"Aid Valuenomics: The Institutionalization of the Linkages among Culture, Entrepreneurship and Endogenous Development. A New Governance of an Innovative International Aid System"

Lessons from the European Commission and Tanzania

PhD Thesis

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ACRONYMS

AAA	Accra Agenda for Action
ACP	Africa, Caribbean and Pacific
ADM	Aid Delivery Methods
ASDS	Agriculture Sector Development Strategy
AU	African Union
BOP	Bottom of the Pyramid
BRAC	Bangladesh Rural Advanced Committee
BS	Budget Support
BW	Bretton Woods
CBOs	Community-Based Organizations
CCM	Chama Cha Mapinduzi
CFSP	Common Foreign and Security Policy
CG	Central Government
CGD	Commission on Growth and Development
CPA	Country Programmable Aid
CSO	Civil Society Organizations
CSP	Country Strategy Paper
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee
DCI	Development Cooperation Instrument
DG	Directorate General
DPs	Development Partners
EC	European Commission
ECD	European Consensus on Development
EDF	European Development Fund
EDM	Endogenous Development Model
EEAS	European External Action Service
EEC	European Economic Community

EIB	European Investment Bank
EIDHR	European Instrument for Democracy and Human Rights
ENPI	European Neighborhood Policy Instrument
EP	European Parliament
EPA	Economic Partnership Agreement
EU	European Union
EUDP	European Union's Development Policy
FDI	Foreign Direct Investment
FFI	Food Facility Instrument
FID	Formal Institutions for Development
FTA	Free Trade Agreement
GBS	General Budget Support
GDP	Gross Domestic Product
GNI	Gross National Income
GoT	Government of Tanzania
HBS	Household Budget Survey
HDI	Human Development Index
HDR	Human Development Reports
HIPC	Highly Indebted Poor Countries
HPAEs	Highly Performing Asian Economies
IAA	International Aid Architecture
IBRD	International Bank for Reconstruction and Development
ICI	Industrialized Countries' Instrument
ICT	Information and Communication Technologies
IDA	International Development Agency
IfHA	Instrument for Humanitarian Assistance
IfS	Instrument for Stability
IGAs	Income Generating Activities
ILO	International Labor Organization

IMF	International Monetary Fund
INSC	Instrument for Nuclear Safety and Cooperation
IPA	Instrument of Pre-Accession
IPG	International Public Goods
ISG	Informal Social Groups
JAST	Joint Assistance Strategy for Tanzania
LA	Latin America
LDC	Least Developed Countries
LFA	Logical Framework Approach
LGAs	Local Government Authorities
MD	Millennium Declaration
MDG	Millennium Development Goals
MNE	Multinational Enterprises
MS	Member States
MTEF	Medium Term Expenditure Framework
NAO	National Authorizing Officer
NBS	National Bureau of Statistics
NGOs	Non Governmental Organizations
NIEs	New Industrialized Economies
NIP	National Indicative Program
NPES	National Poverty Eradication Strategy
NPG	National Public Goods
NPO	Non Profit Organizations
NPRS	National Poverty Reduction Strategy
NSA	Non-State Actors
NSGPR	National Strategy for Growth and Poverty Reduction
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PAF	Performance Assessment Framework

PBA	Program Based Approach
PCD	Policy Coherence for Development
PCM	Project Cycle Management
PD	Paris Declaration
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPA	Participatory Poverty Assessments
PPP	Public Private Partnership
PRSP	Poverty Reduction Strategy Papers
PS	Private Sector
R&D	Research and Development
RDS	Rural Development Strategy
ROM	Results Oriented Monitoring
SACCOS	Savings and Credit Cooperatives Societies Organizations
SBS	Sectoral Budget Support
SED	Southern Emerging Donors
SHG	Self-Help Groups
SMEs	Small and Medium Enterprises
SPSP	Sector Policy Support Program
SSA	Sub-Saharan Africa
SSC	South-South Cooperation
SWB	Subjective Well-Being
TA/TC	Technical Assistance / Technical Cooperation
TAS	Tanzania Assistance Strategy
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
TZA	Tanzania
UDOM	University of Dodoma
UK	United Kingdom
UN	United Nations

UNDP	United Nations Development Program
URT	United Republic of Tanzania
US	United States
WB	World Bank
WTO	World Trade Organization
WWII	Second World War

INTRODUCTION

Background

Before the industrial revolution, poverty was intrinsically assumed to be the normal state of life for the vast majority of the population, with no apparent distinctions across the Northern and Southern hemispheres of the Earth. However, once technological advances drove unprecedented levels of economic growth, increasing income inequalities highlighted the emergence of a phenomenon that has converted into one of the major pitfalls of our current political and economic system.

Poverty and income inequality began to escalate in parallel to the explosion of globalization. This refers to the increasingly global relationships of culture, people and economic activity. Most often, though, it refers to economics: the global distribution of the production of goods and services, through reduction of barriers to international trade such as tariffs, export fees, and import quotas. Globalization accompanied and allegedly contributed to economic growth in developed and developing countries through increased specialization and the principle of comparative advantage[1].

The unstoppable rise of globalization was fuelled by technological and scientific innovations that reduced the time and cost required for the exchange of goods, capital, services, information and people beyond national borders. The increasing interconnections among nation-states propelled the need to institutionalize this global movement through supra national institutions founded at the multilateral level.

This institutionalization took place at the dawn of the WWII, with the birth of the so-called Bretton Woods institutions, the WB[2], the IMF and the International Trade Organization. They became the first example of a fully negotiated monetary order intended to govern monetary relations among independent nation-states. It was originally aimed at rebuilding the international economic system after the convulsive period of war in the midst of the XXth century. Some years later, the European Economic Community was founded as the first multilateral experiment of integration for granting political stability and economic prosperity in Europe.

