



## **Donor Program Harmonization, Aid Effectiveness and Decentralized Governance**

**January 2011**

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### **I. Introduction**

The Paris Declaration on Aid Effectiveness outlines five principles—ownership, alignment, harmonization, managing for results and mutual accountability—that the country signatories generally believe “will increase the impact aid has in reducing poverty and inequality, increasing growth, building capacity and accelerating achievement of the Millennium Development Goals (MDGs).” There has been considerable publicity about and attention to the agreement of major development partners (donors) to uphold these principles of aid effectiveness in designing and implementing development assistance activities.

The OECD published a monitoring survey in 2008 (in advance of the Third High Level Forum in Accra) that examined the extent to which donors and recipient countries had found ways to meet the Paris Declaration principles in practice. The survey found notable progress in the quality of public financial management systems in recipient countries, the amount of untied aid provided by development partners, and the coordination of technical cooperation. There was, however, less progress made on 11 other indicators. A second report will be published in advance of the Fourth High Level Forum to be held in Seoul in November 2011. This will look both at the implementation of the Paris Declaration goals as intermediate outcomes and the contribution of Paris Declaration-influenced changes in foreign assistance to development outcomes.

In this paper, we consider the connections between the Paris Declaration commitments (with a focus on ownership, alignment and harmonization) and aid effectiveness in the context of foreign aid to support decentralization and local governance. The paper makes use of three case studies prepared for the June 2010 fifth annual meeting of the Development Partners Working Group on Local Governance and Decentralization (DPWG-LGD). The case studies of the Democratic Republic of Congo, Indonesia, and Uganda<sup>1</sup> examine development partner harmonization of strategies and project activities supporting decentralization, government participation in and leadership of these efforts, the use of country systems in project implementation, and the resulting impacts of these variables on aid effectiveness. The case studies provide examples of donor harmonization (and the lack thereof) and review the obstacles to harmonization and alignment faced by the development partners working in these specific country contexts.

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<sup>1</sup> The Democratic Republic of Congo case was prepared by Caroline Millet and Jocelyne Nkongolo for the World Bank. The Indonesia case was prepared by Matthew S. Winters for the US Agency for International Development, and the Uganda case was prepared by Richard Ssewakiryanga for the United Nations Capital Development Fund.

Ultimately, of course, harmonization, and alignment are not desired for their own sake, but because they are presumed lead to improved development outcomes; so far, however, there is very little generalizable evidence that this is the case. The development partners seem to be pursuing Paris Declaration goals as a way to help overcome problems that they have observed and believe to have been generated by poor harmonization and a lack of alignment. Simply reducing the prevalence of these problems may represent a solid achievement, but it is also important to examine how increased harmonization and alignment might concretely affect the decentralization process and its expected outcomes.

Several key questions are of particular concern. First, how and under what conditions might better harmonization and alignment improve inputs and outputs of decentralization (i.e. better financial management systems or increased quality and coverage of public services)? Second, how could harmonization and alignment help to ensure the sustainability of improved governance systems and public services (particularly as development partner interventions are altered, reduced, or terminated)? Finally, how can we know whether improvements in governance mechanisms and public services are having an impact on desired long-run development outcomes, such as economic development and poverty reduction?

These questions, which embody the central purpose of development assistance, are difficult to answer for a number of reasons. First, some countries have not had decentralization in place long enough for clear impacts of policy or donor support in the sector to be observable. Even where it has been in place for a decade or more, the process of implementation may be difficult and uneven, and a certain amount of capacity building and learning is required for local governments to undertake even basic functions, much less to have an important development impact.

Second, there are many other types of reforms beyond those that are decentralization specific, including public financial management reforms, civil service reforms, and service delivery policies in major sectors. These may affect the performance of local governments and may be equally or more important than even the best designed and implemented decentralization policies and frameworks.

Third, while it can be challenging to measure the effects of national decentralization policies, it is even more difficult to measure the specific impact of donor support initiatives. In many countries, neither baseline data nor regular mechanisms and capacity for collecting and analyzing relevant data are in place. Even where data exist, it can be difficult to establish and test meaningful counterfactuals—that is, what would have happened in the absence of or with other types of donor support—in order to attribute impacts to decentralization or donor support for it.

With these caveats in mind, in this paper we explore the possibility of linking harmonization and alignment to aid effectiveness in the form of development impacts, both in terms of near-term/intermediate process effects and longer-term outcomes. We first summarize some of the lessons learned from the case studies about the experience with harmonization and alignment and the contextual characteristics and specific actors that facilitate and present obstacles to realizing priority development assistance goals. We do not attempt to generalize from these cases about overall trends because we recognize that they were not conducted in a fully standardized manner and merely represent an initial exploratory effort in developing this type of analysis.

We then use our review of the initial cases to outline how to conduct additional work that improves on current knowledge about this topic. Future case studies may be able to confirm and expand our observations regarding the role of certain facilitating conditions or document the ways in which obstacles to harmonization and alignment were surmounted in other situations. We propose a theoretically driven analysis in which the counterfactual condition is assessed at each of a series of steps linking harmonization efforts and development effects, although we recognize that securing the information required to conduct such analyses will often present challenges. We conclude the paper by describing some particular mechanisms related to harmonization and alignment that we believe could be usefully measured in the local governance and decentralization sector, and we discuss how they might be linked to aid effectiveness.

Throughout the paper, we stress that harmonization and alignment involve tradeoffs. Some of these originate in the mixed motives of donors—the way in which bureaucratic interests within donor agencies or the strategic and commercial interests that motivate bilateral aid allocation may conflict with a pure interest in development. Other tradeoffs involve judgment calls about the appropriateness of embracing the Paris Declaration objectives when there is some potential that doing so might lessen development impact. For example, in countries where bureaucratic capacity is low, country systems can neither be embraced blindly by development partners nor simply avoided in the name of development effectiveness. Instead development partners must carefully design their use of country systems to both build capacity within those systems and yet also to protect service delivery targeted to poverty alleviation.

