

The PRS approach and the Paris Agenda:
Experiences in Bolivia, Honduras and Nicaragua

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Abstract

The Paris Declaration on aid effectiveness stipulates that broadly owned and results oriented national plans will be the basis for establishing national ownership and leadership of the aid process and for improving alignment and harmonization. In this sense, there is a close link between the Poverty Reduction Strategy approach and the Paris Agenda, both of which form part of the new aid paradigm that started around the year 2000.

This paper assesses the actual progress in the implementation of the new aid paradigm in three Latin American countries: Bolivia, Honduras and Nicaragua. The results are disappointing. Frequent government changes and the composition of the donor group in the countries are partially responsible for the disappointing results, but the main conclusion is that the new aid paradigm is based on unrealistic expectations about the role that national poverty reduction or development plans can play in promoting the principles of the Paris Agenda.

Keywords: PRSP; Paris Declaration; aid effectiveness; donor harmonization; Bolivia; Honduras; Nicaragua

1. Introduction

The introduction of the Poverty Reduction Strategy Papers (PRSPs) in 1999, together with the definition of the eight Millennium Development Goals in 2000, can be seen as the start of a “new aid paradigm”, focused on achieving tangible results in poverty reduction (Renard, 2005). This aid paradigm calls for fundamental changes in the relationships between donors and aid recipients, moving towards the PRS principles of national ownership and partnership. Since the introduction of PRSPs, several “high level” meetings on aid effectiveness have been held under the auspices of the OECD (Rome 2003, Paris 2005, and Accra 2008). In these meetings, donors and recipients have laid down in more detail the contours of the “new aid paradigm”. The 2008 “Accra Agenda for Action” basically confirmed the five commitments of the 2005 “Paris Declaration”, and together they can be called the “Paris Agenda”. The five commitments are:

- Ownership: Partner countries exercise effective leadership over their development policies and strategies and coordinate development actions;
- Alignment: Donors base their overall support on partner countries’ national development strategies, institutions and procedures;
- Harmonization: Donors’ actions are more harmonized, transparent and collectively effective;
- Managing for results: Managing resources and improving decision-making for results;
- Mutual accountability: Donors and partners are accountable for development results.

In fact, these five principles are in line with, and build on, the earlier five principles of the PRS approach: ownership, partnership, and results orientation based on long-term and

comprehensive poverty reduction plans. In particular, the Paris Declaration sees broadly owned national and sector development strategies, translated into results oriented plans, as the basis for achieving national ownership and leadership of the aid process, and for improving donor alignment and harmonization. The PRS approach envisaged that PRSPs would facilitate a switch from project aid to programme aid,¹ and that this change in aid modality would foster donor coordination under government leadership. The Paris Declaration stipulates that by 2010, 66 per cent of all aid would be given in the context of “programme based approaches”. Programme based approaches are meant to support national or sector development plans. The aid provided may be programme aid (in the form of general budget support or sector budget support) but also project aid if provided within sector wide approaches.² This means that PRSPs, and other national or sector development plans, lie at the heart of the new consensus on aid effectiveness. The introduction of PRSPs is usually seen as the beginning of the new aid paradigm.

The question is to what extent this new aid approach can be implemented. This paper assesses the actual progress in the implementation in Bolivia, Honduras and Nicaragua -- three Latin American countries that were required to produce and implement PRSPs in order to qualify for debt reduction under the HIPC (Heavily Indebted Poor Country) Initiative. The results are disappointing, and the main question then to be answered is why this is so. Two possibilities emerge: the new aid paradigm was too ambitious and based on unrealistic assumptions, or the disappointing results are due to specific circumstances in these three countries. Two such specific circumstances come to mind. First, all three countries experienced frequent government changes, which may have hampered long-term commitments to national strategies, as well as stable partnership relationships with donors. Second, progress towards the Paris Agenda may have been hindered by the particular composition of the donor group in

these countries. Compared with other highly aid dependent countries, these countries have a larger presence of donors that are less enthusiastic about the new aid paradigm, such as the US, Spain, Japan, and Canada. The paper concludes that, although these two factors played some role in hindering progress, the model itself – and particularly the idea that national plans can be the basis for lasting changes in donor government relations -- is also flawed in important respects.

The next section of this paper examines the assumptions behind, and expected results of, the new aid paradigm and analyzes why these expected results may not always be forthcoming. The paper then goes on to examine the implementation of the new aid paradigm in the three countries, focusing on the period after 2000. Section 3 analyzes whether the fundamentals of the new aid paradigm were in place: national ownership and leadership of the aid process on the basis of national and sector plans, and describes the extent to which aid to these countries was given in the context of programme based approaches. Sections 4 and 5 assess whether the principles of the Paris Declaration are implemented *within* these approaches, in particular for general budget support and for some examples of programme based approaches at sector level. The final section concludes.