This international movement was already biased by some nations that better captured the benefits of the industrial revolution and, to a large extent, of globalization. Thus, the institutionalization of globalization was mainly impelled by Western nation-states that were in a position to exercise a substantial degree of influence to the rest of the world due to its economic and therefore political power. These nations, as outlined in the Atlantic Charter in 1941, needed the "establishment of a wider and more permanent system of general security in order to safeguard the right of all nations to equal access to trade and raw materials".

The international multilateral system greatly contributed to economic growth, especially for the foundational partner states, which saw in the accumulation of wealth through trade and economic liberalization the path to progress and prosperity. This

[1] Bhagwati (2004).
[2] It was originally branded as the International Bank for Reconstruction and Development, today part of the World Bank Group.

trend inevitably inflated the gap between rich and poor nations. In 1989, the distribution of global income jumped to be very uneven, with the richest 20% of the world's population controlling 83% of the world's income[3].

The system has proved by far that it is effective in creating wealth. However, it has equally shown that it is inefficient in distributing wealth from the richest to the poorest. With the rise of globalization and information technologies, poverty left to be a matter of local concern and became a global issue. On one hand, wealthy governments in the North believed that the propagation of political stability and economic liberalization in poorer nations in the South would contribute in ensuring economic gains in the North as well as poverty reduction in the South. On the other, wealthy citizens in the North became aware of the global problems of poverty as a deficiency of the global system and started to demand their governments to take actions to eradicate poverty in the neediest countries.

As a response, the BW institutions included in its inception the reconstruction of damaged nations as a primary goal to recover its levels of development and start the generation of wealth. Later on, reconstruction was replaced by the term "development". Development aid then, was rooted as an institutional international activity. In the 1940s, the International Labour Office (ILO) had argued for aid funds to be provided in order to raise living standards in poor countries. Soon after it was established in 1943, the United Nations Relief and Rehabilitation Administration (UNRRA) was receiving funds from more than 40 countries in order to help it provide food, medicines and agricultural and industrial goods to recipients in almost 50 countries.

Likewise, the European Economic Community decided in the Treaty of Rome to "associate with overseas countries and territories in order to increase trade and to promote jointly economic and social development[4]". It set up a new instrument of economic cooperation and development aid that would maintain and expand the commercial and economic linkages between MS and its former colonies (Yaoundé Convention).

Thus, post-war development aid emerged under the frame of a new international institutional system aimed at safeguarding international security, financial and monetary stability and economic development. This system, although agreed by both developed and developing countries[5], was a donor-led initiative dominated by a centrality of Western countries' ideas, programs and policies (this phenomenon is often regarded as Occidentalism).

The institutionalization and planning of massive cash injections as the predominant aid modality of the Marshall Plan placed the beginnings of development aid as financial flows targeted at helping the reconstruction of a damaged continent that was already

[3] United Nations Development Program (1992). Human Development Report, 1992 (New York, Oxford University Press).

[4] Art. 3(k) EEC Treaty; now Art. 3(s) EC.

[5] Latin American and Asian countries were amongst the earliest to call for the establishment of development assistance. In the late 40s the Indian chair of the UN's Sub-Commission on Economic Development formally called for the UN to provide concessional loans to poor countries unable to obtain loans from commercial sources.

developed before, with existing physical, legal and social infrastructures that needed to be fixed again. These institutions and its relatives believed that the same approach would work for the rest of poor countries in the South. The International Aid Architecture, or the often so-called aid system, was born.

After sixty years of history, the aid system has seen large amounts of development aid flowing from developed to developing nations. Aid volumes reached their highest historical level in 2010: USD 129 billion. This represents 0.32% of DAC members' combined gross national income (OECD/DAC, 2011). Nevertheless, poverty is not diminishing as expected. Poverty indicators show some progress that shouldn't be underestimated, not also exaggerated. According to the United Nations Human Development Report (2005), since 1990 life expectancy in developing countries has increased by 2 years. There are 3 million fewer child deaths annually and 30 million fewer children out of school. More than 130 million people have escaped extreme poverty.

However, in 2003, 18 countries with a combined population of 460 million people registered lower scores on the human development index (HDI) than in 1990—an unprecedented reversal. In the midst of an increasingly prosperous global economy, 10.7 million children every year do not live to see their fifth birthday, and more than 1 billion people survive in abject poverty on less than $1 a day. The HIV/AIDS pandemic has inflicted the single greatest reversal in human development. In 2003 the pandemic claimed 3 million lives and left another 5 million people infected. Millions of children have been orphaned.

Whereas aid advocates (headed by Jeffrey Sachs, 2005) postulate more amounts of ODA to fight poverty, an emerging group of aid detractors (like William Easterly, 2006 or Dambisa Moyo, 2009) are claiming for new approaches to end poverty, as the results achieved do not match the expectations. At the same time, citizens from donor countries are demanding their governments to be more accountable. They question the effectiveness of such increasing amounts of money that do not produce the estimated value for money.

In parallel, fastest development is located in emerging Asian countries led by China and India. Recent success stories of high economic growth and rapid industrialization such as the achieved by the Asian tigers (South Korea, Singapore, Hong Kong and Taiwan) and other southeast Asian countries (Vietnam, Indonesia) show us a thing in common: rapid economic development is homegrown and poverty reduction is a local effect (The East Asian Miracle, 1996).

According to the World Bank, living standards have risen dramatically over the last decades. The proportion of the developing world's population living in extreme economic poverty — defined as living on less than $1.25 per day (at 2005 prices, adjusted to account for the most recent differences in purchasing power across countries) — has fallen from 52 percent in 1981 to 26 percent in 2005.

However, while there has been great progress in reducing poverty, it has been far from even, and the global picture masks large regional differences. Poverty in East Asia—the world's poorest region in 1981—has fallen from nearly 80 percent of the population living on less than $1.25 a day in 1981 to 18 percent in 2005 (about 340 million), largely owing to dramatic progress in poverty reduction in China. The goal of halving extreme poverty between 1990 and 2015 has already been achieved in East Asia.

