, which fed into social unrest and a long period of political and governance instability. It was with this background that Bolivia underwent major political change in the mid-2000 decade, electing Evo Morales as Bolivia’s first indigenous president and setting a new course for the country’s development, and for its relations with the development architecture.
finance (ibid). In 2005, Nigeria was granted cancellation of its Paris Club debt of $18.5 billion, provided that it accepted an IMF Policy Support Instrument (PSI). The PSI is a newly initiated IMF facility that does not involve provision of finance but sets policies to guide macroeconomic stability and development. Ongoing compliance with the PSI is voluntary; the Nigerian government’s position is that it willingly accepts the requirements of the PSI since they are consistent with its own National Economic Empowerment and Development Strategy (NEEDS). Other stakeholders, however, maintain that the PSI represents another externally imposed policy framework, and that as a result, it continues to undermine ownership. From this perspective, the PSI is viewed as an indication that the IMF and broader donor community are unwilling to “let go” of their influence in Nigeria, despite the very limited finance they now provide proportionate to other sources of development finance.

Donors influence extends to the operational level

The above examples suggest that donor countries and international institutions are able to exert considerable influence over the development policy agenda, in both aid dependent and aid independent countries. The country studies also show that this influence is not restricted to the policy arena, but also extends to operational aspects of development activity, in particular in relation to the selection and implementation of development programs.

Barja argues that in Bolivia, a form of conditionality continues after the terms of loans and grants are set. This occurs through donors’ day-to-day dominance over the “hundreds of decisions” that are taken during program or project implementation. Ownership is further eroded through donors’ use of parallel project units, and through the co-management of projects by donor-appointed personnel, a practice that compromises the capacity of national experts (Barja 2008). In Sri Lanka, current lending patterns are dominated by project-based lending; this in theory constitutes state-led development, on the basis that line ministries select projects and then propose them for foreign funding (Kelegama and de Mel 2007). In reality, donors use their advantage in knowledge and expertise to influence the types of projects that are proposed, sometimes through presentation of a background or concept paper. Donors often provide the initial ideas and signals for projects that they prefer, and that they eventually go on to fund. These processes undermine local capacity and national decision making (ibid).

The Poverty Reduction Strategy: an ill-conceived mechanism for ownership?

As we have seen, official policy and practice frameworks such as the Paris Declaration characterize ownership in terms of national leadership of development policy and strategy. In many countries, development policy and strategy are articulated in a national Poverty Reduction Strategy. These are devised by governments, often in conjunction with the donor community. In some cases, the strategy takes the form of an officially recognized ‘Poverty Reduction Strategy Paper (PRSP)’, and constitutes the basis for receiving debt relief through the HIPC program. National consultations are seen as a key means of building countrywide ownership of the poverty reduction strategy; as a result, consultations are increasingly incorporated as standard components of the PRSP process, and in some cases are included in conditionality arrangements attached to the provision of finance.

However, the Bolivia and Sri Lanka country studies suggest that it is highly misguided to believe it is possible to achieve “national ownership” of a PRSP and, furthermore, that it is unlikely that a process of national consultations can facilitate this. Referring to the Sri Lankan PRSP (prepared in 2003 and named “Regaining Sri Lanka”), Kelegama and de Mel reflect observations that have been made on many other PRSPs: “What is clear is that the document lacked ownership on a national scale since it did not reflect the aspirations of the majority of the population” (Kelegama and de Mel 2007). They suggest that ownership is a complex and far-reaching phenomenon that cannot be represented, or created, in a policy document, or through stakeholder consultations: “National ownership is a concept that evolves over time and is a reflection of the socio-economic, ethnic and political fabric of a population. These qualities cannot be created in a one-off document aimed at generating donor funding” (ibid).
Ownership: a political issue that goes beyond development finance

Real ownership means a country is able to determine and control its own destiny, and is able, on its own terms, to manage the range of foreign interests that may be active domestically. Many of these foreign interests extend beyond the provision of development finance. When sections of the population feel they do not have sufficient ownership of the country’s development agenda, or that foreign interests are exerting excessive influence, there are likely to be political consequences.

From the mid-1980s, successive governments in Bolivia adopted economic reforms that were externally prescribed and neo-liberal in character, and that were often part of conditionalities attached to debt-relief programs. Liberalization brought Bolivian economic policy into line with the prevailing international thinking, and privatization opened the door for foreign interests to play a much larger role in the country, primarily in the highly lucrative oil and gas sector but also in service sectors that touched directly on people’s lives, such as water and power (Barja 2008). While liberalization benefited those who could participate in the market economy, it had negative consequences for large sections of the population, in particular the poor and indigenous. Many Bolivians felt increasingly excluded from decision making on economic policy and felt that foreign interests were excessively present in the country’s development. In the early part of the 2000 decade, the sense of exclusion became stronger and was expressed in the form of popular protest by civil society groups and mass movements. This was the driving force that led to a change in the country’s political and economic order and to the election in 2005 of Evo Morales as Bolivia’s (and Latin America’s) first indigenous president (ibid).