2. The new aid paradigm: expectations and possible contradictions

The new aid paradigm is the result of two kinds of discontent with previous aid experiences. First, there was a lot of critique of the policy conditionality that had accompanied structural adjustment loans of IMF and World Bank. The concern was that conditionality was not very effective: countries concede to the conditions because they badly need the aid money, but in practice they only implement what they intended to do anyway (Killick et al., 1999, Dollar

and Svensson, 2000). Second, there was a growing conviction among donors that the most commonly used aid modality, namely that of project aid, had also failed. Projects were often donor driven, and there were too many of them, each with their own procedures, reporting and monitoring requirements and separate implementation units. The lack of donor coordination led to high transaction costs for both donors and recipients. Furthermore, donors' attempts to control implementation and reporting in projects undermined local capacities and reduced the sustainability of the projects themselves. Both concerns pointed to the importance of increasing domestic ownership of the activities funded through aid (by reducing donor-imposed conditionality) and of increasing alignment with national systems and harmonization among donors. To achieve this, the preferred aid modality is programme aid.

Although this represents the dominant perspective on the problems with aid and the need for a new paradigm, there is also another "narrative" behind the new aid paradigm -- one that casts a more negative view of the aid recipient (Renard, 2005). From this second perspective, project aid failed because of inadequate policies and governance in the recipient countries. Following this view, conditionality did not work because donors were too lenient with governments, which would imply that donors should keep and even strengthen policy conditionality.

Both perspectives on conditionality and ownership circulate in the donor community and sometimes even within one donor agency. This is what Rogerson (2005) calls the "schizophrenia" of the aid industry: conditionality is still important in aid practice, but the Paris Declaration is silent about it. Analyzing the Paris Declaration in more detail, it is clear that it contains elements of both narratives. Under "ownership", the Paris Declaration stipulates that partner countries exercise leadership in the elaboration of national and sector

development strategies, plans which would presumably eliminate the need for donor-imposed policy conditions. However, the requirement to elaborate a PRSP and related sector strategies is itself a condition. Furthermore, one can question the extent to which real ownership, in the sense of control (Whitfield and Fraser, 2009), of these strategies is possible, given that they must be approved by the donors. A related problem is that even if governments are committed to implementing their poverty reduction strategies, it cannot be taken for granted that they have the capacity to do so. In practice, this would hinder the full alignment of aid with a government's stated priorities.

If donors feel that national governments lack ownership of their own plans or are unable to implement them, donors will not see the strategies as a credible "commitment device" – evidence that governments are truly committed to achieving the objectives laid out in the plans. Donors are not likely to provide general or sector budget support without being assured that certain policies will be implemented or objectives met. If they question government commitment to implement a plan that is consistent with the donor agenda, they will set additional conditions for general or sector budget support. This practice conflicts with the idea of "ownership", but also, in part, with "mutual accountability" and "partnership". For example, if donors are not satisfied with government policies, they may withdraw committed aid money. Recipient governments do not have the same level of leverage in the relationship. In practice, withdrawal of committed aid reduces the predictability of aid flows -- an element of "mutual accountability" in the Paris Declaration.

Another questionable assumption and contradiction in the new aid paradigm is that PRSPs, or national development strategies, are supposed to reflect a national, long-term consensus on the preferred development policy and on how to reduce poverty. This rational planning and

technocratic approach to poverty reduction not only conflicts with the political nature of poverty itself, but also with the political nature of policy making. It is unrealistic to expect a lasting consensus on the nature of the poverty problem and on how to tackle it. Policy making is not a rational process in which the best possible way to achieve a shared goal is defined, but is always a matter of compromises and incremental small steps (Van Gunsteren, 1976; Dijkstra, 2005). The fact that policy-making occurs incrementally also reduces the chances of achieving operational links between overall national strategies and actual policies. All this makes it difficult to use a national development or poverty reduction plan as basis for aid alignment and aid harmonization.

There may also be other constraints to the harmonization and alignment agenda, both on the donor side and on the recipient side. Donors have their own priorities and accountability systems and often have to take the interests of their own aid business into account. Recipient countries are not homogeneous units either; individual ministries, staff, project leaders, consultants and NGOs all have reasons to favour maintaining separate donor projects.

The Paris Declaration and the PRS approach largely ignore these fundamental contradictions and constraints. The new aid paradigm focuses on the transition to programme based approaches, in the hope that this change will help increase ownership, partnership, alignment and harmonization. According to an Appendix to the Paris Declaration, programme based approaches have the following characteristics: leadership by the host country; support of a single comprehensive programme and budget framework; a formalized process of donor coordination; harmonization of donor procedures for reporting, budgeting, financial management, monitoring and evaluation; and, efforts to increase the use of local systems for

programme design and implementation, financial management, monitoring and evaluation (OECD, 2005).

General budget support is, in theory, the most advanced form of aid in the sense of advancing ownership, alignment and harmonization. Before selecting a country for budget support, donors usually want certain policy and governance conditions to be fulfilled. In principle, after this tough “selectivity” full country ownership is possible. In practice, however, these entry conditions are seldom fully met, and donors then begin to *use* budget support to bring them about. Similar problems can present themselves with sector budget support. This means that ownership is reduced. Predictability of donor funds may also be affected if sanctions are applied.