Unfortunately, in Sub-Saharan Africa, the $1.25 a day poverty rate has shown no sustained decline over the whole period since 1981, starting and ending at around 50 percent. In absolute terms, the number of poor people has nearly doubled, from 200 million in 1981 to 380 million in 2005. However, there have been signs of recent progress; the poverty rate fell from 58% in 1996 to 50% in 2005. Although much of the aid is placed to Sub-Saharan African countries, results are still far to match the expectations (Easterly, 2006).

The contribution of China itself, among others, eradicating poverty overall in absolute terms pops up the "thing in common" again: fast, steady and successful development is homegrown and endogenous. It is widely assumed that in those cases and, generally, economic growth is a necessary condition to development.

Indeed, Asian emerging economies have demonstrated how to take advantage of globalization mechanisms to foster economic growth through trade liberalization, information and communication technologies, urbanization and so on.

Nonetheless, not always economic growth brings development. Some economies, especially in Sub-Saharan Africa, have been experiencing high and sustained rates of economic growth while poverty and human development indicators have remained stagnated or have even worsened. This is what some scholars say these countries are in the poverty trap (Collier, 2007).

It would be so ingenuous just to affirm that economic liberalization and trade openness policies are the right path to development. There are other factors that make a country stand in the poverty trap. Historical background, colonial legacy, climate conditions, geographical features, political instability or conflicts, war, disease, social behavior, and others (Sachs 2005) make a country to perform in a difficult ecosystem where it makes especially complex to reverse the situation toward economic and human development.

On the other hand, however, there are piecemeal, bottom-up and demand-driven initiatives in developing countries that give a ray of hope. They show us some lessons that can be learnt to get out the poverty trap (microcredit's, BoP approaches, etc.). Recently, these initiatives have been a key discussion point for policy implementation of multilateral development agencies.

They focus on market-oriented initiatives led by local actors, unleashing entrepreneurship and constructing a local business sector by providing people with access to resources and the possibility to perform their income generating activities. But, most prominently, the commonly uniqueness of those initiatives is that development is endogenous.

Hereby, aware of the development potential of empowering entrepreneurship, the UNDP launched in 2006 *growing in inclusive markets,* and now some development agencies are starting to design policies based on the concept of the Bottom of the Pyramid (Prahalad, 2002) that raised the issue of serving the poor basic needs with innovative approaches of enterprises jointly with other development stakeholders, thus creating business opportunities for all while contributing to poverty alleviation.

They intend to address a fundamental failure of our current global political and economic system, income inequality. That is to unlock the markets to the poor or, in other words, to make capitalism inclusive to them. So they can catch up the opportunities of economic, social and human development.

The motivation and empowerment of the poor reflect a shift in the tendency of exogenous approaches that conceive the poor as mere recipients of development aid and charities. Their inclusion in the value chain pretends to expand their choices according to their capabilities, a conceptualization of poverty that was included by the WB in 2000 thanks to the work of the Nobel Laureate Amartya Sen. He greatly contributed to position the need to locally reinforce the motivation and training of local people in poor countries as the way to better benefit from existing resources. He acknowledged that cultural influences make a major difference to aspects of human behavior that are critical to economic success for their own development (Sen, 2004). Culture, which can even differ within each country, affects how differing people view and use assets and opportunities and who gets access and how, thus contributing to development.

This focus correlates with the success of East Asian nations in their own path to achieve high and sustained economic growth that positively contributed to lift these countries out of poverty. Among exogenous factors that supported an eminent national path to economic development, the contribution of national values such as hardworking, education and collectivism greatly contributed to shape a national strategy that built upon specific cultural values.

The inclusion of culture into economic development analysis was left completely aside during the most part of the second half of the XXth century. At that time, culture was conceived as a factor that was recurrent in explaining "non-rational" differences from theory to practice. As a counterpart, the binomial relationship between culture and economics is a central issue of the present research. This thesis aims not only to outline culture as an explanatory factor, but to include this element into economic analysis in order to better understand the underlying causes that explain the critical factors of success or failure of development aid programs and economic development theories.

Motivation

After I graduated in Economics and Business Administration, my first trips to developing countries made me question some archetypes that I acquired in my precedent years of secondary schooling and higher education. Economic theories taught at school and my relations with people of my own cultural background made me assume that the pursuit of happiness was an ultimate goal. To achieve it, I thought that the neoclassical model of economic development was the shortcut to such accomplishment. This assumption was completely challenged when I shared unforgettable moments with people that I never knew before. Even though they were deprived of many of the products and services that we automatically consume in the North, they had a glittering soul that drove them to live with intensity. They seemed to me they were not less happy than I was. Indeed, considering their context of life circumstances, I embraced a feeling of admiration to them. I started to think that happiness was rather a subjective state of mind. Nonetheless, I never stopped thinking about the differences of lifestyles that make few people to enjoy most of the wealth that is overall generated over many others that do not have access to what we consider commodities.

These reflexions were gaining space in my mind in a moment when I was working in a marketing consultancy in the private sector. Out of the many definitions and concepts of marketing, I retained the one that defines marketing as the process that is able to adapt products and services to the needs of the customers. Aware of the big amounts of resources intended to alleviate the situation of many people alike my new admired friends, I did not understand why their basic needs kept going underserved.

My curiosity for interculturality inspired me to pursue an international professional career that brought me to Korea. I was quickly amazed by the Confucian-based cultural values that inspired one of the poorer countries in the 1960s to achieve unprecedented rates of economic growth and socioeconomic development. Hardworking, collectivism, and the pride for education, among others, were traditional values whereby development hinged upon. I felt fortunate to live at first hand the determinants of the East Asian Miracle.

