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**Donor Proliferation and
Coordination**
Experiences of Kenya and Indonesia

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Abstract

One of the main problems associated with aid is the proliferation of donors and projects, and one of the main solutions is thought to lie in greater coordination between donors. This paper examines whether progress has been made in recent years, concentrating on two countries (Kenya and Indonesia) and two sectors (aid for governance reform and aid for inclusive industrialization). The overall picture is clear: proliferation worsened between 2000 and 2005-6 while progress in coordination was uneven. Important new findings concern the interdependence of donor and intra-government coordination, especially the tendency for fragmentation on both sides to work against coordination, and the similarity of the overall experience of the two countries despite their different levels of economic development.

Keywords: donor proliferation, donor coordination, aid architecture, aid effectiveness, Paris Declaration, Kenya, Indonesia





Introduction¹

The effectiveness of aid depends on how it is organized. This is now well recognized by donors and recipients. One of the main problems is the proliferation of donors and projects, and one of the main solutions is thought to lie in greater coordination between donors. The most visible and well known statement on the need for change is the Paris Declaration on Aid Effectiveness of 2005, but the organizational problems have been known and discussed in the aid business for a long time (Morss, 1984; Clift, 1988; Cassen and Associates, 1994). Although organization is not the only factor determining aid effectiveness, there is agreement that organizational issues deserve priority attention.

This paper addresses two questions on which there is no clear picture. It asks whether there has been progress in recent years and whether problems and solutions differ between countries at different stages of economic development. To this end, it examines changes that occurred between 2000 and 2005-6 and compares two countries: Kenya and Indonesia. The more detailed questions are:

- Did proliferation increase or decrease? What were the reasons?
- Did coordination increase? What forms did it take? What were the reasons for (lack of) progress?
- What were the similarities and differences between the two countries with regard to proliferation and coordination?
- Did the stage of development or degree of aid dependence make a difference?
- How do we explain the similarities and differences?

Seeking answers to these questions is important because the proliferation and coordination of donors affects state capacity in recipient countries. More donors can mean more choice for recipient governments, but it can also put a strain on government systems in a number of ways: the proliferation of donors and projects increases the transaction costs for

¹This paper pulls together and compares the findings of research conducted in conjunction with Jepri Edi, Lienda Loebis, Erick Manga, Winnie Mitullah and Ayu Setianingtias. Their contribution to the data collection and analysis is gratefully acknowledged. For the country and sector-specific write ups of the findings, see McCormick, Mitullah and Manga (2007), Edi and Setianingtias (2007) and Loebis and Schmitz (2007).

government agencies and occupies scarce time of their key officials. Aid donors and projects come with particular agendas and schedules, which are well intentioned but disrupt the organizational learning of recipient agencies. The hurry of donors to show results quickly and disburse funds often leads to establishment of parallel organizations, which can end up weakening the capacity of recipient governments to design and implement policies and programmes. These effects are widely debated but surprisingly little researched. The same applies to the effects of donor coordination. We are studying these effects but the research is ongoing. In this paper, we are concerned with the prior questions of how proliferation and coordination have evolved: has proliferation been curbed and coordination increased? What forms did it take? Were there significant differences between sectors and countries? Even on these basic questions, there is little systematic research. Proliferation and coordination are discussed in the aid literature and policy documents but evidence is at best anecdotal. An important reason became clear in the course of the research: assembling the data for a comprehensive analysis is quite a challenge.

The study concentrates on one type of aid: Official Development Assistance (ODA), or government-to-government aid. All donors, therefore, are foreign governments and the recipients are the governments of Indonesia and Kenya. The research concentrated on two sectors in both countries: aid for governance reform and aid for inclusive industrialization, i.e. industrial development that pays particular attention to small and medium industry. Research teams in the two countries listed and analysed project documents, interviewed both donors and government officials, and reviewed available secondary sources of information. Data for both countries were gathered for the period 2000 to 2005, with some 2006 information collected for Indonesia.

Assembling the information was more difficult than expected. Even the seemingly simple task of listing the donor projects was time consuming and tedious. The reasons for this vary somewhat between Indonesia and Kenya, but the difficulties in both countries were significant. In Indonesia, no single source could provide all of the required data. Although, in principle, the National Planning Agency (BAPPENAS) in Indonesia approves all donor projects and keeps a central registry, in practice donors often bypass the Agency. As a result, its database is incomplete and out of date, forcing researchers to search for information in ministries or from the donor agencies.

In Kenya, the External Resources Department (ERD) of the Ministry of Finance maintains files on all projects. The biggest problem here was getting access to these files. Initial access required, in addition to the usual research clearance, letters of introduction that took several months to obtain. Once these were available, the officers in ERD were willing to help, but they had busy schedules that often took them out of office. Furthermore, poor and inconsistent record keeping, especially for completed projects, made finding all of the files difficult; in some cases crucial documents were missing. To compensate for this, the team used a variety of techniques, including searching storage closets, looking in other files, discussing with officers in charge of these projects, and generally trying to triangulate data in order to fill gaps.

Deciding which projects to include in each sector was another challenge in both countries. The language of the project documents does not always clearly point to a sector. In the inclusive industrialization sector, for example, some projects state the aim of promoting small and medium enterprise development, but in others project documents are much more general, stressing poverty reduction, income generation, or other objectives. In both countries, lists were carefully scrutinized and researchers developed the criteria for deciding which projects to include. Nevertheless, in the end, some decisions were necessarily arbitrary. Despite these difficulties, we believe that our final lists of projects for the two countries are a reasonable approximation of donor activity in the two sectors over the period between 2000 and 2005.

The paper consists of six sections. The following section provides the country context for Kenya and Indonesia. The third section defines what we mean by proliferation and coordination and sets out the key reasons given in the literature for these phenomena. The fourth and fifth sections present the results of our empirical research and the final section pulls together the main conclusions.

Aid to Kenya and Indonesia

Kenya and Indonesia are both developing countries, but they differ in important respects. Indonesia is both larger and more prosperous than Kenya (Table 1). Indonesia's population of 226 million is six times that of Kenya. Its per capita income is over three times Kenya's, and its Human Development Index (HDI) is 40 per cent higher than Kenya's. The structures of the two countries' economies are also different. Indonesia is a much more industrialized country, with industrial value added contributing 46 per cent to total GDP in 2004. Kenya, in contrast, generated only 19 per cent of its GDP from industry in that year (World Bank, 2006). Not surprisingly, therefore, aid constitutes a smaller proportion of GDP in Indonesia than it does in Kenya.