Potential difficulties may also arise when we consider the extent of alignment and harmonization of aid within programme based approaches. While general and sector budget support probably meet the alignment objective (using national systems), harmonization is not always advanced: it can be provided individually by single donor agencies, each with its own disbursement criteria and policy conditions. On the other hand, Sector Wide Approaches (SWAs) usually advance the harmonization objective because they are, by definition, an effort undertaken by a group of donors. However SWAs will not necessarily imply alignment with country systems. The latter depends on the extent to which common funds and projects within SWAs use government systems of planning, budgeting, administering, procurement, execution, and monitoring and evaluation.

3. From PRSPs to programme based approaches in Bolivia, Nicaragua, and Honduras

Ownership through national plans

When the first PRSPs were written in Bolivia, Nicaragua, and Honduras, the context for donor recipient relations was different in the three countries. Bolivia enjoyed long-term donor support for its stabilization and reform programme carried out since 1986. The country was a relative success story in donor government relations and in donor coordination.³ However, from 1997 onwards, governments came to power on an anti-reform agenda, basically because these reforms had not been able to increase the living standards of the majority of the population. From then on, relations between government and donors deteriorated. After 2002, political instability further hampered donor government relations. Like Bolivia, Nicaragua also has a long-term donor presence, but the relations between the government and the donors deteriorated under the Alemán government (1997-2001). This government was not very interested in cooperating with the donors, and the donors criticized the President for engaging in corruption. Honduras has a much shorter history of donor presence. Many bilateral donors only entered after hurricane Mitch struck the country in 1998. A first Consultative Group meeting was held in May 1999 in Stockholm, in which donors and government agreed to foster the reconstruction of the country, to coordinate donor efforts based on country priorities, and to consolidate democracy by, among other things, active participation of civil society (Cuesta, 2003: 94). Neither donors nor the Honduran government had much experience with putting these objectives into practice.

Despite these different contexts, all countries suffered from high debt burdens and wanted to qualify for the HIPC initiative. For that reason they all elaborated and submitted their PRSPs in 2001. However, as shown in other articles of this issue, national ownership of the three original PRSPs in these countries was limited, even at the executive level of government.

When new governments came to the scene in all three countries in 2001 or 2002, they rejected the “old” strategies. In Honduras, pressure to maintain a donor-approved PRSP led to a “de facto” continued acceptance of the original PRSP, even after a second government change in 2006. The Bolaños government in Nicaragua (2002-2006) launched its own National Development Plan (NDP) but then made an effort to adjust it to donor wishes, finally resulting in an approved second PRSP in November 2005. Another government change in Nicaragua in January 2007 implied a new Plan and a rejection of this second PRSP. In Bolivia several draft PRSPs were presented between 2003 and 2005 but they were all short-lived due to many government changes. The Morales government (from early 2006 onward) prepared a new National Development Plan and showed no interest in having it approved as PRSP. High gas prices and support from Venezuela reduced the need to cooperate with the “traditional” donors.

Over the years, it became clear that the existence of approved “plans” did not say much about national ownership of and commitment to poverty reduction policies. The first PRSPs were technocratic exercises written for the donors, with limited priority setting and hardly any links to the political priorities of the day. Implementation of these plans was largely limited to policies that were already under way, or policies and projects financed by the donors. Later plans often did represent “owned” political views, but these plans were usually not accepted by the donors. Donors’ reasons for rejecting the plans included insufficient participation (Bolivia 2003) and that poverty reduction measures and social policies were not sufficiently covered and that the plan was not sufficiently operational (Nicaragua 2003-2005). In Nicaragua, the second PRSP, finally approved by donors after changes had been made, was also poorly implemented: this plan was made by the Bolaños government and the Ortega government (in power since 2007) has other priorities.

Government leadership and donor coordination in aid

In the logic of the PRS approach, the PRSPs were intended to be an instrument for facilitating government leadership and donor coordination in the aid process. Government-donor working groups or round tables were to be mechanisms for organizing discussions with donors about how to support these national plans, and related sector plans, in a coordinated way. In practice, government leadership in coordinating aid in the three countries has varied a great deal, over time and across countries.

In Bolivia in 2001, the government established five sector working groups (*mesas de trabajo*) for PRS execution in which international donors participated. But with the 2002 change in government, these working groups disappeared (Komives *et al.*, 2003). The Mesa government (starting in October 2003) once again established five working groups with the participation of foreign donors and civil society. However, the objective was not the implementation of the existing PRS (which was no longer recognized as a national strategy). Rather, the five working groups were organized around issues of national priority: a (new) PRS; a constituent assembly and referendum; fiscal deficit and budget support; donor harmonization; and productivity and competitiveness. Progress made in the working groups depended a great deal on government presence and leadership, which varied from group to group. The working group on donor harmonization produced a Harmonization and Alignment Plan, which made Bolivia one of the few countries to present such a plan at the 2005 High Level meeting in Paris. The fiscal deficit group was also relatively successful, establishing a multi-donor budget support scheme in 2004 (see below) (De Jong *et al.*, 2005). By 2005, these working groups were no longer functioning.