Soon after I began to work as a consultant of international development for the European Commission. Working in different kinds of developmental projects has allowed me to directly experience some of the causes of good and poor performance of developmental projects and programs. Again, the ones that were adapting to the final beneficiaries' needs had, by far, more chances to succeed than the rest. Indeed, if the projects were able to adequately involve them in its implementation, success was almost guaranteed. Unfortunately, this was the exception. Furthermore, I had the opportunity to get to know the functioning of the aid industry better, which made me question the underlying forces that drive such explicitly purely altruistic motivations of donors.

All in all, my background, intuition and emotion have gradually forged a curiosity that has rendered into an intellectual motivation and a life commitment that aims to explain the factors that contribute to poverty reduction and, to a large extent, to social justice.

Objective

The overall objective of the present work is to contribute to add some theoretical and normative implications that can be scientifically useful to development economics analysis and development policy-making for poverty reduction. The specific objective is twofold. At the empirical level, throughout the case of the Dodoma region, it aims to provide some data and explanatory causes that determine the critical factors for success or failure of development aid programs and projects of donor countries to the developing world, especially to the least developed countries. At the theoretical level, it aims to enrich the development economics' debate by shedding some light on the importance to include the cultural factor into economic analysis, specifically through the role that cultural values play in shaping the social behavior of the individual for economic decision-making.

Structure of the Research and Methodology

The global fight against poverty is primarily driven by the same developing countries, which directly suffer the consequences of poverty, and donor countries, which support recipients through development aid. There are, however, other financial resources that contribute to eradicate poverty, such as private financial flows from capital markets, vertical funds and charities. The transmission of these financial resources has impelled the design of an international aid architecture that manages big amount of flows. The aid system, moved by a wide range of political interests and economic motivations towards the supply of altruism, has yielded an increasingly bigger market for aid.

The study of the global approach to poverty reduction inevitably requires a thorough analysis of the foundations of the system, the underlying motivations and the functioning of the aid industry. Thus, the method of the research begins at the macro level of analysis, with the study of the international donor approach to poverty reduction and the modern economic theories that underpinned development policies and dogmas since WWII (chapter 1).

The poor results of sixty years of development aid and the eternal unattainable promises of poverty reduction have exacerbated the large disparity between an official rhetoric that keep claiming for the need to pour more aid resources and the inefficiency of the system to turn large amounts of aid to tangible results in eradicating poverty. The systemic implementation gap is also contributing in creating a general state of donor fatigue that is increasingly embedding the discourse of the development community.

Therefore, the implementation gap carries an enigma: what is happening in this gap? Where are the underlying causes that hamper development aid to deliver on results? The research tackles this sort of "black box" by studying the development cooperation approach of one of the biggest donor agencies of the aid system, the European Commission (chapter 2). Through the study of the EC case at the meso level of analysis, the research pretends to penetrate the tunnels that connect the design of EU's development policies with the methods whereby aid is channelled to developing countries. Against the backdrop of the international aid architecture, this analysis renders the assessment of the EC aid impact in least developed countries.

In particular, the fact that poverty is a local effect means that the specific conditions that define poverty need to be studied at a micro level of analysis. In this case, the research focuses on Tanzania, one of the least developed countries of Sub-Saharan Africa, the region hardest hit by poverty worldwide. Tanzania is a particular case in Africa. It is regarded as a case study for donor-recipient aid coordination and the donor community often holds it as the poster child of aid effectiveness. However, although large amounts of aid inflows have contributed to long and sustained economic growth, poverty continues to be systemically pervasive. Therefore, the research analyses the impact of EC aid in Tanzania, the relationship between donors and recipients and the national development policies that implement the GoT in cooperation with the donor community (chapter 3). The objective of this thorough study is to identify the underlying causes of good and bad performance of development aid policies and programs, to detect the factors of poor aid effectiveness (or ineffectiveness) and to provide an understanding of the context of poverty reduction in Tanzania.

The analysis of the international aid architecture, the EC development cooperation approach, and the donor aid impact in Tanzania allows the research to sharpen the focus of the development context in a specific low-income country. However, the study pretends to go beyond the national level of analysis of the development context by including the theoretical final beneficiaries of the development policies and programs, the poor themselves. For this reason, the research focuses on the analysis of the poverty context in one of the regions of Tanzania, Dodoma. This micro level of analysis is critical to contextualize the role that local cultural values play as key factors to foster an endogenously conceived development (chapter 4).

The fourth level of analysis is the cornerstone of the present thesis. It consists of an empirical analysis of the Dodoma case. The introduction of cultural values into economic analysis needs a homogenous level of analysis that allows studying the social behavior of a group of individuals that share the same culture. Thereby, this level reduces to a part of a region that share the collective programming of the human mind that distinguishes the members of one human group from those of another. Culture in this sense is a system of collectively held values (Hofstede, 2001). The assumption of specific values contributes to shape the decision-making process in a determined way that affects the development of the individuals, and its society.

The empirical analysis of the Dodoma case renders the critical variables that shape the endogenous development of the region: first, the local understanding of development and the context in which people struggle to survive; second, the identification and analysis of the local values and its inter relations among each other; third, the determinant factors that contribute to development, including the role and relations of informal and formal institutions that contribute to the development in the study area; finally, the aesthetic aspects that allow communication flows that pave the way for effective transmission of knowledge and resources between informal institutions of local entrepreneurs and formal institutions for development.

The empirical analysis of the local value system and its implications for development forms the basis for expanding the focus of the research to the contributions of this thesis at a macro level. Firstly, the conclusions are aimed to provide relevant guidelines for the design of development policies and programs, as well as to the reform of the current international aid architecture. Secondly, they are aimed at enriching the modern development economic theoretical debate by including the cultural factor as the bedrock for endogenous economic development. Figure 1 in Annex 0 illustrates the stages of the research in the methodological framework.