## **II. Theorizing the Pathway from Aid Alignment and Harmonization to Aid Effectiveness**

Across major international meetings of the past decade—the 2002 International Conference on Financing for Development in Monterrey; the 2003 Rome High Level Forum on Harmonization; the 2004 Roundtable on Managing for Development Results in Marrakech; the 2005 Paris High Level Forum on Aid Effectiveness; and the 2008 Accra High Level Form on Aid Effectiveness—there has been a consistent emphasis on the need for country ownership, alignment, and harmonization to realize aid effectiveness. The Development Partners Working Group on Local Governance and Decentralization (2008, 2009) also affirmed allegiance to these principles.

Ownership refers to partner countries determining their own development priorities and coordinating development assistance accordingly. Alignment involves development partners working in a way that is consistent with national development strategies, institutions, and procedures, and harmonization implies that donors work collectively in coordinated pursuit of national development goals.

These three concepts are thoroughly interlinked and mutually reinforcing. The more ownership that countries exercise over development agendas, the easier it is for development partners to harmonize their efforts and support in alignment with the goals established by the recipient countries (Balogun, 2005). At the same time, the more that donors have already harmonized aid and aligned with country systems, the easier it is for countries to assert ownership over the development process. With greater recipient country ownership of development assistance, the more it is aligned with national systems, and the better harmonized it is among donors, the more

effective it is expected to be in terms of delivering goods and services to citizens and facilitating national policy changes in pursuit of poverty alleviation and economic growth.<sup>2</sup>

It is important to recognize that central governments are not monolithic entities and there may not be a uniform country view of what particular policies should look like and who should be in charge of them. There may also not be well-formed policies that provide clear direction, and some policies issued by different government actors may be contradictory. These realities complicate issues of ownership and alignment and open opportunities for development partners with competing agendas to resist harmonization and find some justification in national policies for doing so. For this reason, after describing how harmonization and alignment are supposed to improve outcomes, we explore some of the ways in which the assumptions underlying the harmonization approach may be limited or conditioned by country context.

### **The Underlying Logic**

Increased aid effectiveness from harmonization and alignment is anticipated for three main reasons. First, harmonization and alignment should reduce transaction costs. As donors make use of “common arrangements . . . for planning, funding . . . , disbursement, monitoring, evaluating, and reporting to government,” as specified in the Paris Declaration, this will reduce the amount of time that national governments spend undertaking duplicate interactions with multiple donors, reducing the human and capital resources that go into these activities and freeing them up for other purposes (Ross 1990; OECD 2003).

Second, the use of country systems that comes through alignment should improve capacity in those systems. Insofar as relying on external implementation, procurement, financial management, audit, monitoring, and evaluation systems means that preexisting government bodies are being used less, this impedes the development of technical skills within these national bodies and means that technical capacity levels will be inferior to the counterfactual case in which those systems had been used to implement foreign-funded projects and programs. The use of parallel donor-funded systems can reduce the quality of a national bureaucracy by siphoning off qualified staff (Knack and Rahman, 2007). In addition, parallel mechanisms rarely result in sustainable institutions and capacity—they are often tied to the life span of the development projects that led to their creation. When they disappear, the capacity they built may remain in particular people, but it is quite possible that these individuals will not end up in the government institutions that take over responsibility for what the parallel mechanisms were doing.

Third, harmonization among donors in the form of information-sharing, joint planning, joint policy dialogues with the government, and joint reviews of operations should lead to efficiency gains in terms of aid delivery and therefore in terms of service delivery. This communication can help to ensure that donors are not planning projects that unnecessarily overlap geographically or substantively or that unnecessarily exclude deserving geographic regions or important substantive reforms. (Ross 1990). In addition, harmonization should reduce variability and

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<sup>2</sup> We frame development outcomes as poverty alleviation, economic growth, and improvements in human development indicators in line with the Millennium Development Goals. We recognize, however, that decentralization also serves other important political purposes, such as dampening separatist movements or ethnic conflict (Eaton, Kaiser and Smoke 2010).

uncertainty in overall aid flows as the different development partners can ensure that funds are transferred in a way that neither suddenly floods nor suddenly deprives countries of external funding. Greater certainty facilitates more effective national planning and budgeting processes.

### **Constraints on Realizing Aid Effectiveness through Alignment and Harmonization**

We must qualify these three claims about the path from alignment and harmonization to aid effectiveness in several ways. First, in many developing countries, the systems with which donors may wish to align are poorly designed, weakly developed, and trumped by informal mechanisms and procedures that undermine their potential for good developmental performance. Thus, the real question is often not whether it is possible to use national systems, but whether it is possible to help develop national systems without creating fully parallel mechanisms. In addition, if parallel mechanisms are created, can they be used in a way that has a sustainable impact on the development of regular government institutions and procedures over time?

Also, there are circumstances under which using certain types of harmonization, such as common basket funding, might not be the best approach—particularly where policies and systems are not well developed and it is not yet clear what the best reforms would be. In such situations, there may be benefits if donors experiment with and pilot functions, systems, and procedures with the goal of informing and influencing long-term policies and frameworks. Likewise, if existing systems are not performing well, some experimentation with alternative approaches could be productive. In these situations, however, there should still ideally be a mechanism for coordinating and monitoring different approaches so as to capture learning across them and help to inform the development of the most effective possible government system.

Despite these caveats about the desirability of and possibilities for pursuing alignment and harmonization, the bottom line is that when aid is not owned by the recipient country, aligned with country systems, or harmonized among donors, we would generally expect to see higher transaction costs, less capacity built within country systems, problems of duplication and omission in the geographic and substantive coverage of aid, and incomplete and inaccurate planning and budgeting outputs. Although such expectations are reasonable, there is, as noted above, not strong empirical evidence to support them. Experiences in various countries suggest these expectations can be real, but there is a pressing need for more systematic analysis.

In the next section, we examine several issues regarding development partner behavior that emerge from the country cases and in our experiences elsewhere. In particular, we consider the relationship between harmonization and alignment, the threat that development partners might reinforce negative country dynamics, the problem of development partners privileging certain types of reform with insufficient consideration of context, the obstacles to using country systems to be consistent with the principle of alignment, the constraints on more robust coordination, and the possibility of finding a sound rallying point for development partner support.