The Sri Lanka study also shows that there are political consequences when government-led domestic policy lacks national ownership (Kelegama and de Mel 2007). Like Bolivia, Sri Lanka also has a history of liberalization. Following a change of government in 2001, the new United National Party (UNP) government introduced “Regaining Sri Lanka (RSL)”, which it put forward as a PRSP. On the face of it, RSL could be seen as a “home-grown” policy, as it was prepared by the government in consultation with domestic stakeholders. However, RSL was also designed as a PRSP with a view to gaining budgetary support from the IMF and World Bank, and many of its policies therefore reflected those promoted by the BWIs. As it turned out, important reforms contained in RSL were politically unfeasible, and encountered public opposition and trade union action. As Kelegama and de Mel suggest, “even a right wing government needs to fall in line with domestic political realities and the failure to do so saw the UNP fall out of favour” (ibid).

Vietnam: managing reforms, achieving growth, retaining ownership?

Vietnam is frequently held up as a development “success story” because of its achievements in reducing poverty levels, sustaining growth, and maintaining ownership of its development policies. It has embraced the Paris Declaration and made the Declaration its “own” by developing the Hanoi Core Statement (see Box 4, pg. 18). Vietnam is also one of the first pilot countries for the UN’s “Delivering as One” pilot program.7 From unification in 1975 until the late 1980s, Vietnam reflected a “typical” aid dependent country, with ODA constituting more than half the country’s imports, around three quarters of investment, and over two-thirds of government expenditure (Thu Hang 2007). Vietnam continues to be one of the top worldwide recipients of ODA: in 2007, ODA pledges to the country amounted to US$4.45b. Underlying donor countries’ continued commitments of high levels of ODA, however, is a remarkable transition that involves an exit from aid dependence. In contrast with the 1980s, ODA now accounts for just over 4 per cent of GDP in Vietnam. This is attributed to high growth achieved through domestic reforms, and openness combined with stabilization, an approach introduced in 1986 through the Doi moi (renovation) program, or “market reform within a socialist orientation” (ibid).

Unlike Bolivia and Sri Lanka, Vietnam was able to undertake liberalization on its own terms and without ceding ownership of national development policy to creditors or other actors in the development architecture. Vietnam’s determined government ownership, continued
economic growth and decreasing aid dependence has enabled it to operate from a position of strength in relation with the development architecture (see Box 4: “Ownership and donor reform in Vietnam”).

In 2004, it withdrew from the IMF’s Poverty Reduction and Growth Facility (PRGF) program, because it was unwilling to accept conditions that it viewed as conflicting with national laws and regulations (ibid).

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**Box 4: Ownership and donor reform in Vietnam**

In the Vietnam country study, Thu Hang emphasizes the government’s high level of ownership over the policy making process, and its strong bargaining position in relations with the donor community (Thu Hang 2007). This position is supported by a number of factors: there has been impressive economic growth over a long period of time; the government maintains sovereignty as the guiding principle for all external relations, and there is a unified institutional mechanism for ODA management, with the Ministry of Planning and Investment playing a key role. Within core ministries, there are capable and experienced officials with responsibility for ODA management. This has allowed the government to adopt a pro-active position in relation to aid management.

The government developed the “Hanoi Core Statement” (HCS) in conjunction with donors. The HCS elaborates on the Paris Declaration but is designed to reflect Vietnam’s specific conditions. At the same time, the government maintains a deliberately “selective” approach towards ODA, and resists the imposition of conditions that it sees as inappropriate. This is best illustrated through its decision to discontinue the IMF’s PRGF program, on the basis that conditions attached to the loan — although standard for countries receiving IMF funds — conflicted with national laws and regulations.

In addition to addressing the question of ownership, the Vietnam study also makes recommendations on how donor structures and procedures should be reformed in the country. These include:

**Elimination of policy conditions attached to aid programs:** While Vietnam recognizes that the provision of aid is unlikely to be completely free of conditions, donors must make real progress in eliminating political conditionality. The type of political conditionality typically promoted by donors slows the pace of economic development and increases inequality, leading to domestic instability.

**A more decisive shift to budgetary support:** There are a number of advantages associated with establishing general budgetary support as the preferred means of aid provision. However, donors have so far been slow to adopt this modality: in 2005, it made up only 14 per cent of total ODA in Vietnam. A more decisive shift is required. Most importantly, greater provision of budgetary support would strengthen government ownership, and would also enhance government’s ability to use aid for programs that it (rather than donors) determines are priorities.

**Greater efforts on harmonization and simplification:** With over 40 donors active in Vietnam, the government faces significant aid management challenges. Donors have made improvements in harmonization and in simplification of procedures through the Paris Declaration and the Hanoi Core Statement, but more progress is needed. Many donors maintain separate methods and approaches, and continue to be driven by the need to show that their aid to Vietnam is of benefit to their own country. Donors need to take greater responsibility for harmonization, and should establish common guidelines for aid delivery that all, rather than some, donors should follow.
New moves to regain ownership

Developing country governments face a considerable challenge in setting domestic policies that will be widely supported and “owned”, in particular when they must do so in the context of an international system in which donor countries enjoy disproportionate power and influence. Yet the country studies show that some developing country governments are beginning to more strongly exert leadership of the policy agenda, and to more clearly set the terms of their relations with the international development architecture.

In Nigeria, the government is adopting measures that may result in a strengthened bargaining position with donors. Its decision to set aside part of the natural resource windfall from rising oil prices has resulted in rapidly growing foreign exchange reserves. Its new policy on ODA is designed to achieve alignment with the government’s National Economic Empowerment and Development Strategy (Olofin 2008), and aims to more strongly assert domestic ownership (see Box 5: “Nigeria’s Policy on Foreign Aid”, pg. 20).