Table 1: . Key indicators for Indonesia and Kenya, 2005

Indicator	Indonesia	Kenya
Population (millions)	226.1	35.6
GDP per capita, PPP US\$	3,843	1,240
Human Development Index	0.728	0.521
Foreign Aid as % of GDP	0.9	4.1

Source: UNDP (2007)

Both Indonesia and Kenya have experienced colonisation and its aftermath. Indonesia gained independence from the Dutch in 1945. The years immediately following independence were marked by political and economic instability, which later gave way to a strong military presence and an improving economic situation. The country, however, suffered badly from the major financial and economic crisis that hit Asia in 1997, prompting the President to seek IMF and donor community support for an economic stabilization programme. Donors were also very active in the wake of the 2004 tsunami. Kenya was under British rule from 1895 until independence in 1963. Economic growth and political stability characterized the initial years of the post-colonial era, but this was interrupted by a series of economic shocks in the 1970s. At the same time, political controls became tighter with the original multi-party democracy giving way to a one-party state that became increasingly repressive in the 1980s. The 1990s were marked by the politicisation of ethnicity, growing corruption, increasing poverty, and economic stagnation. With the entry of a new regime in 2002,

many people inside and outside of Kenya had high hopes for change. Donors, in particular, appeared ready to support various projects and programmes.

Kenya			Indonesia		
Donor	Gross ODA US\$ millions	%	Donor	Gross ODA US\$ millions	%
United States	139	15.1	Japan	963	33.9
EC	110	12.0	Germany	191	6.7
Japan	73	8.0	United States	163	5.7
United Kingdom	71	7.7	Australia	145	5.1
IDA	67	7.3	Netherlands	128	4.5
Germany	48	5.2	IDA	94	3.3
France	41	4.5	AsDF	62	2.2
SAF & ASAF (IMF)	37	4.0	EC	57	2.0
Sweden	36	3.9	United Kingdom	57	2.0
Netherlands	35	3.8	Canada	56	2.0
Totals	657	71.6	Totals	1,916	67.4
Gross ODA, 2005	918	100.0	Gross ODA, 2005	2,843	100.0

Source: Own compilation from OECD data (OECD 2008)

Comparison of the donor profile for the two countries, as shown by the top ten donors in 2004-5, reveals some striking similarities but also some differences (Table 2).² Kenya and Indonesia have seven of their top ten donors in common: United States, European Commission (EC), Japan, United Kingdom, International Development Agency (IDA), Germany, and The Netherlands. The remaining three donors differ for each country. For Kenya, they are France, Sweden and the IMF, while for Indonesia they are Australia, the Asian Development Fund and Canada. The top ten donors to both countries account for approximately 70 per cent of total gross ODA received (71.6 per cent and 67.4 per cent for Kenya and Indonesia, respectively). Where the two countries differ is in the relative importance of the donors on the list and, perhaps more importantly, the contribution of those at the very top of the list. For Kenya, the top two donors—the US and the EC—are nearly equal, contributing 15.1 per cent and 12.0 per cent, respectively.

² For purposes of this discussion ODA is reported gross; it therefore includes loan and grant disbursements, without deducting loan repayments. Lending for purposes other than development e.g., export credit is not included.



Donor proliferation and coordination: Experiences of Kenya and Indonesia

The Indonesian list, however, is dominated by Japan, which provides just over one-third of the country's gross ODA. Finally, Indonesia and Kenya differ on the proportion of gross ODA they receive from bilateral donors. In the case of Indonesia, this amounts to 90 per cent, while Kenya receives a much smaller 62 per cent (OECD, 2008).



Aid Proliferation and Coordination: Concepts and Causes

The purpose of this section is to situate the proliferators and coordinators in the aid system, to define what exactly we mean by proliferation and coordination and then to distil from the literature the key reasons for proliferation and lack of coordination.

Concepts

The study is set within a broad political economy framework that is institutional in the sense that it asserts that the way society is organized affects its outcomes and that every social system has its own rules, norms, and incentives (Nabli and Nugent, 1989; North, 1990). The aid sector is one example of such a system. It is a collection of nearly 200 bilateral and multilateral donors, a multitude of recipient governments (national and sub-national), and myriads of consultants and specialized service organizations that operate with its own particular rules, incentives and informal practices (Riddell, 2007; Gibson *et al.*, 2005; OECD, 2006; World Bank, 1998). The aid system is a fluid social system that is profoundly influenced by culture and politics, as well as by the economic exchange of the aid relationship (Rihani, 2002; Eyben, 2006; Moss *et al.*, 2006).

Two concepts that are central to institutional analysis are important for the understanding of aid. The first is the concept of embeddedness (Granovetter, 1985; Evans, 1995). In this context, *embeddedness* means that the aid administration of a country is only one sector of a national administration, and as such is likely to follow the general coordination tendencies of the country's public sector (Beuselinck, 2006). The key difficulty in the aid relationship is that there will always be at least two embedded systems interacting with one another. The second concept is that of incentives, which may be broadly defined as the rewards and punishments that are perceived by individuals to be related to their actions and those of others (Ostrom *et al.*, 2001). Human systems, including the aid system, offer incentives to individuals and organizations to act in certain ways.

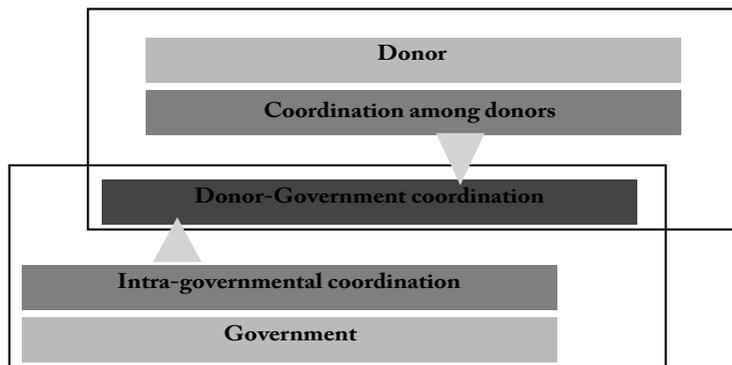
Three other concepts are integral to the discussion that follows: donor proliferation, project proliferation, and aid coordination. The first, donor proliferation, is defined here *as the increase in the number of donors*

giving aid to any one recipient country³. The second concept is project proliferation, which is similarly defined as *the multiplication of projects*, which may result from having many donors, each with several projects, or from the multiplication of projects by a single donor (Morss, 1984; Roodman, 2006).

One way to deal with the problems created by the proliferation of donors and projects would be to initiate some sort of institutionalized coordination. For our purposes, aid coordination refers to any institutional interface between a set of donors and partner recipient organizations, as well as the mechanisms within these donor and partner organizations that aim to streamline the aid process (Club du Sahel, 2000; McCormick *et al.*, 2007). The Development Assistance Committee (DAC) has advocated better coordination of aid for many years and has made it its official policy in the Rome and Paris Declarations (OECD, 2003b; 2005).

At a practical level, coordination consists of three types of interactions: those within the donor group, those within government, and those between donors and government. In Figure 1, donor coordination is represented by the box at the top. Coordination among donors may be formal or informal. It may include all donors in a single mechanism, or there may be several different types of groups with different membership. Groupings may be fixed or fluid and actual levels of donor participation may vary, but the purpose will be the same: for donors to discuss and agree among themselves on priorities for programmes and projects. The donor group may also have some ungrouped members who do not participate formally, but may have some informal communication among themselves and with grouped donors.