The Morales government made an effort to reactivate the working groups with donors in 2006, but very few meetings were held. The (traditional) donors would have liked the government to present concrete sector plans to these working groups, to be used as the basis for project aid or sector budget support. However, the government has been able to finance its priorities with the aid of new donors (notably Venezuela) and some traditional donors -- Interamerican Development Bank (IDB), European Commission (EC), and bilateral donors to the basic education basket) are not imposing conditions for more planning.

In Honduras, the Maduro administration (2002-2006) set up sector roundtables with participation of government, donors and civil society in education, health, water and sanitation, agro-forestry, and security, with a view to start coordinating aid in these sectors. However, according to the donors, the roundtables did not function well. High level government representatives often did not attend the meetings, showing a lack of ownership (commitment) of the idea of programme support based on sector plans. Only in subsectors of health and education was an agreement achieved. In 2005, an election year, the roundtables grew even weaker. The Zelaya government (starting in 2006) made an effort to renew the sector roundtables, but there were no concrete results in the coordination of aid. Nonetheless, the Zelaya government was able to finance its priorities with the help of some specific donors, like the Solidarity Safety Net (*Red Solidaria*) funded by the IDB (De Jong *et al.*, 2007).

In Nicaragua, sector roundtables existed during the Bolaños government, but their level of performance varied. As in the other two countries, donors in Nicaragua said that performance depended on government leadership. It was possible to establish a sector plan for some sectors— education and health and, later, the rural sector (see Kay article in this issue). At present, the Ortega government does not appear to have much interest in reactivating these

roundtables. Like Bolivia, the Nicaraguan government has been able to finance its priorities, such as the “Zero Hunger” programme, with aid from Venezuela.

The fact that, as of 2008, governments in all three countries had found donors willing to finance their political priorities and campaign promises shows a kind of government leadership over the aid process in recent years, but not in the form that the Paris Declaration stipulates and with hardly any donor coordination.

Programme based approaches

Programme aid is the most advanced form of aid within programme based approaches. Before 2000, this non-earmarked aid was mainly provided in the form of balance of payments support. After 2000, budget support became the preferred form of programme aid and the share of programme aid was expected to increase. Contrary to expectations, available data suggests that the share of programme aid in total aid did not increase after 2000, and even appears to have decreased in Nicaragua and Honduras (Table 1). The relative stability in programme aid in Bolivia over time is to a large extent due to balance of payment support provided in 2003 and 2004 to help solve a balance of payments crisis. This was programme aid, but not the general budget support envisaged by the new aid paradigm, meant to sustain government efforts at poverty reduction. It seems that the new aid paradigm has produced less, rather than more, freely usable resources.

Progress towards programme based approaches at sector level depends in large part on the work of the sector roundtables. Where these have been operating well, for example in Education and Health in Nicaragua, some donors have moved to sector support in the form of

basket funding with joint missions and evaluations. In Honduras there are a few coordinated efforts at sub sector level, for example in the context of the Education for All-Fast Track Initiative and in a programme controlling *chagas*, a tropical parasitic disease. In Bolivia there have been several baskets and joint donor efforts, for example to finance the 2001 Dialogue and the Ombudsman. Due to political turmoil and the change in government they were all paralyzed by 2006.

A donor review among the more progressive donors in Bolivia concluded that pressures and incentives from headquarters to disburse and to write individual country strategies were too strong to allow for more initiatives in donor harmonization (Nordics+ donors, 2004). But the above analysis shows that government leadership of sector roundtables is also an important factor. The lack of participation, leadership, and continuity in most roundtables shows that sector ministries and agencies do not seem to have sufficient incentives to promote sector-wide aid coordination. For the government, fostering donor coordination via the setting up of sector roundtables with donor participation may reduce government ownership and leadership over aid, as Whitfield (2009) concludes on the basis of a comparative study in several African countries.

4. Budget Support and the Paris Agenda

In theory, budget support is the aid modality most likely to achieve the principles of the Paris Declaration. In this section, we examine whether this assumption is true for both general and sector budget support. We look at the extent of harmonization and alignment *within* budget support, as well as the links between budget support and ownership, conditionality and results orientation, and finally the predictability of aid, which is an aspect of mutual accountability.

Harmonization and alignment

Most programme aid is provided by multilateral donors. They sometimes coordinate with other donors. The World Bank's budget support instrument for low income countries in this period was the Poverty Reduction Support Credit (PRSC). This is general budget support with conditions for almost all sectors of public policy. PRSCs are offered to countries with an on-track agreement with the IMF and an approved Poverty Reduction Strategy. In Bolivia, Honduras and Nicaragua, the financing and/or the policy dialogue for PRSCs have been coordinated with at least one other donor: KfW (Germany) co-financed in all three countries; in Honduras, Canada, DfID (UK) and Sweden also participated in the policy dialogue. The second PRSC in Nicaragua (2006) formed part of the Joint Financing Arrangement (JFA), the coordinated system of budget support.

The IDB provided several credits in the form of *sector* budget support for the three countries. Each agreement was negotiated separately with the governments, and no other donors were involved. Since 2004, the European Commission (EC) also entered the scene with sector budget support. In Nicaragua the EC participates in the JFA, but specific conditions are maintained for its sector programmes (one in education, another supports the National Development Plan in the social sectors). In Honduras and Bolivia, the EC sector support programmes are single donor operations.