The current government in Sri Lanka came to power with a strong platform of local ownership of the development agenda (Kelegama and de Mel 2007). This includes an active decision to shift away from concessionary borrowing from the international financial institutions (IFIs) in order to achieve greater policy space. The government has been aggressively selling “Sri Lanka Development Bonds” to international markets in order to raise funds for development and to bridge budget deficits. It discontinued the IMF’s PRGF program, and since 2003 has not participated in any further PRSP discussions with the IMF or WB, on the basis that IMF lending constrains the policy space required to pursue a domestic policy framework. Instead, the government has formulated a new development plan (the Mahinda Chinthanaya). It is seeking aid “without strings attached”, and has recently focused more strongly on bilateral donors. This is partly because there is increased finance available from donors such as China and India, which provide aid that is more flexible, and that comes with little or no macroeconomic and policy conditionalities (ibid).

In Bolivia, the Morales government is operating with a strong vision of regaining Bolivian “sovereignty”, a term it prefers over the notion of “ownership” (Barja 2008). Its agenda applies to the full range of foreign interests at play in the country: not just the external development finance architecture, but also foreign political interests, companies and investment mechanisms. As part of this platform, Morales has introduced a range of measures including legislation for greater national ownership of natural resources (and for a greater share of revenues). In the development arena, the government’s changed approach includes rejection of the previous PRSP, and introduction of a new National Development Plan (NDP). The NDP is Bolivia’s first government development plan in two decades to be deliberately devised without consultations with the international donors. In July 2006, the government presented the NDP to the international community, requesting support for it “without conditionality” (ibid).
Aid in perspective: the importance of non-aid policies

The country studies reinforce a simple but clear message on ownership: developing country interests and priorities should be allowed to provide the “starting point” for the development finance system. This system should be underpinned by aid policies that are consistent and effective.

At the same time, however, the studies also emphasize that aid policy, and aid flows, should be seen in perspective. In countries such as Vietnam, Sri Lanka and Bolivia, remittances, FDI and exports constitute extremely important resource flows. Policies in “non-aid” areas, in particular in relation to trade and investment, can have an equal and often greater impact on development than international or national aid policy.

As developing countries progressively integrate into the global economy, they become subject to the policies and norms that are part of this system, including multilateral agreements and treaties in the areas of investment and trade (such as those negotiated through the World Trade Organization). Developing countries also enter into bilateral agreements with developed countries, including those from whom they receive aid. These bilateral agreements cover a range of areas, and sometimes include requirements and sanctions that are more far-reaching than those associated with global arrangements.

At times, the consequences of policies that are part of global and bilateral trade and investment agreements can undermine the benefits of aid. Over the last 10 years, Vietnam has intensified its integration into the global economy, including in the area of trade. This has brought many benefits but it has also meant that Vietnam is subject to global policy regimes, and in some cases this has come at a cost.

Box 5: Nigeria’s Policy on Foreign Aid

Nigeria is not in any sense aid-dependent; aid receipts have typically been around half of one per cent of GDP. However, notwithstanding over $400 billion in revenues from oil exports in the last three decades, economic mismanagement, mass impoverishment and accumulating debt have led to policy reforms demanded by the World Bank, the IMF and the creditor community. Reforms by the Obasanjo government, along with generous debt relief by creditors in 2006, may have succeeded in turning the situation around.

A “fiscal rule,” whereby oil revenues in excess of $20 per barrel are set aside by the Central Bank of Nigeria, resulted in the accumulation of $43 billion in foreign exchange reserves by 2007. The bargaining position of Nigeria with respect to external funders has accordingly been strengthened.

One explicit manifestation of the new relationship is the government’s articulation of an ODA Policy in 2006. The policy is aimed at bringing about alignment and harmonization with the government’s National Economic Empowerment and Development Strategy (“NEEDS”) — in other words, at asserting and reinforcing domestic ownership. While the new policy reaffirms the importance of achieving internationally agreed targets such as the Millennium Development Goals, it is also clear that the government is seeking to obtain more from its donors. For example, the policy seeks the involvement of suitably qualified Nigerian professionals and officials in the preparation, formulation and implementation of projects and programs funded from ODA to ensure ownership and sustainability, and increasing utilization of ODA resources on Technical Assistance (TA) in favour of Nigerian experts where they are available and competent to do the job.
For instance, “anti-dumping” regulations attached to trade agreements have had damaging effects both on the economy and on livelihoods: when the EU imposed an anti-dumping tax on footwear imported from Vietnam, it caused the loss of approximately 90,000 jobs held by low-income Vietnamese, most of whom are women (Thu Hang 2007). In this case, the EU’s use of global trade policy clearly cancelled out any positive benefits flowing from aid provided by EU member countries, which are important aid donors to Vietnam. The Vietnam study recommends that donors should pay more attention to the impact on the country’s development of the full range of international policies to which they subscribe, and that they should take steps to more fully understand a country’s overall situation (ibid).

**Box 6: The Sri Lanka study**

The Sri Lanka study identifies a number of key areas where the development architecture can make improvements:

**Sensitivity to political context:** There is a long history of donor attempts to influence political processes in Sri Lanka, often in relation to the conflict that continues to affect the country. Both government and civil society argue that this conflict is embedded within sociopolitical structures that have developed over many years, and that it is extremely difficult for outsiders to properly comprehend the issues, let alone to propose solutions. Donors therefore need to show greater sensitivity to the complexity of the political landscape. This includes a better understanding of the political constraints facing governments that make many of the necessary reforms difficult to push through.