Figure 1: Flow of coordination



³ Acharya *et al.* (2006) use the term 'fragmentation' for this phenomenon.

The recipient government will also have its coordination mechanism, represented at the bottom of Figure 1. This will include structures through which the various organs of government make decisions about sourcing, managing, and allocating aid projects and programmes. These interactions may be guided by formal rules in the form of policies, guidelines, or internal procedures, or they may be carried out on a more ad hoc basis.

In the centre of the figure is donor-government coordination, those interactions through which representatives of the donors and of government thrash out the overall shape of the aid relationship. In principle, donor-government coordination is a process of reconciling the recipient government's strategic needs and concerns with the donor government's own priorities, aid allocation and political realities. There are various mechanisms available for carrying out the process. These include committees, thematic groups, individual meetings, document sharing, parallel organizations, and a host of other institutions that either contribute to coordination or detract from it. Not visible in the diagram, but nonetheless crucial to understanding the workings of coordination, are the other national institutions of the donor and recipient into which this coordination is embedded.

Causes

Although both donors and recipient governments support the call for coordination enshrined in the Paris Declaration, they often behave in ways that make them appear indifferent or even against coordination. The literature identifies causes for the proliferation and for the 'anti-coordination' behaviour. These can be broadly grouped into economic costs and benefits, perverse incentives and political imperatives.

Costs and benefits: The costs of coordination are generally believed to arise from the time-consuming practices involved in harmonization, including numerous meetings, extended negotiations, and consensus building (de Renzio *et al.*, 2005; Balogun, 2005; Bigsten, 2006). The benefits are supposed to take the form of significantly reduced transactions costs (OECD, 2003a). Balogun (2005), however, argues that there is little evidence that total transaction costs have declined. He claims that it may be that reductions in administrative transaction costs have been counterbalanced by a shift in costs from recipients to donors. Furthermore, from the point of view of those entering into the coordination process, neither the full costs nor the expected benefits are easy to measure (Rogerson, 2005). The full costs of coordination

contain substantial transaction costs, which are rarely well documented. The expected benefits of coordination are greater efficiency in aid delivery, but as Rogerson (2005) points out, measuring this would require baseline data, which presently does not exist.

Political imperatives: Politics influences all aspects of coordination. First, donors compete among themselves for high-profile projects that will have political appeal to voters at home (Kanbur *et al.* 1999; Rogerson, 2005; Molenaers and Nijs, 2008; This can lead to projects and programmes that overlap and duplicate each other (Gibbon and Schulpen, 2002; Horning, 2008). It also encourages donors to disburse money against their own schedules, rather than entering into time-consuming coordination processes that may result in compromises and changes in project focus. Second, politics affects efforts to harmonize donor and government programmes and systems. Unequal power between donors and governments is a serious political problem in donor-government harmonization. Robb (2004) puts it succinctly: 'Aid, by its very definition, is a manifestation of inequality.' Donors have the power to impose conditions on their grants and loans, to insist on the establishment of parallel financial and/or operating units, and to withdraw the funds if those conditions are not met. Although recipient governments can occasionally resist some conditions and modify others (Bergamaschi, 2007), in most cases final decisions rest with the donor. Aid 'partnerships', therefore, are actually unequal relationships in which the donor has greater power than the recipient, even though the personal interactions between donors and recipients may at times be very cordial (Morse and McNamara, 2006). Such unequal relationships may impact negatively on donor-government coordination. Finally, intra-government politics can be a barrier to coordination by various units of a recipient government. The embeddedness of the aid system means that if national systems do not encourage inter-ministerial collaboration, aid coordination structures requiring such collaboration may founder. Aid has been found to be embedded in national government systems (Beuselinck, 2006), and it is likely that the absence of encouragement for inter-unit collaboration will have a negative impact on coordination efforts at all levels. The power struggles that affect the internal workings of governments everywhere are also present in the ministries or departments charged with aid coordination. Furthermore, in some governments, there is little concern about coordination because receiving aid is more important than how it is used. In such situation, aid sourcing will compete with coordination for staff time, and when staffing is inadequate, government interest in coordination may be weak (Kanbur *et al.*, 1999).

Incentives: Most discussions of incentives relate broadly to aid effectiveness and the quality of projects (Ostrom *et al.*, 2001; Wane, 2004), rather than to the more specific issue of aid coordination. Nevertheless, there is some evidence that incentives affect the participation of both donors and government in coordination activities. Internal incentive systems are important for promoting harmonization in aid agencies (de Renzio *et al.*, 2005). Positive incentives include the efforts on the part of senior management to prioritize harmonization; the introduction of new and more flexible aid modalities, which are 'inherently' harmonized; and the existence of international mechanisms that promote harmonization. On the negative side are lack of coherent systems providing incentives in favour of harmonization; resistance to change, especially in organizations characterized by a bureaucratic, compliance-driven approach, and insufficient guidance from headquarters to country offices. Incentives and disincentives to aid coordination no doubt exist in recipient governments as well, but we found only a few examples of this in the literature. Donor-funded salary supplements create incentives for officials to 'protect and extend aid projects from which they benefit, regardless of their merit, and to help perpetuate the practice of spending aid funds in the form of independent projects rather than in the form of coordinated, sector-wide programmes or budget support' (Acharya *et al.*, 2006).

Perhaps most important of all are the incentives that support the perpetuation of traditional project funding. Williamson and Agha (2008) found that stand-alone projects are favoured because of the resource flows they generate, their reliability, their ease of management and control, and the political credit they offer. Furthermore, dealing with a single donor is easier than dealing with several through a pooled fund or budget support project, where donors can more easily gang up on the recipient government.

The remaining sections of this paper chart what actually happened and why with regard to proliferation and coordination, distinguishing between the two countries at different stages of economic development and between two sectors with different histories of donor involvement. Donors have been active for a very long time in inclusive industrialisation, in particular in the promotion of small and medium industry. In contrast, governance reform is a relatively new focus of donor activity.

Proliferation of Agencies and Projects

The purpose of this section is to establish whether proliferation has decreased or increased and what form the changes took. Donors multiplied in both countries and in both sectors within each country. The increase in donors was greater in Kenya than in Indonesia. Kenya experienced an 83 per cent increase in donors to inclusive industrialization and an astronomical 325 per cent increase in donors to governance reform over the period (Table 3). The increase in donors to inclusive industrialization occurred fairly steadily throughout the period between 2000 and 2005, but there was a sharp increase in donors to governance reform between 2003 and 2004. The magnitude of the increase may have been a direct consequence of renewed donor interest in Kenya following the change of regime at the end of 2002. It also reflects a broader donor concern with 'good governance' that emerged in the 1990s and was especially evident in World Bank programmes (Santiso, 2001). Donors to Indonesia also increased, but at a somewhat slower rate. Inclusive industrialization experienced a 46 per cent increase in donors, and governance reform a 50 per cent increase. In both sectors, there was a fairly steady rise early in the period, followed by a levelling off in the case of inclusive industrialization and a temporary drop in the governance reform sector.