### **III. The Role of Development Partners in Decentralization Reform: Patterns and Issues**

As noted above, the prevailing principles of aid effectiveness have become a focus of attention with respect to decentralization and local governance support, including by the Development

Partners Working Group on Local Governance and Decentralization. At the same time, the behavior of many development partners providing assistance to decentralization does not always match the rhetoric of reform. In this regard, a number of issues are commonly observed regarding how development partners approach support in this area. It should be understood that this discussion is based largely on anecdotal evidence intended to stimulate discussion and further investigation.

### **Pursuing Ownership, Alignment and Harmonization**

The simplest way to achieve harmonization is to pursue alignment. As donors embrace country ownership by aligning with national priorities and using country systems, aid simultaneously becomes harmonized and donors can spend less time on coordination efforts. In this light, stronger government leadership should translate into greater alignment and harmonization. India, for instance, has been cited as a country that gives specific assignments to development partners and is also willing to refuse their resources if their objectives are not compatible with national priorities (Rogerson 2005). India, of course, is in a better position than aid dependent countries to behave in this way. In some cases, particular ministries strategically use development assistance. The Indonesia case study, for example, describes how the Ministry of Home Affairs requests specific support from different donors, recognizing their particular interests and capabilities. At the same time, that Ministry is only one important actor in decentralization (more on this below).

Across the three case studies, there is generally very little evidence of strong government leadership of development partners. This seems to be the case for multiple reasons. First and foremost, for alignment and government leadership to be feasible, the government must have a coherent policy vision and be willing to adhere to it. Perhaps more than in other sectors, government unity has been a significant challenge for decentralization and local governance policy because there are usually multiple central ministries that have different visions of decentralization. Even if there is a common official vision, different ministries may claim responsibility for overseeing the decentralization process and local governments, and they may in fact continue to stake a claim over functions that have been officially decentralized.

The Indonesia case study examines how the Ministry of Home Affairs, the National Development Planning Agency, and the Ministry of Finance all compete for the right to direct and oversee decentralization. The various institutions intended to coordinate government policy have not been very effective, in part because they have been chaired by one of the interested parties, which is then not trusted by other parties. The Congo case study describes serious fragmentation within the government, the notable weakness of the flagship decentralization ministry and the dysfunctionality of coordinating institutions. In Uganda, there is a well-developed decentralization framework, but the powerful Ministry of Finance, Planning, and Economic Development and various sectoral ministries, reinforced by donors, have over time constrained the role of the Ministry of Local Government and the local governments themselves.

In the event that donors cannot align with government priorities due to divisions within the government, then donor-driven harmonization of decentralization programming is another possible approach. Donors themselves, like different agencies of central governments, also have competing priorities and interests and the case studies show that donor harmonization efforts

have been problematic. The Uganda case study describes a division of labor exercise by donors across decentralization-related activities. Some see this division as having been donor-driven and therefore in defiance of the country-ownership objective. To some extent, however, incompatible donor support simply reinforced differences across government ministries that had a role to play in local service delivery and local development (see below).

In Indonesia, attempts to make the donor-created Decentralization Support Facility (DSF) into a model donor harmonization institution that would also facilitate better government coordination resulted instead in an entity that created few new joint initiatives and inflamed tensions between different development partners and among government agencies. Leadership of the DSF now rotates through the control of the three key ministries involved in decentralization, giving each an opportunity to access its funds but providing less incentive for the government to develop a unified political voice on decentralization. Perhaps a unified voice is too much to expect in complex and highly politicized policy environments, but a better process for crafting compromises that reduce the wasting of resources should be an achievable goal.

### **Reinforcing Problematic Country Dynamics**

With regard to the problems of national government fragmentation, as detailed in the Indonesia and Uganda cases, development partners may very well be complicit in such fragmentation. Different agencies may work in client countries primarily with specific counterparts that share their views on decentralization, e.g. a fiscal affairs department with a ministry of finance, a local governance-oriented donor or department with a ministry of local government, or a health department with a ministry of health. But these individual agencies almost invariably constitute only a portion of the diverse set of country actors involved in decentralization. More than likely, they concentrate only on particular, limited aspects of reform, and their views and approaches may be substantially at odds with those of other national agencies, including those primarily responsible for the formal decentralization agenda.

Insofar as donors opt to work with traditional allies in particular ministries or particular offices within ministries, they may create spaces of privilege and facilitate disunity among the different parts of the national government. In pursuing their objectives, development partners and/or their constituent departments may reinforce tensions among national agencies by defining activities that are mutually beneficial to the two parties directly involved but not necessarily compatible with official government policy. Thus, one donor may provide support to public financial management (PFM) or civil service reform with a ministry of finance or civil service but develop systems for these purposes that differ from those defined under local government reforms supported by a different donor working with the Ministry of Local Government.

Similarly, as other reforms are underway, a sectoral department of one or more donors may be promoting service delivery reform for a particular sectoral ministry using systems that do not coincide with those evolving under public financial management, civil service, or local government reforms. Sector-wide approaches (SWAs) often effectively coordinate donors working on the same sector but rarely involve those working on related reforms in other sectors. The tendency of SWAs to centralize service delivery initiatives under a sectoral ministry may reinforce the centralizing tendencies of PFM reforms or other national level reforms.

It is not uncommon for these various reforms being undertaken at various ministries with the support of different donors to push the development of institutions and procedures relevant for decentralization in inconsistent directions, with potentially deleterious effects on system development and ultimately on outcomes. Partner government ministries charged with leading decentralization often lack the necessary formal power or political capital to address the challenges to decentralization raised by programs based in other more powerful ministries.

Although supporting bureaucratic fragmentation in recipient governments may bring about short-run gains for development partners in terms of exposure, access, and even immediate outputs from their programmatic support, it potentially leads to negative long-run development outcomes by wasting government resources and reinforcing the ability of different parts of government to work at cross-purposes. This violates a “do-no-harm” principle that we discuss below. Therefore, an additional advantage of donor harmonization is that it may provide an opportunity for donors to catalyze the national government to speak with a more unified voice. But this necessarily involves giving up traditional alliances and supporting the creation and empowerment of coordinating institutions within the government.