**A limited aid relationship:** Donors need to accept that their role in the aid relationship should be limited, so that domestic institutions have opportunities to build their own capacity. This means allowing aid recipients in Sri Lanka to assume the main responsibility for the design and implementation of development programs. It also means knowing when to exit the aid relationship. Currently, donors perpetuate aid as a self-sustaining industry, rather than as a means of fulfilling humanitarian and development objectives. This is most starkly illustrated by the experience after the December 2004 tsunami. Donors entered the country to assist in disaster relief, but then stayed on and diversified into other activities where their services were barely needed in order to pursue their own institutional and career objectives.

**Role of non-governmental organizations (NGOs) in the development architecture:** The role of NGOs in Sri Lanka underwent a major change following the tsunami. In response to the humanitarian crisis, there was both an influx of international NGOs and the creation of new local organizations. These joined the government, the private sector, international donors and existing local NGOs in a major relief exercise. As a whole, the NGO sector played an important role in contributing to immediate humanitarian relief and to reconstruction. Through this process, Sri Lanka largely avoided major crises following the disaster, such as the spread of communicable diseases.

Over time, however, aid management problems resulted, including lack of coordination, duplication and waste. This reinforced negative perceptions of several of the larger NGOs and international NGOs (INGOs). These are seen by many to constitute a largely unregulated and fragmented sector that incurs inflated bureaucratic costs, relies on expensive foreign consultants, and creates expectations of higher salaries among national consultants. INGOs therefore need to seriously re-appraise the nature of their involvement in Sri Lanka, and the government should prioritize creation of a framework for regulation of INGO activity.
Effectiveness of specific aspects of the development architecture

The country studies addressed a number of specific questions relating to the effectiveness of the development architecture at the country level. The following focuses on some of these questions, including the challenges faced by governments in dealing with the architecture’s size and complexity; the importance and relevance of the Paris Declaration for government and other stakeholders; and the usefulness of technical assistance and “capacity development” that is provided as part of development programs.

The architecture’s size and diversity — efficiency versus choice: The day-to-day operations of the international development architecture throw up a number of challenges for developing country governments. One of these relates to the large number of international agencies that are active in providing development finance or technical advice, or in implementing projects.

In Burundi, for example, around 15 institutions provide concessional loans, and a further 20 agencies (mainly bilateral donors) provide grants (Baransaka and Girukwigomba 2007). In Bolivia in 2005, there were 28 multilateral and 26 bilateral agencies active in the country as well as 500 registered NGOs (Barja 2007). Other countries reflect a similar situation, and an additional dimension also emerges: of the many agencies active in a country, a very small number provide the majority of aid, with the remaining large number of donors providing relatively little aid. In Vietnam, for instance, three donors (Japan, the WB and the Asian Development Bank [ADB]) provide about 70 per cent of ODA; with the remainder provided by 44 other agencies (Thu Hang 2007). The situation in Sri Lanka is similar: the same three institutions provide around 80 per cent of ODA, and more than 20 agencies provide the rest (Kelegama and de Mel 2007).

On the face of it, these arrangements appear burdensome for aid recipient governments. There are significant management challenges associated with dealing with a large number of aid agencies and the finance they provide. In countries like Vietnam and Sri Lanka, a small and manageable group of donors provides most of the aid. However, the complexity of the aid management system is significantly increased by the need to accommodate an additional large number of donors, and the transaction costs the government must bear are similarly increased by the need to deal with the relatively small amounts of aid these donors provide. These realities suggest that the Paris Declaration goals on harmonization of donor efforts, and on alignment of these efforts with government plans, are well founded. However, such goals also appear optimistic given the large number of donors active in most countries, and their often divergent approaches and agendas.

A logical conclusion would be that donors should undertake a “division of labour” at an international level so that, at the in-country level, an equivalent (or greater amount) of ODA can be provided by a smaller number of donors. This would reduce the number of agencies that developing country governments must deal with, thereby also reducing transaction costs, and would result in harmonization and alignment being more manageable. Such an approach would reflect current policy discussions that are occurring through the EU and at DAC, which argue for a reduction in the “fragmentation” of the development finance system, including a reduction in the number of active financing mechanisms.

However, results from the country studies do not necessarily back up this conclusion. Instead, there appears to be support for choice and diversity within the range of development financing options that are available at the country level, and for a government’s ability to choose between, and work with, a large number of donors, some of whom bring different approaches and priorities and offer different types of development assistance.

Experience with concepts such as division of labour and reduction of fragmentation is currently limited, as they represent relatively new phenomena. In addition, the idea that recipient countries should be able to exercise choice and benefit from donors’ different approaches appears to support the notion of country leadership in setting development strategy. This may only work, however, if countries have the capacity to make strategic choices independent of the
influence of donor and societal pressures. Further research in this area could therefore be useful, perhaps drawing on more case studies. This could examine options for reducing the complexity and fragmentation of the development system at the country level, as well as exploring factors that affect aid recipients’ ability to exercise choice over the financing and development options that are available to them.