Methods of Data Collection and Analysis

Overall, the present thesis mainly follows a qualitative pattern of research (see table 1, Annex 0 for a snapshot of the data collection and analysis methods). The analysis of the first two chapters (the international aid architecture and the EU's development process, respectively) is based on secondary sources of information. The data has been collected through a process of desktop research with the review of related documentation and literature and the statistical review and analysis of the core subjects treated in these chapters: altruism, development economics, international aid architecture and effectiveness in chapter 1; and EC's development policy, development cooperation process, aid delivery methods, aid structure and impact in chapter 2.

Chapter 3, which examines the EC and donor relations with the GoT in their joint attempt to tackle poverty in Tanzania, is based on a mix of secondary and primary sources of information. Fuelled by secondary sources, the analysis of the donors-GoT relationship and the donor-GoT approach to development in Tanzania feeds from the desktop research of specific documentation and literature available, as well as the national compiled statistical information on economic development and poverty data. The assessment of the EC (and donor) impact and effectiveness in Tanzania is mainly based on a primary source of information. This source includes information obtained through in-depth semi-structured interviews conducted with EC and donors' development aid experts in Brussels and Dar es Salaam (see table 10 and table 11, Annex 3 for more information on the list of interviewees).

The core of the thesis is the empirical research that has been conducted in Tanzania[6] (chapter 4). A fieldwork research[7] was conducted in Dodoma region, between months of October and November 2009, and July 2011 as part of the first and second phases of a joint cooperation project undertaken by the Autonomous University of Barcelona Foundation (FAS) and the University of Dodoma. The main purpose of the study was to identify the main development constraints and potentialities of its inhabitants, to analyze the factors that can bring development according to the people's socio-economic and cultural value system, and to provide an endogenous proposal to development as a result of some empirical evidence for policy design and implementation that can be tested, adjusted and replicated later on. The purpose of the project is to implement the endogenous model of development in Dodoma as a pilot test for its further fine-tuning and replication in other areas. It allows experimentation, learning from experience and theorization of the empirical evidence as a result of the process.

The methodology has taken three core sources of information: quantitative data coming out from fifty in-depth semi-structured interviews of selected villagers[8] in Dodoma; qualitative information out of in-depth interviews with a panel of local experts at the University of Dodoma (see table 2 and table 5, Annex 5); focus groups with the local panel of experts (see table 1, Annex 5); developmental organizations in Dodoma (see table 3, Annex 5); and major international donors based in Dar es Salaam (see table 4, Annex 5). Furthermore, the research has been complemented with documentary research concerning data about Tanzania, Dodoma and a mainstreaming of developmental variables. Qualitative information was compiled from the National Statistics Reports, Country Reports, and Research and Working Paper (grey materials in general). A summary of the data collection techniques is presented in Figure 9, while

[6] Dodoma region, mostly, and Dar es Salaam.
[7] Dodoma was chosen as a research site for this study because it is the district that harbors The University of Dodoma (UDOM). As this project aims at establishing an innovation centre of ideas and opportunities at UDOM, conducting a research in this area was thus imperative.
[8] These villagers are micro-scale entrepreneurs that make their living in the rural sector.

specific activities are indicated in Figure 10, both in Annex 4. See Annex 5 for the list of interviewees in Dodoma and Annex 6, 7, 8 and 9 for the interviews and focus groups' guidelines.

Last but not least, a theoretical framework that has taken into account the desktop research of the main *culture and economics* research literature underpins the fieldwork research of chapter 4. This framework shapes the theoretical rationale and analytical models that state the inter relations of culture, entrepreneurship and development. They are taken as a reference for the qualitative analysis and theorization of the endogenous development model.

Hypothesis

The curiosity pushes to analyse and rationalize intuitions coming out from my experience in working in international developmental projects and programs. They have led me to question the capacity of the aid system to adapt to the *theoretical* final beneficiaries' of the aid value chain. These intuitions are empirically corroborated by the incapacity of the aid system to render significant results in sixty years of performance. How is possible then, that after a long history of development aid the vast amount of money allocated for poverty reduction in least developed countries do not contribute them to get out of poverty as expected?

Such an open question has multiple entry points for spotting possible responses. However, there is a common feature that characterizes the failure of development aid in its poor contribution to poverty reduction: the inability to target, adapt and include the poor. On the other hand, the most relevant cases of development success, especially those in East Asia, have highlighted the importance of the cultural values in adopting and implementing a home-grown development strategy.

Therefore, the scope of the question concretely focuses on the role of the cultural factors that are meaningful to the development of a nation-state. If some countries have been able to succeed, why others fail? To a large extent, hereby, why donor countries have not taken into account the cultural values of its partner countries in the South for the design and implementation of the development policies and programs? The focalization of the analysis by including the cultural values' variable hinging the research is further concretized at the geographical level. The decision to study the case of a donor, the EC, and a recipient country, Tanzania, allows me to focus the research into the first overall hypothesis of the present work: "the EU (and donors) has not taken into account the value system of Tanzania when designing and implementing their cooperation development aid programs" (see figure 2, Annex 0).

The validation of this hypothesis arise sub-research questions related to the deepening of the study of the current aid system and its international aid architecture: what is the nature and functioning of the international development cooperation approach? What is the structure and characteristics of the aid system? Is it effective? What are the EC and donors motivations to cooperate and supply aid? How do donors design and implement development aid policies and programs? Do they have a specific model of development based on beneficiaries' needs? These questions are tackled throughout chapters 1 and 2.

Whereas the first hypothesis entails mainly a thorough critic analysis of the current aid system and its underlying causes of performance, the second one is based on a purposeful intuition of the factors that are critical for the development success. This success can be either experienced at the macro and/or micro level. First, by former poor countries that have been able to get rid of poverty to a large extent; second, by successful projects and development initiatives conducted in LDCs that, despite being the exception not the norm, have contributed to relief the pervasiveness of poverty at the micro scale. Both cases point out a commonality: cultural values are key to the success of development policies and practices.