Bilateral donors have taken initiatives for wider harmonization of general budget support in all three countries. In 2004 in Bolivia and in 2005 in Nicaragua, a group of donors agreed on a joint scheme for general budget support. The agreements were signed by seven and nine donors respectively. The donors agreed on some fundamental principles that the government

needed to abide by in order to receive general budget support, and on a Performance Assessment Matrix (PAM) with actions and targets the government would have to meet in various years in order to continue to receive support. In Bolivia, the Multi-donor Programme for Budget Support did not last long. In Nicaragua, the JFA was still in operation in 2008. In Honduras, a Budget Support Group was established in 2006 in which Sweden, Germany, and the three multilateral donors (World Bank, IDB and EC) participate, while Spain joined later as well. The group aims to harmonize conditions for budget support, but by early 2009, it has not been able to establish a joint system.⁴

Even with joint financing agreements, budget support was not completely harmonized. First, some donors did not sign the joint agreement and maintained their own budget support programmes, for example the World Bank in Bolivia and the IDB in Nicaragua, at least until 2007. Second, even donors who did sign the agreement sometimes maintained their own procedures, conditions or targets to be met. This holds for the EC in both countries, and for the IDB in Bolivia. And third, bilateral agreements generally take legal precedence over the joint agreements. This may imply that donors assign different levels of priority to the entry conditions (the fundamental principles of the JFA) or to the actions and goals of the PAM, and thus make different assessments of performance.

All in all, it is clear that multiple (sector) budget support systems exist, and even with joint systems, donor harmonization is far from complete. Moreover, not all sector budget support programmes are fully aligned with national systems. The IDB fiscal sector programme in Bolivia was managed from a separate implementation unit and used a special account. For the EC decentralization programme in Honduras, the government itself set up a separate management unit.

Conditionality, ownership, and results orientation

In order to assess the extent of ownership and leadership of the recipient government in budget support arrangements, it is necessary to assess the conditions attached to the budget support: entry conditions, on the basis of which donors decide whether to engage in budget support (the “selectivity”), and conditions arising from the policy dialogue with the recipient government and leading to agreement on policies to be executed and targets (results) to be met. Within the latter category, a distinction can be made between “hard” and “soft” conditions. A hard condition -- a “trigger” in the terminology of the World Bank or “performance condition” for the “variable tranche” of the EC programmes (see Adam et al., 2004) -- must be met before (partial) disbursement takes place.

The entry conditions or selection criteria for most donors included (i) macro-economic stability-- usually operationalized as a current IMF agreement --;(ii) a PRSP or similar development strategy; (iii) minimum guarantees with respect to government financial management; and , (iv) overall trust in the government and governance (Vos and Cabezas, 2004). For providing balance of payments support, an IMF agreement and some overall trust in the government were usually sufficient, thus the new aid paradigm seems to have raised the bar for obtaining budget support.

In practice, an IMF programme and some trust in government and governance continued to be the most important entry conditions, while the other two conditions proved to be less critical. Bolivia did not receive budget support between 2001 and 2003 for lack of an IMF agreement, and the same applies to Honduras for the periods 2002-2004 and after 2006. In Nicaragua

there was little programme aid between 1999-2003 because donors did not trust the Alemán government, while much more confidence in the Bolaños government plus continued IMF agreements since November 2003 provided the basis for budget support from 2004 onwards. On the other hand, the lack of an approved PRSP in Bolivia was no obstacle for programme aid in 2003 or for setting up the multi-donor budget support programme in 2004. Financial management was not perfect in any of the countries, but as long as plans for improvement were made, donors were willing to take the risk.

The second type of conditions -- conditions following from the policy dialogue and reflected in Performance Assessment Matrices (PAMs) -- present a danger of reducing national ownership if the conditions are not consistent with national priorities or leave governments little flexibility in how to achieve common objectives. It can be expected that there is more ownership when i) the number of measures, targets and indicators is lower and if they apply to fewer sectors; ii) the conditions follow from nationally-owned PRSPs or plans; and, iii) the conditions are more formulated in terms of results to be achieved rather than in terms of specific policies or measures to be implemented. This last aspect not only determines how much freedom is left to recipient governments to define their own policies, but is also an indicator of the extent of the results orientation of budget support.

A review of conditions attached to budget support provided before and after 2000 indicates that there has been an increase in the number of policies and sectors in which donors attempt to interfere (Dijkstra and Komives, 2008). Judging from the PRSCs in Honduras and Nicaragua, conditionality remains strong in the macroeconomic area, in infrastructure and in the financial sector, but also has become extensive in the social sectors, in water, in environmental policies and in the area of governance, in particular in public finance

management. The same wide diversity holds true for the PAM of the Nicaraguan JFA. The PAM of the Bolivian multi-donor budget support programme was a positive exception: it only contained 23 actions and targets; 18 of these were related to public financial management.