The Paris Declaration: The country studies give particular attention to the Paris Declaration, especially in relation to its importance and relevance for government and other stakeholders at the country level. The studies suggest the Declaration constitutes a potentially useful tool for guiding country and donor efforts, and in particular, for reminding donors of their responsibilities. In Vietnam, the government and officials are relatively strongly engaged with the Paris Declaration. In 2005, the government and donors agreed on the “Hanoi Core Statement” (HCS). As mentioned earlier in this document, the HCS is based on the Paris Declaration, but in many cases its principles and commitments are more ambitious, and are tailored to Vietnam’s specific circumstances. Implementation of the HCS is backed up a biannual Harmonization Action Plan and by the Partnership Group on Aid Effectiveness, as well as by sectoral and thematic groups. The government seeks full implementation of the HCS, as it sees that this would strengthen ownership as well as overall aid effectiveness. However, it appears some donors have signed on to commitments at the political level that they are not able to implement institutionally; and that they view HCS targets as “signposts indicating the direction in which to travel rather than as binding commitments” (Thu Hang 2007).

In contrast with Vietnam, the other country studies reveal much less engagement with the Paris Declaration. Only a small number of government officials interviewed for the studies knew about the Declaration, and these were usually located in the central aid management unit. They were generally supportive of what the Declaration sets out to achieve: in Bolivia, for instance, it is viewed by the few government officials that know about it as “an international development landmark” (Barja 2007). Otherwise, however, awareness of the Paris Declaration appears to be extremely limited. The Sri Lanka study found that stakeholders “had only the vaguest notion of what was entailed by the document”, and goes on to say that “at this stage it is not possible to evaluate the usefulness of the Paris Declaration...since it has hardly been used” (Kelegama & de Mel 2007).

Lack of awareness of the Paris Declaration raises serious questions about its relevance and usefulness at the country level. This is most starkly illustrated in Burundi. Although the government subscribes to the Declaration’s principles, it is hard to envisage its application in the short to medium term. Under the country’s current post-conflict circumstances, institutions lack experience and are hampered by limited capacity (Baransaka and Girukwigomba 2007).

It is likely that there will be increased awareness of the Declaration in the lead-up to the September 2008 High Level Forum meeting in Accra, Ghana, in particular as civil society groups play an increasingly active role in critiquing the Declaration. Nevertheless, the country studies indicate that there is a major gap between those development issues that are at the top of the policy agenda at official forums such as the OECD DAC, and those that are considered important, and are acted on, within the framework of day-to-day donor/recipient relations at the country level. This imbalance is played out within governments at the country level: as the Sri Lanka study suggests, there is a “large gap between those in government who interact with donors directly and those who sign international agreements at the highest political echelons” (Kelegama and de Mel 2007).

Technical assistance and capacity development: A number of the studies referred to the need for deeper reform in the area of technical assistance (TA). Despite long-established critiques of TA, it appears that there have been insufficient efforts to improve its provision and impact. In particular, there is still too much emphasis on the use of foreign consultants. They constitute an expensive use of scarce resources, their skills are often inappropriate for local contexts, and their presence creates competition and resentment
among national experts. In addition, the provision of TA through donor rather than country systems continues to erode ownership.

In Sri Lanka, technical assistance has a mixed record. There have been number of benefits, including access to high quality expertise and technology. However, there continues to be too much wastage (Kelegama and de Mel 2007). Excessive resources are spent on hiring costly foreign consultants, and the quality of the technical advice is often poor. While donors have focused on supporting capacity development as a means of improving capabilities, the key instead is to allow domestic institutions to build their own capacity through experience and direct involvement in the development process. Donors should assist this by reducing the bureaucratic requirements attached to the receipt of aid, as these constitute a significant burden for domestic institutions trying to establish themselves as viable actors in the development system. Equally importantly, international organizations need to find different solutions to their own human resource needs. The current practice, in which organizations seek out the most talented national experts and employ them at salaries substantially above local market levels, must change. This creates an “internal brain drain”, and further erodes capacity levels within government and civil society (ibid).

Key Policy Implications and Recommendations

The following is a synthesis of the project’s principal conclusions and policy implications, drawing on the three theme papers and five country studies. These are related, where possible, to the main tenets of the Paris Declaration on Aid Effectiveness, bearing in mind the scope of the project was broader than “aid”.

Country ownership and leadership

As the Paris Declaration recognizes, aid effectiveness requires that partner countries exercise ownership — that is, leadership — over their development priorities and strategies. In other words, it requires effective development strategies. But developing countries are constrained from altering the development paradigm. Power imbalances in the development architecture, and the domination by the North of development policy thinking, are major stumbling-blocks to genuine country ownership and leadership. Chronic aid dependence and a large debt overhang are also critical constraints to country ownership.

To alter the development paradigm, developing countries must invest in the generation of development knowledge, its legitimization, and utilization in making actual policy choices that are appropriate to local contexts and circumstances.

- Donors can help by supporting such investments as long as support is offered without strings or policy conditions (for example, through agencies such as the International Development Research Centre [IDRC]).
- Developing countries and donors should also invest in building South-South collaboration on development knowledge, so that developing countries can draw on lessons learned from other countries’ experience, and use this to complement their own locally-derived development knowledge.