### **Using Standardized Reforms with Insufficient Attention to Context & Evolving Dynamics**

Development partner support for decentralization often involves support for reforms framed around technical issues, but critics charge that insufficient attention is paid to political and institutional realities in adopting technical reforms. Individual donors sometimes feel they must support their own institutional policies on key aspects of decentralization (e.g. political, administrative, financial) and the sequencing of reforms even when they are not fully consistent with government policy or when this support clashes with programs of other donors. In some cases, reforms being promoted are inconsistent, at least in part, with the country context. They may also require more change than the country can absorb within the implementation timeline.

Decentralization policy is a moving target at both a *de jure* and a *de facto* level. Political actors may have incentives to increase or decrease decentralization after it has started (Eaton, Kaiser, and Smoke 2010). The incomplete and shifting nature of decentralization reforms can present a significant obstacle to improved alignment and harmonization, as seen to some extent in all three case studies. Both Uganda and Indonesia have seen multiple revisions to their decentralization policies and laws. Both Indonesia and Congo still lack clear *de jure* functional assignment to subnational governments. Uganda has relatively clear *de jure* assignment but has recently seen *de facto* shifts in authority and responsibility back to the central government (as a result of both the institutional dynamics noted above and the country’s return to multiparty politics).

When government policy is not consistent over time, it is difficult for donors to align to national objectives, since those objectives are changing. For aid to be effective, development partners must be sufficiently flexible to provide appropriate support under evolving circumstances. Thus far, neither the contextual nor empirical literature has provided much guidance regarding what it means for donors to practice alignment in the context of such changing government policies.

### **Privileging Development Partner Managerial Needs Over Capacity Building**



In order to facilitate compliance with their own internal management and accountability requirements, development partners have been known to insist that the government adopt their preferred implementing procedures and modalities. This often leads to separate implementation units or other parallel or semi-parallel mechanisms. As noted above, these are not always undesirable, but inconsistent procedures and separate mechanisms used by multiple development partners can inhibit developing a unified system, place a significant burden on government counterparts at the national and sub-national level, and divert capacity building efforts away from the government institutions that will ultimately have to sustain the reforms being promoted.

Despite considerable rhetoric about building local institutions and supporting capacity development, the immediate interests of development partners are not always well served by these policies. System and staff development efforts can be time consuming and difficult, and they may delay disbursement of resources needed to achieve tangible outputs and to justify future budget requests. In some cases, the pressure to follow disbursement schedules in pursuit of these tangible results may keep funds flowing even when they cannot be absorbed effectively or when the program is not really supporting—and may even be undermining—decentralization.

Development agencies may also privilege the development of identifiable projects attributed to them. Individual bureaucrats within aid agencies tend to be promoted based on the amount of money that they move, rather than the success of the projects that they fund (Easterly 2002; OECD 2003; de Renzio et al. 2005). Although harmonized aid, such as general and sectoral budget support, can be a good way to move large amounts of money, it also may involve a loss of identifiability if money is pooled with other donors. As it becomes more difficult for donors to describe a support effort as their own—something that likely will make it harder to lobby for future resources from headquarters—the incentives to participate are reduced.

It is well known that bilateral donors give money to countries for particular geopolitical and commercial reasons that may be manifested in a donor country's preference for funding projects in particular geographic areas. Over time, certain areas can become the almost exclusive province of some donors. In the Indonesia case study, this explains why particular donors are responsible for local government capacity building projects in different areas of the country. These different projects, however, do not necessarily provide the same inputs (in terms of material or training) or accomplish the same outcomes in terms of capacity building. The Congo case study describes how provinces end up as aid orphans with development partners refusing to operate in them.

Donor reluctance to use country systems is also related to the commercial logic for giving aid. Refusing to use country systems or to implement projects through the government can be driven by a need to employ consultants and firms from the donor country for these purposes, meaning that much less of the resources targeted to development assistance actually remains within the recipient country to have a development impact. Again, this is an issue particular to bilateral donors, and to some more than others.

The failure of donors to use country systems is usually couched in complaints about the quality of those systems. While the quality of public financial management, procurement, and audit

systems is lacking in many developing countries, this situation is likely to continue as long as resources are being channeled through external systems. In order to build real capacity in country systems, they need to be used for real purposes. As in the Congo case study, there is a tradeoff between using country systems and the quality of outputs that they produce, but it seems evident that the capacity of these systems—particularly in aid-dependent states—is unlikely to improve unless they are used in some way. In Cambodia parallel systems for managing early service delivery projects at the commune level and the capacity these efforts generated were nontrivially adapted and institutionalized into the larger intergovernmental system (Smoke and Morrison 2010).

It is important to recognize that development partners often have legitimate concerns about partner countries not doing enough to increase the reliability and performance of their financial systems. The Paris Declaration calls for partner countries to take leadership on undertaking reforms to ensure that transparent and effective national systems can be used for managing foreign assistance. According to the 2008 OECD survey, 36 percent of countries improved their PFM systems between 2005 and 2007 as measured by their score on the World Bank’s Country Policy and Institutional Assessment index, but none of the 41 countries surveyed attained a score in the highest three categories. Even among countries with the highest PFM quality, use of country systems for development partner financing ranged from 17 to 71 percent, with an average level of 47 percent. This suggests that donors are making decisions about whether to use country systems for reasons beyond just the quality of those systems. There is no such systematic analysis of how donors approach decentralization, which is more difficult to objectively evaluate.

In any case, development partners should be forthcoming about the tradeoffs that they are making and the potential development impact that their decisions will have. Failing to use country systems and not taking action to improve them would again seem to violate the “do-no-harm” principle insofar as it undermines the development of national capacity to take longer term responsibility for development. This does not necessarily mean that donors must fully embrace all country systems in all cases for the reasons outlined here. At a minimum, however, any external project implementation units and parallel systems should be designed so as to usefully feed back into country systems, leading to long-run improvements in national capacity.