Donors usually maintain that they deduce the policies and indicators for the PAMs from the PRSP; if there was no approved new strategy, they used the original PRSP. This approach is problematic given the limited domestic ownership of the original strategies. There were also practical problems in defining policy conditions on the basis of the national strategies. The strategies were not sufficiently operational to include in a PAM, so in practice donors usually came up with proposed sets of activities and indicators and negotiated them with the relevant government sectors. In this respect, not much has changed in comparison with the old structural adjustment conditionality. The Bolivian PAM was again an exception: the 18 indicators and policies regarding financial management were in line with the Ministry of Finance's own strategic framework for the improvement of financial management. This high ownership led indeed to a high degree of compliance, during the short life of the agreement.

With respect to results orientation of the PAMs, it is clear that the number of *results* based indicators has increased with the appearance of budget support. The matrices in the joint financing agreements, but also the PRSCs, the IDB development policy loans, and the programmes of the European Commission all contain some qualitative and quantitative targets. However, there are still a great number of *process* indicators, which define specific measures and policies to be executed. The donors still attempt to influence the institutional structure and policy measures of the recipient country.

Compared to the situation before 2000, conditions have also become “harder”. The lack of an approved PRSP was not a barrier for starting the multi-donor budget support programme in Bolivia, yet producing an approved strategy was part of the PAM, and non-compliance with this particular requirement hampered disbursement by some donors, even though the majority of the other conditions had been met. The World Bank and the IDB use an increasing number of “pre-conditions” (conditions to be met before the first disbursement) and “triggers” (to be met before disbursement of a second tranche). The IDB introduced, next to the policy based loans, a “performance based loan” with disbursement on the basis of results. In the EC sector programmes, disbursement of the variable tranche can be reduced to zero or to 50 per cent depending on the degree of achievement of the defined (quantitative and qualitative) targets for the sector. All this means tougher conditionality, or higher chances of non-disbursement or partial disbursement of the committed money.

It can be concluded that selectivity does not seem to have increased, nor has national ownership of the policies to be implemented or of the targets and indicators to be achieved with budget support. Together these two trends mean that chances of conditions being implemented with budget support are not higher than with the previous forms of programme aid: cosmetic implementation, partial implementation, or delays are still likely. Moreover, as conditionality is now more often linked to disbursement, there is likely to be more variability in aid flows.

The predictability of budget support

For budget support, predictability of aid flows is even more important than for project aid since the resources are part of the general revenues that may also be used for current

expenditure. Governments can only plan to spend budget support revenues if the flow of money is reliable.

Predictability has been a problem in all three countries. In Bolivia, many budget support donors reduced or suspended their committed budget support in 2005. IDB stopped support because some specific conditions had not been met. Bilateral donors had a variety of reasons for not disbursing, one of them being the lack of a new PRSP, but there were political factors as well. Since Bolivia received more tax revenues than expected in 2005, the budget support reductions did not affect fiscal stability.

In Nicaragua there was a predictability problem between May and November 2005. All nine donors participating in the JFA (signed in May 2005) suspended their disbursements due to a problem in the IMF programme (Guimarães *et al.*, 2005). In 2006, disbursements in Nicaragua were in line with the agreed schedule. The change in government in early 2007 led to some delays in disbursements. In 2008, donors became increasingly concerned about the lack of government commitment with the “fundamental principles” of the arrangement, especially after the allegedly fraudulent municipal elections of November. This led to delays and ultimately to suspensions, so that predictability was seriously compromised.

In Honduras, there have also been problems with disbursement of the limited amount of resources entering the country as budget support. The World Bank, for example, did not disburse the second tranche of its PRSC in 2005 because the Assembly did not approve the new Civil Service Law, which was one of the “triggers”. This Law would potentially have helped end clientelism in Honduran civil service. Regardless, the non disbursement affected the expected inflows in 2005.

5. The Paris Agenda and SWAps and common funds

We next look at the implementation of the principles of the Paris Declaration in three specific cases of SWAps or common funds, one each from Nicaragua, Honduras, and Bolivia. All three cases involve coordinated support by multiple donors for a sector-wide or sub-sector plan or strategy and are therefore considered programme based approaches. Of the three, Nicaragua's sector-wide programme in rural development -- PRORURAL -- most closely approximates a true SWAp. It is organized around a plan for the rural productive sector and encompasses many projects (many of which predate the plan) and a common fund. Honduras' Education for All is a sub-sector programme in primary education, which is also supported by a combination of projects and a common fund. The "education basket" in Bolivia is a common fund originally created in 2004 to support a Multi-Annual Operational Plan (POMA) for the education sector.

Ownership and leadership

In order to consider to what extent the three programmes represent progress towards achieving national ownership and leadership of the aid process, we first examine the plans that provided the initiative for each agreement. On this point, the three examples are quite different. In Bolivia, the impulse for starting an education basket was to support the Education Ministry's own multi-annual operational plan (POMA). PRORURAL is also built around a sector plan that was developed over time by the institutions involved in the rural development sector in Nicaragua and through numerous consultative processes (see Kay article in this issue). However, the content of the programme (e.g. the projects and activities

funded through PRORURAL) includes many projects that were largely donor-driven initiatives. The EFA programme in Honduras was a joint government and donor initiative, but its content is mainly determined by donors. The objectives, teaching measures, proposals for institutional reforms, and textbooks in the EFA programme were all created and designed by donors like USAID, World Bank, and Japan.