Ownership is a complex and difficult issue, and donors have tended to oversimplify the concept and what it takes to achieve it. Deeper political economy analysis is required to understand the dynamics of ownership, and the implications of striving to attain it. At the same time, developing countries must broaden national ownership to include civil society, the private sector, and representative institutions such as Parliament and local government councils. It is not sufficient for ownership to be exercised by a national executive on behalf of a country.
The Poverty Reduction Strategy mechanism, as framed by the Bretton Woods institutions, is not suitable as a vehicle for national ownership, even with extensive consultations. Donors need to pull back and allow low-income countries to develop their own plans and strategies, and should minimize policy-based conditionality connected to national development plans.

Developing countries should reduce their aid dependence and debt overhang to minimize conditionality and leverage of donors.

Some countries are expressing strong concern about the possibility of their aid dependence deepening. These concerns should be made an explicit part of policy dialogue, so that foundations can be laid for a smooth exit from dependency.

To facilitate an exit strategy from aid dependence, low-income countries should establish medium/long-term development financing scenarios that provide a roadmap for increased domestic resource mobilization, growth in export earnings, FDI and other non-aid resources.

Low levels of aid in relation to GDP or the budget do not guarantee independence and ownership of the development agenda. This indicates that more attention must be paid to reforming conditionality. In particular, the BWIs and other donors should make greater efforts to remove macroeconomic and political conditionality. Instead, they should ensure that conditionality is consistent with, and facilitates, implementation of a national development strategy formulated and agreed on by all stakeholders.

Low-income countries’ exit strategies could include their own “conditionalities” for continued (but time-limited) receipt of ODA (for instance, along the lines of Vietnam’s decision to withdraw from the IMF’s PRGF).

Developing countries should be given the policy space to develop their own development finance mechanisms, and allow greater room for experimentation and dynamism in the monetary, fiscal trade and financial arenas. On a regional basis, this should include initiatives such as the Bank of the South. Donors should consider support for these initiatives.

**Policy coherence**

Aid, trade, investment and other policies are often inconsistent by themselves and work at cross-purposes with each other, undermining desired development outcomes including economic growth and poverty reduction. But policy coherence begins at home. If donors’ policies toward them are to be coherent, developing countries must themselves articulate and implement coherent national strategies and consistent priorities.

Developing countries should, individually, regionally, and globally, consider reviews of donor policies and programs, particularly with a view to increasing policy coherence in the aid, trade, investment and other arenas. (A precedent is the Washington-based Center for Global Development’s “Commitment to Development Index”. What is needed is an index reflecting developing-country perspectives and practices).

For their part, donors should also ensure coherence between aid, trade and investment policies so that they are consistent with development objectives and developing countries’ priorities.

Donors should be more flexible on issues such as economic liberalization, institutional reform, and “good governance”.

Donors must accept that developing countries’ national policy priorities may change (e.g., with new governments, or after elections).
Legitimacy

The international development architecture lacks legitimacy in the eyes of many developing country governments and much of civil society, for a number of well established reasons. It is necessary first to rectify the imbalance in power between industrialized and developing countries:

- At the global level, through a more equitable balance in decision making and voting power in the global economic organizations (IMF, WB, WTO).
- New mechanisms or processes of accountability are also required to ensure the legitimacy (from the perspective of Southern stakeholders) of bilateral agencies.
- At the country level, less intrusive conditionality and leverage over developing country policies is needed.
- The legitimacy of the architecture would be enhanced by strengthening regional actors and the UN system.
- The geopolitical security imperatives related to the War on Terror have a pervasive and perverse impact on development that must be overturned to restore legitimacy to the aid system.
- Major change is needed in how international agreements that directly impact developing countries, such as the Paris Declaration, are arrived at and agreed upon; otherwise they will continue to lack legitimacy in the eyes of stakeholders and there will be insufficient “buy-in” to reform measures.
- The OECD/DAC increasingly represents an inappropriate mechanism for determining international aid agreements and for setting the terms of aid relations and reform measures. Alternative mechanisms are required where Southern governments/stakeholders have a leading role.

Effectiveness

The international development architecture is regarded as ineffective in achieving key development objectives, e.g. the Millennium Development Goals. This is recognized in the OECD Paris Declaration. Greater mutual accountability between donors and recipients is imperative in order to enhance the effectiveness of aid. At present accountability is heavily weighted toward donors, and there is a strong need for more accountability by donors toward recipients.

- The DAC/ODA peer review process for individual OECD donors should be widened formally to include recipient and other developing-country participation. The content of the peer reviews could also be improved by including aspects that assess the extent to which respective donors promote recipient ownership, allow policy space, and apply conditionality that promotes implementation of the national development strategy.
- Accountability should be enhanced in each recipient country through more systematic monitoring and evaluation of donor performance. Precedents such as the Tanzania Independent Monitoring Group must be built upon.

Technical assistance is widely seen as ineffective and wasteful by recipients and some donors. Much more TA must be spent on local experts with greater local ownership and orientation and more potential for local capacity building.

Equally importantly, donors and international organizations must meet their own human resource needs differently, and change their current practice of employing the most talented national experts. This creates an “internal brain drain,” and further erodes capacity levels within government and civil society. Instead, donors should build human resource capacities within national institutions, and when necessary, utilize domestic human resources without removing staff from organizational settings.
More budget support is needed to minimize multiple donor coordination and harmonization problems and to improve the quality of the budget process, via:

- Multi-year donor commitments and disbursements, and streamlined procedures to strengthen predictability and lessen volatility.
- Donor funds should not be “off budget”, as is frequently the case, but instead should be integrated into recipients’ budgetary processes.
- A re-assessment of common funds is needed, with a speed-up of the transition from common funds to budget support.
- Greater emphasis on domestic resource mobilization is required to finance development and reinforce long-term sustainability.
- The trade and investment agenda must be altered to be more development-friendly and allow more policy space and time for developing countries.