As argued above, alignment and harmonization at the country-level would likely increase if the right incentives are provided to bureaucrats within donor organizations. If headquarters rewards country staff for making use of country systems, participating in harmonization activities, pooling funding with other donors, sharing information with other donors, and designing projects that take into account what other donors are doing, then individuals involved in project design will have the right incentives to increase harmonization and alignment (Ross 1990; OECD 2003). A process something like this happened with in Uganda, where development partners created an environment in which successful sector-wide approaches provided examples for aligning and harmonizing decentralization and local governance support, including the creation of common basket funding. These various sectoral approaches, however, were not well coordinated with decentralization support<sup>3</sup>

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<sup>3</sup> The Uganda case raises questions about the impact that the sector-wide approaches have had on local governance, since they often make use of restricted grants rather than general block grants over which local governments have

## **Limited/Selective Development Partner Consultation and Coordination**

Although we have already discussed factors behind weak donor coordination above, it is worth synthetically reiterating a few dedicated points since this paper is focused on harmonization. As noted above, when one development partner has specific priorities and mandates, its perspectives on actions with respect to decentralization may be incompatible with those of other agencies. For example, if a development partner views decentralization through the lens of public financial management or civil service reform, there is likely to be a focus on central standards and control. If the partner has an interest in a specific sector, decentralization often means deconcentration under a central ministry or facility-based autonomy rather than strengthening local government roles in that sector. Partners promoting a local government perspective emphasize local accountability, governance and fiscal autonomy, although this may be done primarily to support democratization and governance or primarily to improve service delivery. When citizen empowerment through local democracy promotion or community-driven development is the priority, sometimes due to mistrust of formal government institutions, donor initiatives have been known to ignore or bypass (and potentially undermine) elected and legally empowered local governments.

In any of these cases, development partners commonly focus on the types of specific, limited reforms noted above that meet their individual objectives (which may not be enough to support robust country process reforms or significant development outcomes) and target only certain sub-national levels or individual jurisdictions or in some cases even sidestep all levels of government through community-driven development programs. Such fragmented support is not limited only to behavior across donors. Some individual development partners, especially the larger ones, are also internally diverse—departments of the same agency can be divided along the same types of substantive and sectoral dimensions that characterize the cross donor landscape and create similar tensions about how to approach reform. Thus, the coordination challenges may transcend decentralization specific support and be faced by development partners individually and collectively.

There are many examples of how various types of fragmentation and parallel mechanisms create challenges for effective decentralization. Indonesia has long been known as a country where some donors have been helping to develop local governments through (sometimes inconsistent) support to ministries involved in decentralization policy while other donors were simultaneously reinforcing deconcentration through support to sectoral ministries. A large community driven development initiative, the Kecamatan Development Program, was managed completely separately from decentralization support. The DSF was intended to help alleviate these fragmentation problems but, as noted earlier, was not very effective.

Many development partners jointly supported Uganda's Decentralization Secretariat in the 1990s to manage decentralization in its early stages; however, although formally managed by the Ministry of Local Government, the Secretariat was substantially donor funded, staff members

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more control. Some analysts fear that sectoral SWAPs in Uganda, effective in terms of sectoral reforms, have placed excessive constraints the ability of local governments to play their constitutionally mandated role.

were paid well above civil service salaries, and the Secretariat performed many of the basic functions that the Ministry should have been performing. When the Secretariat was closed, some of its functions were assumed by the Ministry, but many of its senior staff ended up working as private consultants or for development partners, and some of the functions it had performed in a way that tried to strengthen local governments were taken over by other central government agencies with a more centralizing agenda and which were never under the harmonization umbrella.

In Cambodia, there was a framework for donor coordination, but it was loose enough to allow some development partners to continue pursuing their own particular objectives. Most donor sectoral programs for local service delivery had no relationship to decentralization support, with some even creating new local service jurisdictions that were completely unrelated to existing subnational administrative divisions or newly created local governments.

As also explained earlier, recipient country governments frequently share responsibility for this fragmentation. If the government is not speaking with a single voice and consistently managing support from development partners, then donor programming is likely to go in different directions. If different recipient country actors make different programming requests of donors, this results in fragmentation even where development partners are responding to (parts of) the government. This presents a challenging situation: on the one hand, donors cannot wait for a unified policy, but they should not fall back only on their narrow interests and traditional partners. In some cases, donors may help to promote a more unified government vision. In other cases, if they hold to the values they agreed to in the Paris Declaration, they need to look for opportunities that might help to move in that direction over time.

### **Seeking the Right Rallying Point**

Having a successful name-brand program into which donors can pool their money may facilitate aid harmonization. Although we noted above that development partners tend to pursue their own original efforts when defining recognizable projects, this often leads to the proliferation of many separate projects and the associated problems discussed earlier. Alternatively, the partners could support projects with a verified track record that are respected in the donor community and by the national government.

In Uganda, the District Development Program and its successor, the Local Government Development Program, met these latter criteria—the programs were well-regarded in the country and internationally—and different donors were able to align behind the systems and mechanisms developed under these programs and commit money to them. This helped to deal with fragmentation in the decentralization sector, but did not deal with the larger landscape of public sector reform. Something similar happened with a major community driven development program in Indonesia, the Kecamatan Development Program. Community driven development, however, is less contested than the local government sector (in the sense that there are fewer powerful agencies competing for a role) and is therefore less subject to some of the onerous challenges of coordinating decentralization support.

### **Summary**

In this section, we have provided an anecdotal glimpse into some of the possibilities and problems related to alignment, harmonization, and aid effectiveness in the local governance and decentralization sector. We emphasize that many of the issues we discuss require further investigation and empirical analysis, but we believe that some issues of more than occasional importance have been raised. In the next section, we tentatively outline a more systematic general method for assessing aid effectiveness in this complex sector. In the final section, we discuss some particular issues to which future case studies might pay greater attention.