PRSPs or national development plans were not the basis of the sector and sub-sector plans in any of the three cases. PRORURAL was developed in parallel to Nicaragua's second PRSP, and by a different group within the government, which led to some contradictions between the two plans.. This experience is not unique to PRORURAL or to Nicaragua: PRSPs tend to be developed under the leadership of the Ministry of Finance or the Presidency, whereas the development of sector plans is usually under the auspices of sector ministries. This could potentially mean that sector-based plans enjoy more ownership among the officials charged with implementing them. However, even if this is the case, these three cases demonstrate that it is hard to maintain government leadership and ownership over the life of the sector plans, and particularly after a change in government.

In Bolivia, the Morales government quickly rejected the Education POMA created under President Mesa. In the interest of keeping the education basket running, the donors decided to be flexible and support any new government initiative that had the same general goals as the rejected POMA. This led to donors approving requests for particular expenditures from the basket, without an official guiding plan. In Nicaragua, the change of government did not lead to a rejection of PRORURAL, but the Ortega government is going outside of the PRORURAL donor framework to find support for its key rural development programmes. The major supporter of the government's flagship programme *Zero Hunger*, for example, is

Venezuela, a country that is not a party to PRORURAL. There may still be ownership of PRORURAL, but the government's key priorities lie elsewhere. In Honduras, donors had to remind the Zelaya government (2006) of the existence of the EFA programme (De Jong *et al.*, 2008). Donor disbursements and implementation stagnated until the government eventually gave its general support to continuation of the programme.

Results orientation and mutual accountability

Donors participating in a common fund or basket within a SWAp usually have some additional entry requirements or set some conditions for disbursement. In these three cases, the disbursement conditions are focused on administration and financial management, not on content or development results. Programme targets are not always clear, and meeting objectives is never a condition of disbursement. For participation in PRORURAL, donors just ascertained whether the government of Nicaragua had the necessary capacity to implement a SWAp. This was measured, among other things, by the existence of a sectoral planning process, of monitoring mechanisms, of a Medium Term Expenditure Framework, and of a sector policy or programme with appropriate targets. For disbursements from the common fund, fiduciary controls were defined. PRORURAL does have monitoring indicators that were developed jointly between the government and donors, but there is no explicit consequence for failure to meet targets. In Bolivia's education basket, conditions relate to reporting, accounting, and expenditure. Initially the agreement was also going to have a set of indicators, but the development of these indicators stopped with the change in government and rejection of the POMA. All in all, the policy dialogue around these programmes is not much focused on results and does not show signs of strong mutual accountability.

Harmonization and alignment

With respect to donor harmonization, PRORURAL represents a significant step forward. The government and all involved donors signed a Code of Conduct and developed an Ownership, Harmonization and Alignment Plan for Aid to the Rural Productive Sector (2005-2007).

There are joint missions, a common set of monitoring indicators, and only one report is produced for all donors. Yet, most donors participate in PRORURAL through their projects, many of which already existed before PRORURAL started, and all these projects have their own specific procedures. There is a donor-government roundtable for the rural productive sector, and the wide coordination around PRORURAL keeps donors informed about what others are doing. Nonetheless, two important sector donors remain outside this agreement altogether —the Millennium Challenge Corporation and Venezuela.

The eleven donors in Honduras' Education for All programme also signed a Memorandum of Understanding and participate in a roundtable for the education sector. Six donors contribute to the common fund (Sweden, KfW, Canada, Spain, the EC, and, to a limited extent, the World Bank). The fund establishes the common conditions for disbursement. However, the procedures are based on a format that the World Bank uses for projects and these procedures are not always consistent with national standards and systems (Salomonsson and Sjölander, 2005).

Bolivia's education basket, in contrast, adopted local accounting and financial procedures. Donor coordination, however, is limited. It started with only three donors and now has four. At various points in the past there has been a functioning education roundtable for wider sector coordination, but many of the current government's key priorities for the sector (such

as a new alphabetization campaign) are financed by Venezuela and Cuba, who do not participate in these discussions.

Administrative and financial practices are in some ways reminiscent of projects with little evidence of alignment. In the Bolivian education basket and in EFA's common fund, there is more attention to using national systems than was the case with projects, but donors are still asked to approve specific expenditures. Nicaragua's PRORURAL had 38 different sources of financing in 2006, many still with different procedures.

6. Conclusions

The new aid paradigm that was adopted around the year 2000 assumes that nationally owned, results oriented, long-term plans would form the basis for aid alignment and harmonization under the leadership of governments, and help create new partnerships between donors and recipients. The 2005 Paris Declaration confirmed the central role of plans in fostering ownership and leadership of the aid process, and also confirmed the international commitment to the principles of alignment, harmonization, results orientation and mutual accountability. This paper assessed to what extent Bolivia, Honduras and Nicaragua are implementing the principles of the Paris Declaration and what the role of the PRSPs or other national or sector plans has been.