Further research should be undertaken on the question of fragmentation and complexity within the country-level development architecture. This should consider whether division of labour is needed to reduce the number of active donors and the administrative burden associated with dealing with a large number of relatively insignificant donors. The research should consider how this can be achieved while also maintaining a level of diversity and choice within the system, and the factors that might affect recipients’ ability to exercise choice.
What the project sought to do

Origins of the project: Reforming the international development architecture has been an active subject of debate for at least a decade, since the major financial crises of the 1990s. More recently, the Millennium Summit in 2000, the Monterrey conference on Financing for Development in 2002, and discussions among donors toward greater harmonization and effectiveness of their efforts have called into question the adequacy of institutions and operations involved in development cooperation.

Against this backdrop The North-South Institute undertook the project, the key results of which are summarized in this paper. Specifically, the project emerged from two parallel but separate donor initiatives, one from the UK’s DFID, and the other from Sweden’s Ministry for Foreign Affairs. DFID’s initiative had grown out of the White Papers published by the New Labour government, while the Ministry for Foreign Affairs had overseen a project entitled “Development Financing 2000”. These are discussed briefly in turn.

A background paper was produced by a team of DFID officials in 2003 that identified 10 issues concerning the development architecture that needed to be addressed:

- Bilateral aid, constituting 65 per cent of ODA flows, is poorly coordinated, comes with high transaction costs, operates without binding rules or norms, and delivers a large volume of tied and ineffective technical assistance;
- Humanitarian aid, a growing share of ODA, has few agreed rules or norms and no unifying objective;
- Aid allocation is problematic: favourite country syndrome and small country bias leads to some countries being over-aided and others under-aided; aid flows to individual countries are very volatile;
- The system overall lacks flexibility and is slow to pick up on new ideas, with no history of closures, exit or mergers;
- The UN system has a comparative advantage of legitimacy and developing country buy-in, but has been starved of core funding, is donor-driven, and has problems of organizational effectiveness;
- The regional development banks have legitimacy but there are continuing concerns about effectiveness, and donors and other multilaterals are ambivalent;
- The European Commission could be a leading player, but reforms have been slow to deliver effectiveness;
- The World Bank’s concessional arm, The International Development Association (IDA), dominates policy processes, retains heavy conditionality, uses unsophisticated instruments, and is not flexible;
- The low-income countries have very little voice within the system, with no formal influence over bilateral policy and no effective voice over system-wide issues.
Many of the issues in the above list were actually addressed in subsequent discussions among donors, leading to the Rome Declaration on Harmonization in February 2003 and the Paris Declaration on Aid Effectiveness in March 2005. But it was the last of these issues, namely the lack of voice of low-income countries within the international development system, that led in 2004 to DFID’s call for proposals resulting in the project on “Southern Perspectives”. In other words, while donors may agree on what they perceive as the weaknesses of the development architecture (even if they have difficulty in agreeing how to resolve them), how do the developing countries see these issues? How would they reform the architecture, if they were empowered to do so?

Meanwhile in Sweden the Expert Group on Development Issues (EGDI) in the Ministry for Foreign Affairs had commissioned a series of reports under its “Development Financing 2000” initiative.14 The last of these was an inquiry into the future of development financing, given the trends of the past few decades.15 The study was broader in scope than the DFID paper (which was more narrowly focused on ODA), encompassing the rapidly growing and now dominant private flows (FDI, bonds, portfolio equity, and remittances) to developing countries. The picture presented by this study was one of a “complex and messy array” of development assistance organizations; rapid and uncoordinated expansion of private agents and flows; and, overall, a rather incoherent “system”, in which long-term development financing needs tended to get neglected. Accordingly, the study expressed considerable doubt as to the achievability of the Millennium Development Goals by 2015.

While the study emphasized that the development financing system required dramatic reform both of the institutions and their modes of operation, it expressed caution about the political feasibility of the scale and timing of the reforms required. Hence it endorsed a program of “radical incrementalism” to move as pragmatically as possible toward systemic transformation. The Swedish study recognized the need for a reformed system to accommodate the wide diversity of developing countries and that a “reasonable degree of choice” must be exercised regarding institutions, instruments and policies. It also acknowledged that an effective development system must give voice and representation to all relevant stakeholders. In particular, it pointed to the concern of developing countries about the asymmetry of representation at the Bretton Woods institutions, in the bilateral donor agencies and at the Paris Club. However, like the UK paper, the Swedish study did not seek developing countries’ perspectives on these issues, or even seek to validate its findings and recommendations among developing country experts or leaders.

Phase 1: In late 2004, DFID invited expressions of interest for a study that would address this shortcoming, and that would present “a developing country perspective on the current structure and functioning of the international development architecture.” Once it was determined that The North-South Institute was to take the lead, in partnership with the Economic and Social Research Foundation in Dar es Salaam, Tanzania,16 the question arose as to how to structure the project. The North-South Institute, a development research organization based in Ottawa, Canada, since 1976, could not easily “speak for” developing country opinion leaders. Simply surveying selected individuals in a number of different countries would have left the project open to charges of bias.