#### **IV. From Harmonization and Alignment to Development Impact**

Although development impact is the ultimate test of development assistance, measuring the impact that harmonization and alignment have on development outcomes of interest (e.g. GDP per capita growth rate, poverty headcount, children enrolled in primary school, infant mortality rate) is not an easy or straightforward matter. Indeed some authors have questioned the extent to which it is possible at all (Balogun 2005). Insofar as harmonization and alignment are happening at the country level, they do not lend themselves to state of the art randomized evaluations that would allow for estimation of a precise treatment effect of harmonization on a development outcome of interest. In addition, the nature of these processes is complex and evolves in response to many economic, political, and bureaucratic forces, both internal and external. Perhaps the most appropriate approach for assessing the impact of harmonization and alignment on development outcomes is theory-based evaluation (Evans and Booth 2006).<sup>4</sup>

Theory-based evaluation of harmonization and alignment seeks to follow the process through which (1) inputs (e.g. common basket funding; coordinated technical assistance; on-budget projects) lead to (2) direct outputs (e.g. a greater proportion of on-budget assistance; reduced transaction costs) and then to (3) first-stage outcomes (e.g. increased capacity of government agencies; improved government policies), which then should lead to (4) second-stage outcomes (e.g. better service provision; more public investment) and therefore ultimately to (5) positive development impacts (e.g. reduced child mortality; increased gender parity in education) (Booth and Evans 2006; European Commission 2009).

At each stage, a careful assessment of the counterfactual is needed (e.g. if common basket funding had not been used, would as much aid have been on-budget? if this aid had not been on-budget, would the school construction program have been as large? if the school construction program had not been as large, would school enrollment have gone up as much?). It should not be assumed that harmonization automatically leads to the anticipated development outcomes. Rather it should be shown that harmonization has had the intended effect on intermediate outcomes, and that those outcomes have contributed to particular development outcomes.

This is clearly not an easy task. The chain of events that must take place requires considerable time to unfold for many types of reforms, and in some cases with limited institutional development it may be necessary to pilot and adjust intermediate systems and processes to get them working well. Without these systems and processes in place, good outcomes would not be

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<sup>4</sup> Even these authors are hesitant about the extent to which country-level inputs such as harmonization and alignment can ever be linked to development impacts such as those targeted in the Millennium Development Goals.

expected. Another concern is that the amount of information needed to undertake this sequence of experiments and the likely uncertainty about each counterfactual may ultimately present a formidable barrier to proving with confidence a precise link between harmonization and alignment and a country's progress toward achieving MDGs and other development objectives.

For instance, even to evaluate the empirical impact of increased harmonization on transaction costs or agency capacity would require considerable effort (e.g. being able to measure the baseline number of hours that ministry officials spend working on donor reports as compared to the number of hours that they spend preparing donor reports for a harmonization initiative) (Balogun 2005). Although not ideal, the most feasible initial approach may be to better understand through substantially qualitative but systematic assessments, the extent to which harmonization has led to better performance on intermediate goals in the path to better service delivery outcomes.

### **Empirical Work on Development Assistance**

It is useful to note that the type of formal evaluation that would ideally be pursued has been conducted to some extent for some forms of development assistance, including both general budget support and sector budget support—program-based approaches that are seen in the Paris Declaration as a key indicator of whether or not harmonization is occurring.<sup>5</sup> A recent evaluation, for instance, demonstrates that, across five sectors in seven African countries, the use of sector budget support has led to improvements in planning and budgeting and financial management (as judged by evaluations of the processes and institutions and the documents they produce), has produced more predictable aid flows and has facilitated donor reviews of government policy (Williamson and Dom 2010). The case studies for this work also show that service delivery has expanded commensurate with the expansion of sector funding. However, they also show that the quality of the services delivered has not improved and suggest that local governments may eventually be able to help in this regard. Local knowledge, for example, might help to improve the location of a facility or the use of a service, and the value of engaging local governments for such purposes could be tested.

Another recent analysis compares countries that have received high levels of budget support to those that have received low levels and demonstrates that the former efforts have produced significantly larger gains in primary school enrollment and gender parity in schools but not significantly different gains in child mortality or drinking water quality (Beynon and Dusu 2010). The authors look in a preliminary fashion to see if other variables might explain these patterns, and they carefully note that their results provide evidence only of an association, not of a causal relationship.

### **Application to Decentralization and Local Governance**

Although empirical work on aid harmonization to date has made some advances, it is often particularly difficult to apply the desired approach to decentralization. We have documented above the complexities and evolutionary nature of decentralization that complicate studying it as

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<sup>5</sup> The Paris Declaration's Indicator 9 establishes the target of 66 percent of aid flows being provided through program-based approaches by 2010.

it unfolds. It is, for example, difficult to directly link decentralization efforts to outcomes when reforms are only partially implemented in early stages and some activities being supported are also affected by the actions of other actors not directly involved in decentralization.

Despite the challenges, an exploration of the impact of harmonization and alignment initiatives in the decentralization sector could begin by tracing the pathway through which better-harmonized and aligned aid is expected to lead to particular development outcomes. As a heuristic example, one possible scenario involves (1) information sharing among donors that will lead to (2) local government capacity building programs that are better coordinated in terms of geographic and substantive coverage, which will develop (3) more capable and autonomous local governments that (4) will budget more efficiently for both capital investments and recurrent expenses in the education sector, which will lead to (5) higher primary school enrollment.

In order to actually evaluate the impact of the information sharing among donors on primary school enrollment, the counterfactual would need to be assessed at each stage of the pathway: Would the quality of the programs have suffered without information sharing? Are local governments actually more capable and autonomous? Have they learned to budget more effectively? Have these actions and achievements led to higher school enrollment and better outcomes? Again, demonstrating such links formally is a challenge, but it should be possible to document some associations and develop some insights.

The challenge is further complicated in decentralization by—among other issues—the fact that national sectoral ministries and their deconcentrated field offices, not just local governments, are in many cases involved in service delivery. Therefore, it is possible that exogenous activities by sector ministries have interfered at some point along the pathway with the progress from harmonization and alignment to development impact. For instance, the negative effects of a reduction in transfers from the education ministry could overwhelm the benefits of better local government budgeting brought about by the improved coordination of development partner support. In this case, weak aid effectiveness occurs not because harmonization has no positive effect, but because an exogenous factor had a more substantial negative effect.

In addition, other national-level reforms might act as intervening factors. If public financial management or civil service reform occurs contemporaneously with donor coordination, how can long-term causal effects on development outcomes be attributed to one or the other? Better local government budgeting might result either from donor coordination on decentralization or from more generally improved public financial management or a more efficient civil service. Compared to looking at development projects in specific sectors, where more concrete inputs (e.g. funding for textbooks) should lead to more obvious outputs (e.g. textbooks in schools) that can be clearly linked to particular outcomes (e.g. higher test scores), decentralization and local government programming necessarily interacts with a great variety of other government programming and development partner initiatives, which make the identification of development impacts significantly more challenging. Of course, this is just another way of saying that decentralization does not work in isolation, and it is probably not feasible to isolate fully the independent effects of decentralization policies and programs on outcomes.