Herein, this assumption carries out the second hypothesis of the research: "Tanzania value system has a potential for making donor development aid more effective" (see figure 3, Annex 0). However, how can development processes include the value system of local populations to make aid meaningful to them?

The analysis and validation of the aforementioned hypothesis entails a thorough study for providing an answer to the following sub-research questions: What is the GoT approach to development? How is the EC (and donors) contributing to poverty alleviation in Tanzania? How is a value system of a local collectivity in a typical rural area of Tanzania? How does it function? What is the local understanding of development? Are there any local potentialities for development? What are their drivers? These questions are tackled throughout chapters 3 and 4.

Relevance of the Topic

In the end, the two hypothesis of the research are two sides of the same coin. They aim to provide some empirical and theoretical implications that advocate for the inclusion of values into development economic analysis (aid valuenomics). Although early claims of some scholars raised the need to adapt development policies to the final beneficiaries' needs in the 1960s (Strout and Chenery), culture has not been fully included as a relevant variable that influences the process of economic decision-making of agents at an analytical and policy level in development circles (De Jong).

Rather, the cultural variable has been mainly pioneered into economic analysis by other related social sciences –sociology, anthropology, psychology, political science- as an attempt to understand the subjective formation of the social behavior that influences economic decisions (i.e. Hofstede, Schwartz, Welzel and Inglehart). The complexity and ambiguity of culture for economic analysis brought scholars to use a more concrete and defined unit of analysis, the value system. This variable exactly refers to the set of behavioural patterns, attitudes and norms of the individual that shape her decision-making.

Against this backdrop, this work introduces the cultural-value aspect into development analysis through a multidimensional approach of different disciplines within the framework of development economic analysis: the political economy of altruism and development aid (Steinberg, Andreoni, Riddell, Smith, Keukelerie, Arts); modern economic theories (Todaro); the sociological conceptualization of cultural differences across nations (Kluchholn, Hofstede, Williamson); the psychological structuring of motivational values (Schwartz); the anthropological evolutionary dynamics of values across different stages of development (Inglehart, Welzel, Marini); and the incorporation of happiness into the economic development analysis at the country level (Welzel, Inglehart, Frye).

Another important aspect of the research is the inclusion of soft elements that are critical of a learning economy in an evolutionary perspective, such as the social capital elements of trust (Fukuyama) and knowledge (Lundvall) that are required for instilling innovation as a process of progress and change.

This multidisciplinary approach with the simultaneous use of different areas of knowledge is a necessary ingredient of the research of today. The multiple inter relations of factors in the complex process of poverty as a multiple combination of connected dimensions requires an approach that is able to capture, reflect and explain the reality with accuracy and reliably. The ultimate goal of the research is to provide a pattern of guidance, not an example, for developing countries and its international cooperation partners that aim to develop by building upon their local values, in which subjective well-being is not a goal in itself, but a regular state of mind that displays evolutionary and adaptive strategies for survival.

Limitations

Initially, there have been two structural limitations for the development of this research. The first is related to the budget available. The conduction of a fieldwork in Tanzania requires substantial financial resources. Thanks to the project funded by the Autonomous University Foundation and the devoted collaboration of my colleagues of the University of Dodoma, the research targeted the entrepreneurs of the local communities, local and donor experts of the university, developmental organizations and international donors. Needless to say, a larger budget could have meant a bigger sample or the scaling-up of the research to other areas, but a holistic qualitative analysis has attempted to mitigate the limitation regarding the quantification of the interviews available.

The second limitation is related to the complexity of analysing the influence of culture into economic performance. A universally valid model of the economy does not exist. Cultural elements of the group (not even of a nation) are of relevant importance too. These elements are strongly related to the environment in which researchers are socially and culturally shaped. As a consequence, the theorization of culture into economic models carries an implicit degree of subjectivity. Theories may have national cultural elements that hamper their applicability across borders. In general, such as this research extensively argues in chapters 1 and 2, pleas for foreign solutions to a domestic problem often fail, because the national cultural context is not taken into account. External formal institutions do not succeed in involving informal institutions from local communities because they do not change in a vacuum. They are rather embedded in value systems such as it is argued in chapter 4.

This limitation is difficult to overcome. The logical solution might be to obtain different multidisciplinary analysis coming out from the minds and work of researchers with very different cultural backgrounds. In this case, this research modestly attempts to add and enrich this approach. Speaking about one's culture is a challenging endeavour. In order to capture the local value system I have used different sources of information –local entrepreneurs, local experts, developmental organizations, international donors- that, qualitatively analysed with the aforementioned combined approach, have rendered a robust definition and conceptualization of the set of behavioral patterns, attitudes and norms that are appreciated in a group and in the individual, as they are key aspects in their decision-making process. They are conceptualized as key constructs that help us to simplify the overwhelming complexity of the real world, so as we can better understand it and predict it.

CHAPTER 1:

"THE INTERNATIONAL DEVELOPMENT AID ARCHITECTURE"

Abstract

"Sixty years of development aid have not worked out to alleviate poverty in least developed countries as expected. The over ambitious official rhetoric of aid donors has been effective in creating an aid market that is fuelled by impurely altruistic motivations that seek to accomplish self-interested political and economic goals of nations-states in its foreign policy domain. In the attempt to deliver aid flows to partner countries in the South, aid agencies' objective function has focused to maximize its budget rather than the service. The incentives to make aid more effective are not in place and the forces that push new donors to enter the value chain do not capture the theoretical beneficiaries of the system, the poor. However, new emerging drivers from the South and a sample of market-oriented initiatives are paving the way for a new order of the current international aid architecture."

1.1 Introduction

Since the 1960s, development aid has become one of the main pillars of external relations for most of wealthy countries in the Northern part of the hemisphere. Inspired in aid policies that helped rebuild Europe after WWII, the North invented an aid system that has its roots in the moral principle of giving to the needy. Despite the good intentions, more than 60 years of dedicated aid efforts, results are disappointing. Development aid circles are increasingly advocating the need for urgent reform. In order to understand the underlying cause of poor aid effectiveness, this chapter provides a thorough analysis of the international development aid system.