The rise in the number of projects was even more dramatic than that of donors. Kenya, which had only eight inclusive industrialization projects in 2000 had 33 projects by the end the period, a 313 per cent increase. The number of projects in the governance sector rose from only five in 2000 to 79 by 2005. Project proliferation in Indonesia was less dramatic, but significant nonetheless. The number of inclusive industrialization projects increased by 44 per cent over the period, while the number of governance projects rose from 35 to 127, an increase of 263 per cent.

One consequence of the fast increase in projects is that the average number of projects per donor grew significantly in almost all cases (see Table 4). In Kenya, each inclusive industrialization donor had on average 1.25 projects in 2000, but this had grown to three projects per donor by 2005. In governance reform, the average of 1.20 projects per donor in 2000 increased to 4.65 projects per donor by 2005. In Indonesia, the pattern was the same for governance reform, but not for inclusive industrialization. The number of projects per donor declined slightly in inclusive industrialization, from 1.92 in 2000 to 1.64 in 2005. In governance reform, however, the number increased from less than three in 2000 to over seven per donor in 2005.

These averages hide considerable variation among donors. In the case of Indonesian governance reform, for example, the largest donor (the EC) had 22 projects in 2005, and three others (The Netherlands, World Bank, and Germany) had 16, 14, and 12 projects each. Ten donors had five or fewer projects. The composition of donors responsible for proliferation changes over time. In 2000, Canada and The Netherlands were Indonesia's main donors for governance projects, with seven and five projects, respectively. By 2005 the picture had changed, as shown above.

Table 3: Proliferation of donors, projects, and implementing agencies by country and sector, 2000-2005

Area	Kenya		Indonesia	
	Inclusive industrialization	Governance reform	Inclusive industrialization	Governance reform
Donors	Increased from 6 to 11 (83%) between 2000 and 2005; rate of increase fairly steady except flat from 2003 to 2004	Increased from 4 to 17 (325%) between 2000 and 2005; rate of increase slow from 2000 to 2003, followed by sharp increase from 2003 to 2004 and no change to 2005	Increased from 13 to 19 over period (46%); fairly steady rise between 2000 and 2004, with no change to 2005	Increased from 12 to 18 over period (50%); steady increase between 2000 and 2003, followed by decline in 2004 and a further rise in 2005
Projects	Increased from 8 to 33 (313%) over period; moderate rise from 2000 to 2003, followed by sharp increase from 2003 to 2005	Increased from 5 to 79 over period (1480%); slow rise from 2000 to 2003, followed by very sharp increase in 2004 and somewhat smaller increase in 2005	Increased from 25 to 36 over period (44%); sharp increase between 2000 and 2001, followed by decline in 2002 and steady rise from 2003 to 2005	Increased from 35 to 127 (263%); fairly steady rise between 2000 and 2003, followed by almost no increase in 2004, and resumption of former rate of increase between 2004 and 2005
National and foreign implementing agencies	Increased from 5 to 13 (160%) over period; small increase from 2000 to 2001, followed by two years of no increase, larger increase in 2004, and small increase in 2005	Increased from 2 to 27 (1250%) over period; slow rise from 2000 to 2003, followed by very sharp increase in 2004 and moderate increase in 2005	Increased from 38 to 74 (95%) over period; increase was constant but uneven throughout the period	Increased from 31 to 101 (226%); increase was sharpest from 2004 to 2005

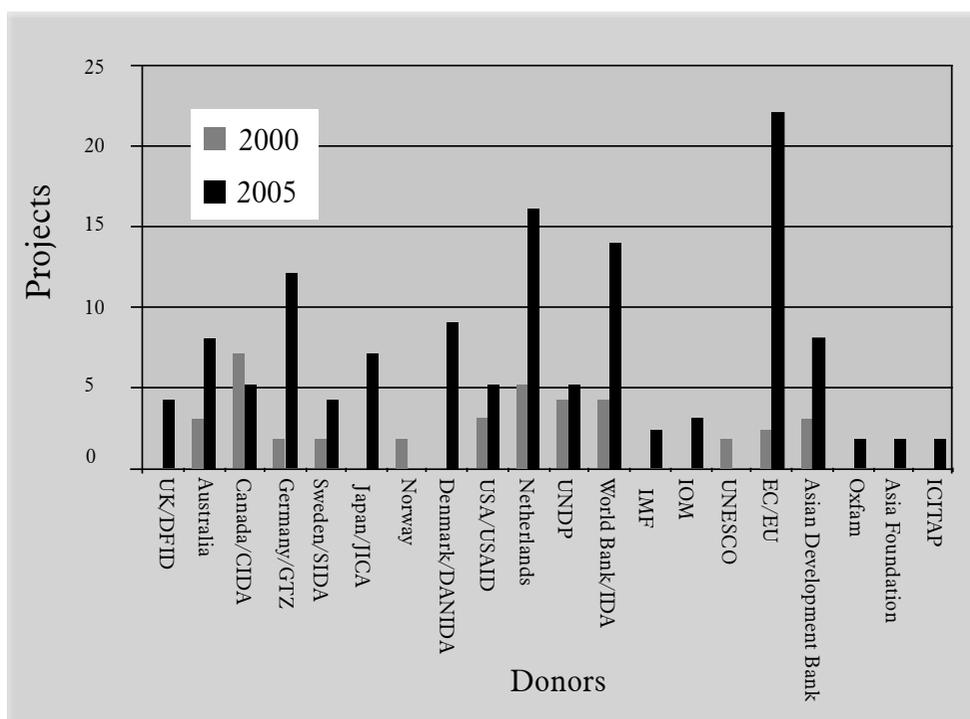
Source: Own Data, 2007

Table 4: Projects, donors, and projects per donor

	Projects	Donors	Projects per donor
Kenya			
Inclusive Industrialization 2000	8	6	1.25
Inclusive Industrialization 2005	33	11	3.00
Governance Reform 2000	5	4	1.20
Governance Reform 2005	79	17	4.65
Indonesia			
Inclusive Industrialization 2000	25	13	1.92
Inclusive Industrialization 2005	36	22	1.64
Governance Reform 2000	35	12	2.92
Governance Reform 2005	127	18	7.05