Therefore it was necessary to design a project methodology cognizant of this bias and, at least in principle, capable of countering it. In conjunction with the project’s sponsor, DFID, it was decided to assemble a group of leading thinkers, practitioners, and activists from several developing countries to guide the process not only of project design but its implementation as well. This became the project’s “Steering Group”.

Selecting potential members of the Steering Group was a challenge. The group would collectively represent understanding and experience of the
development architecture, including knowledge of its key features and debates surrounding it, and of how it is manifested in different country and regional classifications (such as least-developed countries, fragile states, etc.). Although not intended as a representational body, the selection criteria also specified membership that would reflect experience of the architecture in the major geographic regions. Importantly, the criteria also allowed for a mix of “insider” and “outsider” experience with the architecture, and for an appropriate gender balance.

To ensure that the overall governance of the project resided in the Steering Group, the project was divided into two phases, only the first of which was certain. In the first phase, the Steering Group was brought together (in Dar es Salaam, on August 13-14, 2005) to consider two background papers and other material relating to the genesis and objectives of the project, along with some contextual analysis. Essentially, the purpose of this phase was to test the basic rationale and assumptions of the project: Is it asking the right questions? Are donor perceptions as to what needs to be reformed shared by Southern practitioners and opinion leaders? Should there be a second phase, and if so, how narrowly focused or broadly defined should it be, and what are the most important issues on which there should be intensive analysis?

A number of conclusions emerged from the Steering Group’s discussions in Dar es Salaam. Perhaps the most significant was the fact that the group felt that reforming the development architecture was not as important as reforming the prevailing development paradigm, as embodied in the Washington Consensus. Moreover, the imbalance in power between the North and South is a central issue that needs to be addressed, but it also goes beyond the confines of the “architecture”. The link between these issues is the power of ideas — in this context, ideas about development: how and where such ideas are typically generated and legitimated. In particular, it is problematic that development knowledge and policy is typically generated in the North, while Southern knowledge tends to be marginalized. And while “developing country ownership” is endorsed by donors, genuine ownership — if it results in heterodox policy frameworks — makes donors nervous. Other topics that emerged included the current preoccupation with security and the war on terror, which have had negative impacts on the development discourse.

The Steering Group’s deliberations resulted in a strong endorsement of a second phase for the project. A number of questions had been posed on which it was felt that a research initiative could be helpful. It was decided that the scope of the project needed to be broadened to deal with the policy issues that were raised in the Steering Group discussion. At the same time it was agreed that perspectives on the scope for reforms should be assessed at the national level, in a series of country studies. It was thus proposed that the second phase should encompass a theme paper or series of theme papers; a group of country case studies; regional workshops to bring in perspectives from other countries; and an international conference to review the project’s findings.

However, the nature and scope of the second phase was constrained by the availability of funding. Even though DFID was formally joined by the Swedish Ministry for Foreign Affairs as a donor to the project, and Canada and Norway eventually supported the project as well, available funding fell short of what was required to carry out all the activities envisaged at Dar es Salaam. In particular, the regional workshops had to be dropped, but the other components — theme papers, country studies and the international conference — were retained.

Work on the second phase got underway in early 2006 with the commissioning of three theme papers (on power imbalances and knowledge hierarchies; on security, the War on Terror, and ODA; and on Policy Coherence) and five country case studies (on Bolivia, Burundi, Nigeria, Sri Lanka and Vietnam). The key findings of these studies and of phase 2 generally are summarized in the main body of this paper.
Endnotes

1 Annex 1 provides a description of the structure and scope of the project.

2 The “international development architecture” is defined as “the world’s agencies, institutions and systems for managing the transfer of resources (finance and expertise) to, and development relationships with, low-income countries.”

3 See Annex for more information on the composition and role of the Steering Group.

4 The three thematic papers, as well as the project’s five country studies, are available at www.nsi-ins.ca/english/research/progress/41.asp

5 From the Paris Declaration text, see http://www.oecd.org/dataoecd/11/41/34428351.pdf

6 Drawn from the Bolivia country study (Barja 2008) prepared for the Southern Perspectives project.

7 The “Delivering as One” initiative arose from the 2006 UN High Level Panel on System Wide Coherence, which examined how to increase the effectiveness and coherence of UN operations at the country level.

8 Drawn from the Vietnam country study (Thu Hang 2007) prepared for the Southern Perspectives project.

9 Drawn from the Nigeria country study (Olofin 2008) prepared for the Southern Perspectives project.

10 Drawn from the Sri Lanka country study (Kelegama and de Mel 2007) prepared for the Southern Perspectives project.

11 These conclusions and policy implications draw on helpful comments made by the Project Advisor, as well as other aspects of the Southern Perspectives project, including Steering Group and Contact Group inputs, conference reports, and background papers.


13 “Vision and Options for Change for the International Development Architecture” (International Division, DFID, July 2003).

14 The Development Financing 2000 initiative also included studies on mitigating risk for foreign investment in developing countries; on financing global public goods; on mobilizing support and resources for UN funds and programs; on the multilateral development banks; and on transboundary water management.


16 The Institute won a competitive tender.

17 Culpeper and Wangwe, 2005; Morton, 2005.

18 For a more complete summary, see Phase 1 Report.

19 A project team was assembled comprising developing country experts on each of the theme papers, and countries were chosen for case studies.
References