It begins by reviewing the fundamentals of the morality of aid giving and the origins of the market of altruism and its delivery mechanisms (section 1.2). Second, it analyses the nature, structure and dynamics of a global market for aid that is rooted in this altruism market (section 1.3). Prior to analyse the architecture of the aid system through a historical overview (section 1.5), the chapter provides an outlook of the economic theories that underpinned the formation of donors' development policies (section 1.4). Finally, section 1.6 outlines and describes the emerging trends of the current aid system that are increasingly becoming new driving forces advocating for change.

1.2 The Market of Altruism

1.2.1 The Demand of Altruism

The act of giving is a long-standing worldwide practice inherent to human condition. Indeed, compassion is considered in all major religions as one of the greatest virtues. By exercising compassion, individuals cultivate positive emotions that largely contribute to their well-being. Indeed, charitable giving to the unfortunate is often pointed out as a moral practice that brings individuals and organizations to help the needy.

In economics, this assumption is treated under the theory of "perfect altruism", in which individuals are concerned primarily that charities receive some total of money, regardless of the sources. However, having ethical or moral values is not the only motivation of individuals to give. Studies overwhelmingly suggest that people are not entirely altruistic when giving. Then, people seem to benefit from the mere act of giving with increased satisfaction of exercising such a compassionate act. This predominant motivation is largely explained by Andreoni (1988), who names it the "warm glow" theory. Individuals who exercise it derive increased utility from giving, although their contributions may be entirely anonymous. This theory has an important implication as it explains that the crowding-out from government grants will not be complete (Steinberg, 1989). That means that individual and states' motivation to giving are complementary to each other rather than substitutes. In addition, there is a third motivation that pushes people to give. Glazer and Konrad argue that donors achieve a higher degree of prestige and reputation by giving, as it is often signal of wealth status.

All the above three theories of motivation shape the rationale under which people engage in charitable giving (see table 1, Annex 1). And not only individuals. By extension, private organizations benefit of giving and this partly explains the large amount of enterprises that dedicate part of their efforts to corporate philanthropy as it increases the utility of its shareholders. Yet this is not the only option to help the needy. People, through the taxes paid to the government, can contribute to help others through the provision of public goods and services, managed by the government and delivered through non-profit organizations, which act as intermediaries. Recent trends show that charitable giving is increasing[9]. The demand is there.

1.2.2 The Supply of Altruism

According to Henderson and Malani (2008), altruism is like anything else that people desire: demand for altruism generates production by suppliers in a market. Viewed in this way, they argue, a nonprofit charity soliciting donations to help victims of a hurricane is selling altruism, that is, satisfying some combination of people's desires to be involved in helping the victims and to have the victims be helped. The same is true when the government collects taxes to pay for social programs and when a for-profit firm takes actions that sacrifice profits in the public interest. In all these cases, individuals demand something -in this case utility from giving and doing good- and suppliers provide it for them.

However, there are substantial differences between the three producers of altruism. Non-profit organizations, such as NGOs and Foundations, are the major supplier group of altruism. They are prohibited from distributing profits to stakeholders. As the major producers, they are often entitled by the government and private companies to supply altruism to the final beneficiaries. The Government, the second major supplier, participates in the market for altruism because pure altruism -one of the two drivers of demand for altruism- is a public good[10] and is therefore undersupplied in private markets. The contribution to public goods is mandatory by the collection of taxes. Therefore, individuals, in their condition of taxpayers, do also exercise altruism through the provision of public goods by the government. Finally, for profit organizations –all sorts of businesses- are the third supplier of altruism. The way corporations produce altruism differs largely compared to the way they deliver other products. As a mode of example, when Microsoft gives free computers to schools, all the stakeholders may be happier: workers and investors may benefit from participating in a firm that does good works, and consumers may be willing to pay a higher price for Microsoft products knowing of Microsoft's good work. Since shareholders and employees are paying for (and receiving) some of the altruism the corporation produces, the consumer does not pay for (and receive) all the altruism the corporation produces.

The controversial issue here is that some people think that corporations harm shareholders when they engage in philanthropy, but they ignore that shareholders may also benefit from that philanthropy. They provide capital and get back both a financial return and altruistic consumption. Furthermore, shareholders may obtain larger financial returns by the increasing satisfaction of consumers as they see the corporation

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[9] In August 2010, a third of the world's population had given money and a fifth had volunteered, according to the World Giving Index.

[10] A public good is one that is nonrivalrous (one person's consumption does not preclude another's) and nonexcludable (one person cannot stop another from consuming the product). See Paul A. Samuelson, The Pure Theory of Public Expenditure, 36 Rev. Econ. & Stat. 387, 387 (1954) (defining public goods or "collective consumption goods").

more engaged in altruism. This process enhances the prestige and reputation of the for-profit organization, and thus contributes to the company's comparative advantage. The inclusion of the production of altruism in corporations became of common use in the early 1970s by the consolidation of social practices into the company by the so-called Corporate Social Responsibility[11] (CSR). Proponents argue that corporations make more long-term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. Others argue CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful MNE.

1.2.3 The Crowd-Out Effect

The functioning of the market of altruism with its suppliers and consumers is not linear. The consumer has a determined level of motivation and it seeks to gain the corresponding utility by optimizing the transaction with a suitable supplier. First, the individual can be motivated either by a warm glow, pure altruism and/or prestige incentive. From all of them, Andreoni (1990) argues that the dominant motivation is the internal satisfaction that individuals derive from the act of giving itself. Therefore, the warm glow effect is predominant over prestige and pure altruism. On the other hand, prestige is also embedded in the self-benefits derived of the act of giving; in addition to the potential financial return of the enhanced reputation of the corporation or individual to the act of giving itself. The motivation of pure altruism, which looks after the poor to be helped, does not lay its incentive on the benefits of who gives, but on how the receiver is helped regardless of who is giving.