Overall progress on the Paris Agenda is limited. Programme aid does not exceed one-fifth of total aid and has even decreased as compared with the late 1990s. Project aid is still the dominant aid modality. Although some donors give sector budget support and there are also some attempts at SWAps, the three countries will not come close to meeting the Paris

Declaration objective of providing two-thirds of aid in the form of programme based approaches by 2010. And even programme based approaches show limited progress toward ownership, alignment, and harmonization.

These disappointing results in three countries give rise to questions about the effectiveness of national or sector development plans as basis for achieving the Paris Agenda. To what extent can the lack of progress be explained by the presence or absence of PRSPs?

Although all donors said that their aid projects are in line with the PRSPs or similar national development plans, it is clear upon closer inspection that these plans hardly played a role in promoting aid coordination under government leadership. In fact, the original PRSPs contained more or less all existing donor projects and programmes, and there was limited domestic ownership. New governments rejected or ignored the plans elaborated by their predecessors. This suggests that it was unrealistic to think countries were able to create and maintain a broadly shared, long-term consensus on a strategy to reduce poverty. It was also unrealistic to expect strategic plans to provide operational guidance for aid efforts or convincing evidence of government commitment to reduce poverty.

Second, PRSPs and other national plans proved to be hardly relevant for the decision to provide general budget support. An approved PRSP was not *necessary* for the Bolivian multi-donor budget support programme to be established, and it was not *sufficient* for a joint budget support scheme to appear in Honduras. Apart from this, the composition of the donor group mattered for the volume of budget support. There is much less general budget support in Honduras due to absence of the UK, the Netherlands, and most Nordic donors (except Sweden)⁵. On paper, the new aid paradigm would bring about more selectivity in the decision

to provide programme aid (budget support). This would reduce the need for conditions during the process and would thus facilitate domestic ownership. But in practice, having a PRSP and financial management criteria hardly played a role in this decision; the main criteria for determining whether or not to provide budget support continued to be whether there was an IMF agreement in place (for macroeconomic stability) and some trust in governance. Yet, although entry conditions did not become tougher, the share of programme aid decreased rather than increased after 2000, under the changed aid paradigm. This can be explained by the fact that donors sometimes compensated a lack of selectivity *ex ante* (in the decision to engage in budget support at all) with more *extensive* and *tougher* conditionality within the programmes. This reduced the actual flows as well as the predictability of budget support, and thus affected the principle of mutual accountability.

Third, the experiences with the SWAps and common funds examined in this paper show that these programme based approaches do not have much relation with the PRSPs either. In practice, SWAps *were* based on sector plans, but these were sometimes formulated with great influence of the donors. And even when there was ownership by one government, subsequent administrations rarely embraced the plans and sector support schemes of previous governments. Existing SWAps retain characteristics of projects in many cases -- with independent execution units and many different procedures required by the involved donors.

The overall experience reflects the real and largely underestimated difficulties in advancing towards the implementation of the Paris agenda. The path has not been made any easier in Bolivia, Honduras, and Nicaragua by the frequent, contested changes of government and period of political instability. Fundamentally, however, the basis for the new aid paradigm -- a broadly shared and operational strategy that would act as proof of commitment to reduce

poverty -- proved unrealistic. As a result, individual priorities, procedures and systems remained dominant, both among donors and among (and within) recipient governments.

Endnotes

1. Programme aid is aid that is not tied to specific projects, but is usually accompanied by policy conditions (OECD, 1991).
2. General and sector budget support are forms of programme aid and are thus not earmarked. In the case of sector budget support, the policy dialogue focuses on one sector in particular, while with general budget support the policy dialogue may focus on any aspect of public policies and governance. In sector wide approaches (SWAs), donors work together to support a sector or sometimes sub-sector. This usually includes common funds or baskets in which donors pool their funds, but donors may also support separate projects as long as they are in line with the country's sector strategy.
3. In 1999, Bolivia became a pilot country for the Comprehensive Development Framework of the World Bank, the forerunner of the PRSP approach, also emphasizing government ownership and leadership of the aid process.
4. The lack of an ongoing IMF programme since 2006 hinders the provision of any programme aid in this country.
5. Sweden decided in 2007 to gradually move out of both Honduras and Nicaragua.

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Table 1. Programme aid and total aid, annual averages, in US\$ millions and in per cent, 1995-2000 and 2001-2006

	<i>1995-2000</i>			<i>2001-2006</i>		
	<i>Programme aid</i>	<i>Total aid</i>	<i>In %</i>	<i>Programme aid</i>	<i>Total aid</i>	<i>in %</i>
Bolivia	754	3637	21	800	4137	19
Honduras	367	1606	23	210	1628	13
Nicaragua	680	3107	22	443	3291	13

Notes: In Bolivia, figures include loans from the Andean Finance Corporation, which are formally not part of aid because they are not concessional. In Honduras, figures only include aid loans, not grants, which probably implies a slight underestimation of programme aid for the second period.

Sources: VIPFE in Bolivia, BCN in Nicaragua, Ministry of Finance Honduras.