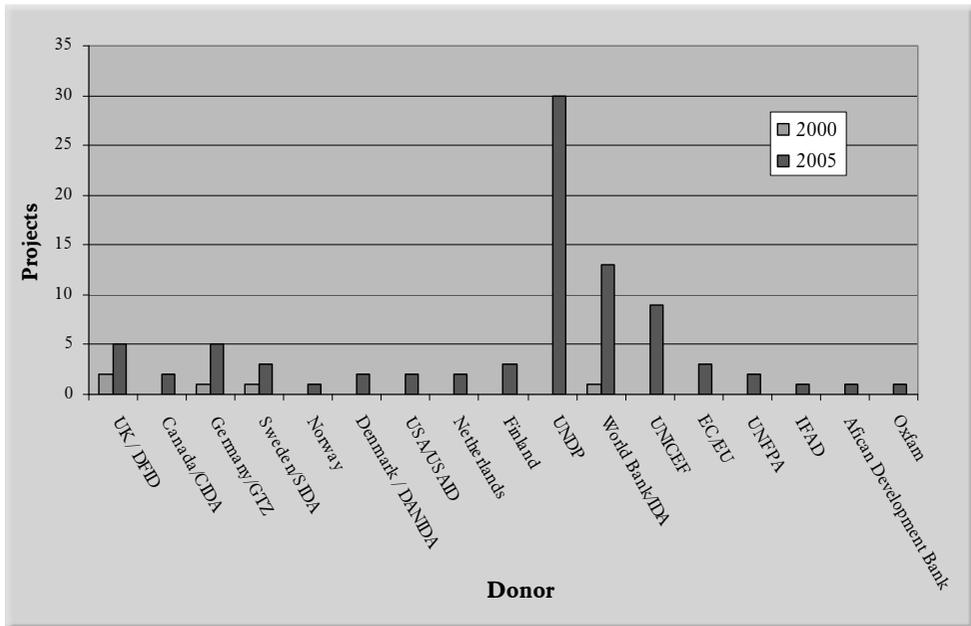
Source: Own data

Figure 2: Indonesia's governance reform projects by donor, 2000 and 2005



The picture is even starker in Kenya's governance sector. The country had only five governance projects in 2000. Two of these were funded by DfID and one each by Germany, Sweden, and the World Bank. UNDP had no governance projects in 2000, but by 2005 had 30 active projects accounting for 38 per cent of the total. DfID, on the other hand, whose two projects in 2000 represented 40 per cent of all active projects, had only five projects or 6 per cent of the total in 2005 (Figure 3).

Figure 3: Kenya, governance projects by donor, 2000 and 2005



Many donors do not carry out the projects themselves. Instead, they contract implementing agencies, some of which are foreign and others local. Similarly, the counterpart agencies in government do not necessarily implement all projects, but may pass on the implementation to other organizations. In some cases, more than one organization is entrusted with the implementation, so the number of such agencies can sometimes exceed the number of projects.

In Kenya, the eight inclusive industrialization projects that existed in 2000 had been implemented by five agencies, all of which were government ministries (Table 5). By 2005, the number of implementing agencies had risen to 13, three of which were foreign agencies. The eight national organizations included not only government ministries, but also local NGOs, and for a micro-finance project, a group of local

banks. As in the case of donors and projects, the increase in the number of implementing agencies for Kenya's governance reform agenda was dramatic. From only two agencies in 2000, the number rose 1,250 per cent to 27 by 2005. The list of implementing agencies in 2005 included 17 ministries or government agencies, three international organizations, and seven NGOs.

Table 5: Foreign and national implementing agencies, 2000 and 2005

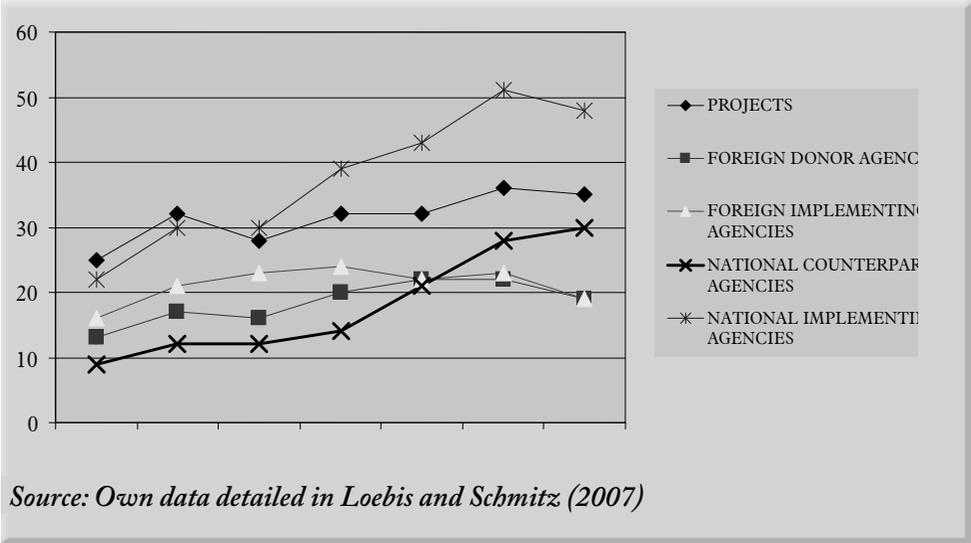
	Number of agencies		Increase (%)
	2000	2005	
Kenya			
<i>Inclusive Industrialization</i>			
National Implementing Agencies	5	13	
Foreign Implementing Agencies	0	0	
Total	5	13	160.0
<i>Governance Reform</i>			
National Implementing Agencies	2	24	
Foreign Implementing Agencies	0	3	
Total	2	27	1250.0
Indonesia			
<i>Inclusive Industrialization</i>			
National Implementing Agencies	22	48	
Foreign Implementing Agencies	16	19	
Total	38	67	76.3
<i>Governance Reform</i>			
National Implementing Agencies	12	62	
Foreign Implementing Agencies	19	39	
Total	31	101	225.8

Source: Own data

Implementing agencies for projects in Indonesia increased rapidly, though less so than in Kenya. The number of implementing agencies for inclusive industrialization projects rose 76 per cent, while those for governance reform increased 226 per cent. In Indonesia, there was a decided shift from foreign to national implementing agencies. In 2000, 61 per cent of the implementing agencies were foreign, but by 2005, 61 per cent were national.

Figure 4 shows clearly, for the case of inclusive industrialization in Indonesia, how the aid chain evolved over the period 2000-6. Proliferation differed between agencies and projects and varied between types of agencies. While the number of foreign donor agencies increased only a little, there was considerable proliferation of projects and of national counterpart and implementing agencies.

Figure 4: Indonesia’s aid chain 2000-6 in inclusive industrialization



Aid Coordination

The previous section has shown that for both Kenya and Indonesia, proliferation in the aid chain continued, even though some of the problems arising from this for recipients have been discussed in the aid business for a long time. This section examines whether, amidst this proliferation, some structures and processes emerged for coordinating aid.

Overall Coordination Efforts

It is useful to distinguish between coordination efforts for the country as a whole and for specific 'sectors', for example support for sanitation or for education. We will deal first with the national level efforts and then concentrate on 'our' sectors.