Another lens through which to analyze the impact of harmonization and alignment or lack thereof is in terms of the “do-no-harm” principle noted above (Anderson 1999). At a minimum, donors should not be engaging in behaviors that undermine development objectives in some way. Insofar as the activities of development partners in a country introduce more costs than benefits, the development partners may be violating this principle.

A lack of harmonization, for example, implies increased transaction costs, such as government officials spending time meeting with different development partners that could be used for monitoring service delivery, building relationships across levels of government, working on planning and budgeting processes or otherwise fulfilling routine functions of their jobs. If these transaction costs are sufficiently high, they could lead to lower-quality service delivery, in which case the lack of harmonization violates the “do-no-harm” principle. Similarly, the failure to use country systems can be seen as harmful insofar as donor insistence on independent procurement, audit, and monitoring systems hinders development of the country’s own systems and possibly siphons off national personnel who otherwise would be working in government. One study shows that as the fragmentation of aid goes up, bureaucratic quality goes down (Knack and Rahman 2007). The discussion of the case studies above, particularly Indonesia and Uganda, also documented how fragmentation and parallel mechanisms affected decentralization. Again, such findings indicate a *prima facie* violation of the “do-no-harm” principle, and it is important to be aware of such situations in analyzing the effects of development partner decentralization support.

## **V. What Should Future Research Observe and Measure?**

The previous section discussed how harmonization and alignment might be linked to development impacts. As noted above, studying such effects formally is immensely challenging in the case of support to the complicated and multifaceted reforms typically required in the decentralization and local governance sector. We nevertheless believe that progress can be made towards developing an analytical approach that involves specifying the pathway through which improved harmonization and alignment should lead to a development outcome of interest and then assessing the counterfactual logically at each stage of the pathway. We recognize, however, that information will be lacking at many steps along the reform path and that the uncertainty attached to counterfactual claims often will be quite large. In this section, we describe some quantitative and qualitative factors that theoretically should lead to greater aid effectiveness in terms of development outcomes. We identify how we think counterfactual reasoning should be approached for each of these and try to identify potential complications.

In general, there are five development outcomes of interest. The first three, which can be conceived of as intermediate steps but are also at the core of local governance programming, include (1) the existence of usable public financial management, procurement, monitoring, evaluation and audit systems; (2) local government capacity to use these systems; and (3) the effectiveness of the governance and accountability linkages—downward to citizens, horizontally between elected councils and local government staff, and upward to appropriate central actors—that allow these systems to be used in a way that helps to realize the expected benefits of decentralization. Collectively these outcomes inform us about the effect decentralization and local governance support is having on the ability of local governments to plan, budget, monitor,



and evaluate, and to do so in a governance environment that creates appropriate incentives to use these tools and processes to achieve better development outcomes.

The fourth outcome is the level and quality of service delivery. In terms of the services included under the Millennium Development Goals, for example, we seek to understand the effects that decentralization and local governance support is having on the quantity and quality of education, health services, and water and sanitation services, among others being provided to local populations.

The fifth and final outcome of concern is the sustainability of service delivery. It is relatively straightforward for donor support to show some improvements in systems and service delivery while major support programs are in place. But ultimately what matters is whether decentralization and local governance support has helped to build subnational governments capable of continuing service delivery into the future after the end of development partner support for decentralization and/or for particular services. This requires a mixture of adequate capacity, appropriate governance incentives and the availability of resources.

### **Specific Arrangements of Further Research Interest**

At least four types of arrangements that support improved alignment and harmonization merit further examination. These include joint funding arrangements, integration of decentralization and local governance concerns into broader public sector reform and sectoral programs, the use of country systems, and improving the quality, regularity and use of information.

#### *Joint Funding Arrangements*

As donors provide decentralization and local governance funding through common baskets, sector budget support, multi-donor trust funds, or other pooled arrangements, we would expect transaction costs to decrease, government capacity to increase, and the efficiency of local capacity building project allocation across space and substantive areas to increase. An analysis of this topic needs to look first at the levels and structure of joint funding arrangements (as compared to past history or as compared to other countries) and then to link these differences to changes in transaction costs, government capacity, and the delivery of capacity building efforts.

It is important to note that some basket funding is set up in a way that gives considerable discretion to individual funding agencies and thus may not reduce transaction costs, so the specific rules that govern basket funding are important. Ultimately, if we could hold all else constant, we would expect reductions in transaction costs and improvements in government capacity at both the national and local levels to translate into gains in specific types of service delivery. In the event that they have not, the task of a case study would be to show why not.

#### *Integration of Decentralization and Local Governance Concerns into Other Public Sector Reform and Sectoral Projects*

Because decentralization and local governance programming is ultimately expected to be impacted by broader public sector reforms (public financial management, civil service reform)

and to impact service delivery across many service sectors, it is important that the particular objectives within public sector reform and sectoral projects and programs be coherent with those found in projects specifically oriented towards decentralization. When the objectives of decentralization and local governance initiatives are different from those of these other efforts, we expect to see increased transaction costs and decreased service delivery because of confusion over the role that the local governments should be playing.

The Uganda case study, for instance, raises questions about how national public financial management requirements undermine the ability of local governments to meet their official mandates. It also considers how the within-program modalities of some sector-wide approach funding mechanisms may be inconsistent with the constitutional and legal framework and undermine the goals of strengthening local governments (by providing them with overly conditional funding for which they cannot make usage decisions). In future case studies, it should be possible to look for such conflicts between broader public sector reform and sectoral programs and decentralization and local governance programs and to assess whether these conflicts have the deleterious impact that we would expect or if there are ways that potential conflicts can be worked out within existing program frameworks.