The coordination efforts at the national level include various mechanisms as summarized in Table 6. While most of them entail more talk than action, it helps to set them out briefly. The Consultative Group is the World Bank's term for its national consultative platforms.⁴ These are two-day conferences held roughly every 15 months, attended by a recipient country's political authorities and representatives of the multilateral and bilateral donors financing development activities in that country. Although earlier Consultative Group meetings were chaired by the organizing body and held in Paris or Geneva, the DAC now recommends that the meetings take place in the recipient country, with that country assuming responsibility for chairing and organizing the agenda (OECD, 2003a).

⁴ UNDP has a similar type of meeting, which it calls Round Tables.

Table 6: Coordinating bodies, membership, and task(s)

Coordinating body	Membership	Task
Consultative Group (CG)	Donors, jointly chaired by government and the World Bank	Overall country aid coordination
Donor Coordination Group (DCG)	Ambassadors and heads of donor agencies, under chairmanship of the government	High-level coordination, especially on political issues
Harmonization, Alignment and Coordination Group (HAC)	Donor representatives with government participation, under chairmanship of one of the donors	Coordinate with government, facilitate donor harmonization and alignment, streamline procedures
Sector Working Groups (SWG)	Donors working in particular sector together with government representatives of that sector	Facilitate coordination within the sector

Source: DAC (2007) and interviews in donor and government agencies

Donor Coordination Groups have a membership similar to that of the Consultative Group, but they are ongoing in-country fora that meet under the chairmanship of a government ministry. In the case of Kenya, the chair is the Ministry of Finance; for Indonesia, it is the Ministry of Economic Coordination. These groups deal mainly with high-level political matters.

The remaining two groups do the practical work of coordination. The Harmonization, Alignment and Coordination Group (HAC) is made up of donor representatives, with government participation. Its tasks are to coordinate with government, facilitate donor harmonization and alignment, and streamline procedures. Sector Working Groups, as their name suggests, focus on particular sectors, such as agriculture, health, or industry. Donors working in a particular sector, together with relevant government representatives, meet to coordinate activities within that sector.

The World Bank organized the first Consultative Group for Kenya (CGK) in the early 1970s. This group met regularly throughout the 1970s and 1980s, normally once every two years. In the early 1990s, as donor concerns over economic management grew, meetings were held more often, in both 1990 and 1991, as well as meetings without the government's presence. Programme aid to Kenya was suspended between 1991 and 1993 as a result of failing to satisfy the donors on issues of corruption, governance, and democratization (Njeru, 2004). Following its resumption, four CGK meetings were held between 1993 and 1995 (O'Brien and Ryan, 2001). The 1996 CGK meeting took place in Paris and proved to be the last such meeting of the regime of President Daniel arap Moi. When, in January 2003, a new regime took power, there was immediate interest on the part of both donors and the government to establish better relations. When the CGK met in November 2003, the changed circumstances were evident. The meeting was held in Nairobi and was jointly chaired by the World Bank and the Government of Kenya.

Kenya also has a Donor Coordination Group that met fairly regularly under the Chairmanship of the Ministry of Finance between 2003, when it was revived, and the end of our study period in 2005. A direct outcome of the 2003 CGK meeting was the establishment of the Harmonization, Alignment and Coordination Donor Group (HAC) in early 2004 (DAC, 2007; HAC, 2006). The HAC group, which consists of 15 donors, became the main donor force for coordination and alignment. One of its major initiatives has been the development of a Kenya Joint Assistance Strategy (KJAS) for 2007-12, which provides a framework around which donors can align and harmonize their individual assistance strategies.

The Consultative Group Indonesia (CGI) was active throughout the period covered in this paper. Its predecessor group, the Intergovernmental Group on Indonesia was established in 1967 and chaired by The Netherlands. It was dissolved in 1992 by the Indonesian government. Its successor, the Consultative Group Indonesia, was established in 1992 and continued until 2007. Its key activities were meetings taking place twice a year bringing together the main multilateral and bilateral donors, as well as the ambassadors of donor countries. On the government side, these meetings were attended by the Ministers of Planning, Economic Coordination, Finance, Industry and Agriculture (plus top civil servants from these Ministries). At these meetings, which were always long, donors would review the performance of the Indonesian economy and government. The reverse did not happen;



there was rarely, if ever, a review of the donors' performance by the Indonesian ministers. The atmosphere was typically post-colonial, with foreign donors sitting in judgement of their hosts.⁵ In early 2007, President Yudhoyono dissolved the CGI. There was little other national-level donor coordination of significance.

Sectoral Coordination Efforts

Three main findings emerge from the analysis of coordination at the sectoral level in the two countries. First, the extent of coordination in the two sectors under study differs: both countries show substantial efforts to coordinate aid for governance reform but little in aid for inclusive industrialization. Second, in both countries, the more elaborate structures used in the governance sector did not function as well as hoped. Third, coordination failures were observed at all levels: donor-donor, donor-government, and intra-government.

Table 7 presents the highlights of donor coordination efforts by country, sector, and type of coordination. The first thing that strikes the observer is the difference between the two sectors within each country.

⁵ This observation is based on interviews with both sides and participant observation in three of these meetings between 2003 and 2005 (Loebis and Schmitz, 2007).



Table 7: Coordination efforts by country and sector

Type of coordination effort	Kenya		Indonesia	
	Inclusive Industrialization	Governance Reform	Inclusive Industrialization	Governance Reform
Donor-donor	<ul style="list-style-type: none"> • Donors' sectoral working group functioned mainly for information sharing, 2000-4 • Development of PSDS began in 2005 	<ul style="list-style-type: none"> • Main vehicle for donor-donor coordination lies in SWAp structures, e.g. GJLOS Development Partners Coordination Forum 	<ul style="list-style-type: none"> • Between 2000 and 2004 the SME Working Group of the CGI received and discussed government performance in SME • Working Group was later absorbed into Investment Climate Working Group, but this did not improve SME coordination 	<ul style="list-style-type: none"> • Main vehicles for donor-donor coordination are in multi-donor governance programmes such as Partnership for Governance Reform in Indonesia and the Decentralization Support Facility
Donor-government	<ul style="list-style-type: none"> • Little donor-government coordination until PS Trade and Industry took chair of donor SWG with aim of developing PSDS as SWAp 	<ul style="list-style-type: none"> • Main vehicle for donor-government coordination is SWAp structure, e.g. GJLOS Joint Statement of Intent and Thematic Groups 	<ul style="list-style-type: none"> • No specific mechanisms for ensuring donor-government coordination 	<ul style="list-style-type: none"> • Substantial donor-government coordination effort but hampered by lack of information and/or transparency by government and donors
Intra government	<ul style="list-style-type: none"> • Intra government SWGs exist on paper • Confusion because of lack of clarity about ministry responsible for MSEs 	<ul style="list-style-type: none"> • Main vehicles for intra-government coordination lie in SWAp structures, e.g., Inter-Agency Steering Committee and Technical Coordination Committee; problem is that these have not been meeting regularly 	<ul style="list-style-type: none"> • General lack of coordination among government agencies active in SME field 	<ul style="list-style-type: none"> • Intra government coordination is weak, especially as donors usually take the lead and only involve government at the end of the process

Source: Own interviews in Kenya and Indonesia

In Kenya, aid for the inclusive industrialization sector consisted essentially of a collection of discrete projects. Although the donors had a sectoral working group, its meetings were informal discussion groups in which information was shared. The working groups lacked formal structures of coordination. As a result, overlapping and inconsistent projects were allowed to run at the same time. Donor-government coordination was also lacking. This began to change when near the end of the study period, government with support from key donors began to develop an overall private sector strategy. The Private Sector Development Strategy (PSDS) was not launched until early 2007, but from 2005 onwards the process for developing it gave rise to improvements in communication among donors and between donors and government. These improvements did not seem, however, to spill over into intra-government coordination. Although intra-government SWGs exist on paper, they rarely meet and confusion over the roles and responsibilities of the two main ministries involved in SME development—the Ministry of Trade and Industry and the Ministry of Labour and Human Resource Development—persists. Interviews with donors in Kenya underscored the fact that coordination is costly. Some said that the move to coordinate had shifted the burden of transaction costs from government to the donors. One donor explained that coordination takes up to four hours per week, with part of that time devoted to trying to reach a consensus among themselves. Donors also acknowledged that their tendency to want ‘their own’ projects has led to competition and duplication. They expressed hope that the KJAS initiative would change that.

The situation was similar in Indonesia. Even though some agencies such as UNIDO, ADB, JICA and GTZ have been active in Indonesia for several decades, there has been little coordination between these or other agencies. Donors have made some efforts—the Asia Foundation made an attempt in 2005 and USAID-SENADA tried in 2006—but these initiatives fizzled out after their first meetings. There is also a general lack of coordination among government agencies active in the SME field. In the end, according to all respondents, the Indonesian SME sector was left without any effective coordination. The main difference between the two countries was the change brought about by the development of the PSDS in Kenya.

In contrast to the uncoordinated inclusive industrialization sector, the governance sector in both countries is characterized by large multi-donor programmes with in-built coordination mechanisms. These similarities are brought out in Table 7. What is not captured in this

table is that side-by-side to these large coordinated programmes, single donor projects were also set up. Not all donors participated in the large coordinated programmes, and even those that did established some projects of their own. Nevertheless, significant progress was made in donors pooling (some of their) resources and coordinating their activities.

The problem is that these coordination mechanisms appear not to harmonize well with the established institutions of government and they, therefore, fail to perform their expected coordinating role. Examination of Kenya's GJLOS programme illustrates this point.

Donor-funded governance reform in Kenya has become almost synonymous with the Governance, Justice, Law and Order Sector (GJLOS) programme (Box 1). The programme's complex organizational structure provides for interactions among donors, between the various ministries, departments and agencies of the Kenya Government, and between donors and the Government. On the whole, the GJLOS framework appears to have enhanced both donor coordination and donor-recipient alignment, but poor intra-government coordination holds back the process. One respondent analyzed the problem in terms of the operating and incentive structures of government. Government, he said, is organized vertically from the Minister through the various levels of directors and officers. Reform efforts such as performance contracting have only reinforced this vertical structure by strengthening incentives for civil servants to contribute to meeting the targets of their home ministry. In such a setting, people are unlikely to make participation in horizontal structures that cut across ministries a priority. Another possible explanation is lack of ownership of the programme by those expected to attend meetings, etc. Whatever its cause, lack of participation in coordination structures means that the Government is not taking advantage of the opportunity provided by the Inter-Agency Steering Committee (IASC) to set direction for GJLOS, and further that the opportunities for more detailed discussions that might happen within the Technical Coordination Committee (TCC) are also being foregone.

Box 1: Kenya's GJLOS Programme

Kenya's GJLOS Programme is jointly funded by 16 donors and includes a wide range of activities under four sector-wide reform priorities: governance reforms, human rights reforms, justice reforms, and law and order reforms (GJLOS Programme Coordination Office, 2005; Kenya, 2005). The programme is organized as a Sector-Wide Approach (SWAp). Government sees this approach as recognizing systemic inter-dependencies that cut across the sector (Kenya, 2007) and thus going beyond 'traditional, narrow, institutional approaches to reform' (Kenya, 2005). Funding is provided by the Government of Kenya and the group of 16 donors. The donors have varying financial arrangements: some contribute to a basket fund, others give directly to government, and a third group contributes to the programme through multilateral donors. A total of 32 government ministries, departments and agencies participate in GJLOS. The institutional framework for GJLOS has eight management bodies:

1. Inter-Agency Steering Committee (IASC) is a Cabinet-level committee that provides political, policy and overall strategic leadership;
2. Technical Coordination Committee (TCC) is a representative, decision making stakeholder forum that also serves as executive link between IASC and Thematic Groups;
3. Ministry of Justice and Constitutional Affairs (MoJCA) is the coordinating ministry;
4. Ministries, Departments and Agencies sit on Thematic Groups relevant to their area;
5. Thematic Groups provide a forum for implementation tracking, experience sharing and early problem resolution;
6. Development Partners Consultative Forum (or Donors Group) links all donors to programme coordination and basket-fund donors to Financial Management Agent;
7. Programme Coordination Office acts as a secretariat to the Technical Coordination Committee in the coordination of GJLOS implementation; and
8. Financial Management Agent (FMA) serves as financial arm of donors in the basket fund.

The rationale for this structure is that it places government in control (through the Inter-Agency Steering Committee), provides the opportunity for donors to communicate with one another (through the Donor Group), and offers avenues for donor-government interaction (through the Technical Coordination Committee and Thematic Groups). It also allows for detailed input from each of the ministries, departments and agencies participating in the programme as well as from three focal points representing the private sector, civil society and the development partners.

In addition to the GJLOS Programme, Kenya has another multi-donor programme, begun in 2005, in Public Sector Reform and numerous smaller projects. Based on the overview of donor coordination in Kenya, one would expect the main coordinating mechanism for these remaining projects to be the Sector Working Group (SWG). Our interviews with both donors and government, however, suggest that there is no effective Sector Working Group for the governance reform. Most respondents, when questioned about the governance reform talked about GJLOS. According to one donor, the Sector Working Group had not worked well due to lack of sector strategy, lack of communication, and power struggles within government.

Indonesia has two major multi-donor governance reform programmes: the 'Partnership for Governance Reform' and the 'Decentralization Support Facility'. Indonesia's main donors participate in both programmes. Two additional multi-donor projects have significant governance components and, as we saw earlier, many of the same donors funded the many discrete governance projects active in each of the study years.