#### *Use of Country Systems*

The impact of the use of country systems on aid effectiveness in terms of service delivery is dependent on context. Where country systems are simply not reliable (such that procurement is likely to be corrupt, monitoring is unlikely to be efficient, and audits are unlikely to be rigorous) using country systems for aid disbursement is likely to lead to poorer results than if the donor had set up a parallel project implementation unit. This still begs the question of how the implementation unit can be positioned to help eventually build capacity in government systems. Where country systems are already functioning in a reasonably reliable manner, their increased use by development partners is likely to make them even more reliable, as it will lead to further capacity development and protect government employees from being siphoned off to work for donor project implementation units that often pay above civil service scale. Comparative case studies should reveal whether donors are, in fact, making more use of country systems where they are more reliable. (Evidence reviewed above suggests that they are not (OECD 2008), but the study was not specific to decentralization). Within an individual case study, attention should be paid to what donors are doing to improve the capacity of country systems, and the impact of the historical use or non-use of country systems should be assessed as well.

In the decentralization and local governance sector, very often aid will be given for the purpose of building public financial management and other systems and procedures at the local level. The outputs here can be analyzed directly through assessments of the changes in capacity related to specific projects. Insofar as appropriate control groups can be found—either through randomized implementation of programming or other methods—it will be possible to assess program impacts with increased confidence. At the same time, such capacity takes time to build and does not automatically lead to better service outcomes in the absence of an appropriate governance environment and incentives. Understanding options for how to take appropriate steps towards the institutionalization of effective systems and procedures is therefore an important part of this type of analysis.

### *Quality, Regularity and Use of Information*

Harmonization and alignment should increase the quality of information that development partners and the national government have on aid flows, the geographic location of projects, and the substantive content of projects. This improved information should then lead to more efficient aid allocation through two channels: (1) the government, with knowledge of all that different development partners are doing, should be able to provide better direction to development partners about what kinds of projects it wants and where it wants them, and (2) development partners, with knowledge of what other donors are doing, should be better able to adjust their programming to the benefit of the country and in line with national priorities.

In some countries, of course, data collection efforts are fragmented across agencies and attached to particular donor programs or projects so as to meet particular political and bureaucratic needs. Some data collection efforts are done through parallel systems that do not survive when dedicated external funding stops. Thus, it is important to consider how such data and its maintenance can be institutionalized into government systems, as well as to develop a process for using it in policy development and donor programming for decentralization and local governance.

### **VI. Concluding Statement**

In recent years there has been growing attention to the way that development assistance is provided in general and with respect to decentralization and local governance in particular. Development partners have committed themselves to the Paris Declaration principles of ensuring country ownership, aligning themselves with country policies and systems, and harmonizing their efforts in a way that enhances the consistency of their support to develop better intergovernmental systems and eventually to realize better development outcomes.

Following these principles can be challenging. As discussed throughout this paper, many of the actors involved face incentives to behave in ways that are inconsistent with these principles. Even where there is genuine will to pursue the goals of the Paris Declaration, decentralization is a particularly complex type of reform that must generally evolve over an extended period, and it is subject to a host of exogenous intervening processes and variables that are likely to affect its outcomes. Over the course of the decentralization reform process, shifting economic, fiscal, political and institutional conditions may further complicate the prospects for following these principles.

As demonstrated throughout this paper there is also a dearth of solid empirical evidence to document the benefits attributable to development partners encouraging country ownership of development assistance, aligning to county policies and systems, and pursuing greater harmonization among each other in supporting decentralization. There is some powerful anecdotal evidence suggesting that such practices are beneficial and that the failure to follow them can create problems, but these experiences cannot be readily generalized. In addition, much of what is known from anecdotal evidence is focused more on the intermediate processes of decentralization rather than on service delivery and development outcomes.

We also know that there may be circumstances under which following the Paris Declaration principles may be inadvisable. For example, aligning with government policies and using government systems may be counterproductive if these policies and systems are designed in ways that are not likely to result in good performance. Similarly, in cases where intergovernmental systems barely exist, experimentation with various approaches may be more valuable than early harmonization of development assistance around a single approach.

Faced with these uncertainties, obstacles and challenges, it may be tempting to dismiss the value of pursuing ownership, alignment and harmonization. On the other hand, anyone who has worked on development partner support for decentralization and local governance knows that many of the problems outlined in this paper with how such support is provided are very real. It is also evident from major evaluations of decentralization support that the results from these considerable efforts are often disappointing and underwhelming.<sup>6</sup>

If better guidance is to be provided to development partners, deeper and broader analysis of development assistance harmonization is needed. General OECD monitoring of the Paris Declaration is helping in this regard. Since decentralization is such a complex reform, however, special attention needs to be devoted to it. We tried to outline above some tentative approaches to analyzing decentralization support, while recognizing the challenges involved in conducting such analysis. Context is important in decentralization, and there are important qualitative assessments that will need to be conducted in studying it. Although decentralization is not as easily subject to “gold standard” quantitative analysis as some other development policies, we argue that much can be done to more systematically understand it how it is unfolding and the role of development assistance in supporting it.

It is also important to emphasize that even more broad based and formalized analysis of how ownership, alignment and harmonization affect development outcomes is not likely to leave development partners with clear, formulaic answers. Comparative evidence and experiences can point to what tends to work and what tends not to work under certain circumstances, but the nature of decentralization and local governance reform will likely preclude generalization beyond some broad based conclusions about general paths to supporting reform. The insights from such approaches and results can help to inform those working on a particular country, but there will never be a substitute for good contextual analysis of the country and donor landscape in each case.

Throughout this paper we have argued that better analysis of development assistance for decentralization and local governance is needed in order to shape future efforts that are likely to have the most positive and sustainable effect on outcomes. Despite the challenges involved, much better analysis than what has been conducted to date is possible, and there is clearly room to move beyond the initial case studies of the Democratic Republic of Congo, Indonesia, and Uganda. Based on the results of these initial efforts, a more robust case study protocol can be developed to deepen these case studies and for application to a variety of other cases. In addition, further thought can be given to undertaking broader comparative analysis of how development partner assistance affects governance processes and development outcomes. The results of such

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<sup>6</sup> See, for example, World Bank (2008).

analyses will not provide easy answers, but they can enrich the process of developing more effective development partner support for decentralization and local governance.

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