The 'Partnership for Governance Reform' is the most significant initiative in coordination, bringing together the main donor agencies (specializing in different domains), government agencies and NGOs. The claim is that the initiative developed from being donor-led to Indonesian-managed. 'While the international community provides technical and financial support, ultimate leadership and responsibility lies with the Indonesian stakeholders' (www.kemitraan.or.id, accessed 28 February 2009), but the question of who drives the programme has been hotly contested (Crawford, 2003; Mallarangeng and Tuijl, 2004). Perhaps more important than the existence and identity of a driver is the recognition that donor and government coordination depend on each other (Edi and Setianingtias, 2007).

Conclusions

The problems arising from donor and project proliferation figure prominently in the aid debate. They have been recognized for a long time. This paper has examined whether progress has been made in recent years, concentrating on two countries at different stages of economic development and two sectors with different histories of donor involvement. The overall picture is very clear: proliferation worsened over the period 2000-5/6. The increase in the number of projects was higher than in the number of donor agencies and the growth rates in Kenya were higher than in Indonesia.

Progress in coordination was uneven. In both countries, there was little coordination in the sector in which donors have been active for a long time (inclusive industrialization). It was tried but not followed through, except in one recent Kenyan initiative. More significant coordination efforts were made in the relatively new sector of governance reform. In both countries, substantial multi-donor programmes were launched. The coordination was, however, selective involving only some of the donors. Many projects continue to be carried out separately in an uncoordinated way.

How can we explain these findings? Some of the causes are well known from the literature, others less so.

- (i) *Certain costs and uncertain benefits:* The experience of attempted coordination with little effective follow up is common internationally. Coordination is costly in time and money, and the benefits are uncertain. The Indonesian data underscores the costs of coordination. The Indonesian respondents point to the time donors require to adjust their funding and implementation plans to those of others. They say that the resulting delays in project start-up and activities are costly to both governments and donors. Respondents in Kenya, both from government and the donor community, also said that delays in implementing intended programmes resulted in additional costs. The experience of Kenya with the GJLOS programme illustrates the uncertainty of benefits. GJLOS has an elaborate coordination structure, but many of the structures built into the SWAp that are supposed to ensure coordination are committees that are not meeting regularly. A Kenyan donor summed up the issue of costs and benefits by saying that donor coordination is a “noble idea”, but joint decision making is time consuming and therefore costly.

- (ii) *Political imperatives:* Our findings suggest that political imperatives affect coordination in at least three ways. First, neither donors nor governments want to give up their right to autonomous action. Despite the rhetoric of ‘partnership’, the national interests of donors and recipients are paramount. Second, donor staffs are under pressure to disburse funds against deadlines. Coordinating activities with those of other agencies is feared to slow down the speed at which programmes and projects can be introduced and executed. As suggested in our brief overview of the literature, this appears to be simply one manifestation of the desire to mount visible projects with political appeal to home-country voters. Third, and related to the first two, donor agencies compete with each other—or their staff feel that they are competing with each other. One donor in Kenya acknowledged that competition among donors makes some reluctant to coordinate for fear of losing pet projects. As a result, the exchange of information and experiences is shallow, and developing joint initiatives makes it more difficult to develop a clear donor profile with innovative features. This competitive aspect is not much discussed in the literature, perhaps because the programme and project officers themselves do not like to talk about it.
- (iii) *Incentive structures:* Individual incentive structures are powerful within both government and donor agencies. The literature deals mainly with the incentives in donor agencies. Our research, in particular the Kenyan case, highlighted the problems of incentives not being aligned on the government side. Within government service, most rewards such as promotions, good ratings on performance contracts, and so forth are tied to activities undertaken within the ministry of one’s appointment. This means that officers are likely to give higher priority to internal activities than to participation in inter-ministerial committees.
- (iv) *Interdependence:* An aspect which is not well covered in the literature is that coordination on the donor and government sides are interdependent. The more fragmented the government the more difficult it is for the donors to have anything around which they can organize. Conversely, the more fragmented the donor activities, the greater the difficulty for government to develop a coherent approach in donor-supported policy fields, resulting in a vicious circle from which it is difficult to

escape. Both the Indonesian and Kenyan government reform programmes show that understanding the interdependence and shifting from a negative to positive dynamic would require unravelling three layers in the coordination process: first, formally the government agencies are in charge (chairing the key committees, etc); second, *de facto* the donors drive the process not least because they control the resources; third, this donor influence has only limited depth because government structures and incentives are not aligned.

- (v) *Green fields for donors:* In spite of all the open and hidden problems set out above, there were significant coordination experiments in both countries. The governance sector had SWAPs that include a variety of donor and donor-government groupings. Not all were successful, but their existence shows certain creativity in coordination efforts. The intriguing question is why these were confined to one of the examined sectors. It seems that donors find it much easier to coordinate activities that are new to them. Governance became a donor priority only at the turn of the century. In contrast, the promotion of small and medium industry has received substantial donor support for decades. It seems that in the 'classic' fields of donor assistance, in which the old donors continue to be active, coordination is more difficult to achieve. This is not discussed in the literature, and certainly needs further enquiry.

Overall, it is striking how strong the similarities are between the Indonesian and Kenyan experiences. We expected greater differences given that these countries are at different stages of economic development. By and large, the two countries receive aid from the same donors who pursue the same fashions and approaches in both. As stressed earlier, donor and project proliferation worsened in both countries but was more pronounced in the Kenyan case. Perhaps the stage of development has some relevance here in that donors gave more attention to the needier countries—given the international push to meet the Millennium Development Goals and increase aid to Africa. With regard to coordination, the experiences of both countries were even more similar. It seems that stage of development made no difference to the extent and depth of donor coordination—and only a small difference to the proliferation of donors and projects.



Donor proliferation and coordination: Experiences of Kenya and Indonesia

It could, however, be that the effects of proliferation on the capacity of the state are substantially different in the two countries. The Indonesian state is huge compared with the Kenyan state. It seems plausible to suggest that the number of donors and the size of their budgets make a big difference to what happens in Kenyan state agencies but probably much less of a difference to the Indonesian state agencies. It would be interesting to examine to what extent this proposition is correct. The problem is that the size of the Indonesian state and the high number of national agencies interacting with the foreign agencies make it too difficult to trace and document the effect of donor proliferation on state capacity. Perhaps it would be more relevant and feasible to compare Kenya with other countries that have a higher degree of aid dependence.

Our final point arises from the research process itself. As already stated, it was extraordinarily difficult just to assemble the basic data on aid projects in the selected sectors. No agency, either on the donor or government side, had systematic data or tracked the changes in a comprehensive way. The interviews showed that those who thought they had a good overview had at best a partial picture. This in itself tells an important story of a highly fragmented aid business. Stories that particular actors on the donor or government side dominate and drive change might be right for particular initiatives but should be treated with caution when it comes to broader fields of activity. The overwhelming message coming out of this research is that fragmentation continues to be the main problem.

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