This carries out important implications: first, the altruism market is moved by impurely altruistic forces (Kingma, 1989; Andreoni, 1990) -warm glow and prestige- whereby individuals receive satisfaction. The utility does not only come from a reduction of poverty in general but also from their own contribution to the poor. Second, individuals derive utility just when they give, not on how the receiver is being helped after the transaction has taken place. Therefore, in many studies it is assumed that every dollar contributed has a known, fixed, direct and positive impact on utility (Hochman, 1969; Zeckhause, 1971; Andreoni, 1990). This conception of poverty as an unambiguous and fixed social problem has cornered the research until the late 1990s. Since then, poverty has taken off as a relative and variable social problem (Bird, 1998).

To counterbalance the effect of charitable giving, the government is theoretically moved by pure altruism in its attempt to help the unfortunate, vulnerable or poor. However, its incentive lies in the need to attract voters, who appreciate the fact that the government and media make them aware of the conditions of the poor, because that awareness endows their tax payments with altruistic utility. Therefore, individuals derive utility both from charitable giving and tax payments. Initially, it seems that charitable giving has a perfect competitive relation with tax payment. However, as argued above, individuals prefer that gifts come from themselves rather than from others. This implies

[11] The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders, and all other members of the public sphere (see D. Wood, 'Corporate Social Performance Revisited' (1991) the Academy of Management Review.

that the crowding-out from government grants will not be complete. The reason is that voluntary contributions and involuntary giving are not equivalent in people's mind. Consequently, government taxations do not reduce private contributions by the same amount (Hernández and Roisman, 2005).

1.2.4 Non-Profit Organizations: Intermediaries between the Government and Taxpayers. Their hypothetical behavior in the provision of aid

Once governments collect taxes, they allocate a share of its public resources to supply social services to help vulnerable groups such as poor or handicapped. These social services are framed by redistributive policies financed by the government. They are an alternative to the market failure that has not been able to foster equality throughout the invisible hand principle of efficiency[12]. Therefore, it is theoretically appropriate to consider the "unequal income distribution" as an example of market failure. From this perspective, the distribution of income for poverty reduction is a specific type of public good. An equitable distribution can not come from the functioning of the market because philanthropy and charity provide benefits that can not be appropriated by the donors[13]. A distributive policy, justifies the provision of funding required due to insufficient supply.

Against this backdrop, the governments fund non-profit organizations (NPO) that act as agencies that deliver public goods to the direct beneficiaries. According to Drucker (1993), the NPO have become one of the largest employers in the US[14]. In such a case we should understand, contrary to Wolf, that there is a sufficient supply of altruism, as donors or volunteers can appropriate some of the benefits (no money) so that suits their help.

The NPO have an objective function that, due to its legal impossibility to generate profits, would be located between the function maximizing the budget (Tullock, 1974; Niskanen, 1971) of the bureaucracy and the function maximizing the production of the expenses used for "charitable services". The function is as follows:

$(F, k) = k\,[x+C(F)-F] + (1-k)\,[x+C(F)]$ - Where,

k= parameter of the objective function

X= exogenous resources of the organization

F= expenditure used in the search of resources (fundraising)

C= contributions received that are a function of F

When $k=0$, $(F, k)=x+C(F)$, the gross income or budget is maximized. On the other hand, when $k=1$, $(F, k)=x+C(F)-F$, the net income from fundraising campaigns is maximized. As it is considered that the available net income goes entirely to the service provision, this case corresponds to the maximization of the service. In this case, it should be given full

[12] The term market failure is usually intended to be used for solutions of "competitive equilibrium" and results "Pareto-efficient" and therefore excludes the proper solutions of "distributional inequality".
[13] It appears then the "free-rider" problem.
[14] One in two adults-ninety million total-work a minimum of three hours a week as "unpaid staff" that is volunteering at a nonprofit organization (Drucker, 1993).

satisfaction to the donors/taxpayers if the service was efficient. When $0 < k < 1$ the situation would be between the two objectives.

k is the marginal donation of the Fundraising. It is the parameter that reveals the objective function of the NPO. Thus, a budget-maximizing ONL increases their spending on "fundraising" F, while the marginal product of the donation is not negative; but maximizing the service will ensure that the marginal return is greater than the marginal cost of obtaining it.

Therefore, in the market of altruism, the NPO will behave to maximize the budget or service based on maximizing the objective function, but also the utility of donors. Their utility depends on the marginal utility of donors in each donation, which in turn depends on whether it is a public or an individual donor and on the information that donors have about the efficiency of the service delivered.

In a case where the a donor makes a substantial volunary contribution and it expects a high utility in return that it is characterized by the efficiency of the service, the donor will require information and will reject the NPO that do not maximize the budget. On the other hand, in the the case that a donor makes a relatively low contribution, the donor gets the utility by the warm-glow effect and it does not worry about the efficiency of the service. Here, the NPO can act as maximizers of the budget by allocating more expenditure to fundraising than service.

In section 1.3.2 I will discuss what is the hypotethical scenario in the case of the donor agencies that act as intermediaries for delivering aid to recipient countries.

1.2.5 The Globalization of the Market of Altruism

Much of the literature about the market of altruism is country-specific. The main bulk of research studies is found in the altruism market of the US, and UK, in a lesser extent. However, the process of globalization rapidly accelerates the interdependency of individuals, corporations, economies, and states beyond national borders, increasing indirect externalities at the transnational level.

The path of this phenomenon has attracted so much attention from scholars, policymakers, business people and civil society in general. The current global economic and financial crisis started in 2007 has widely highlighted the global interconnectivity between states and how events in one country affect the others. More than ever, there is an increasing global consciousness of individual accountability over social, economic and environmental issues at the international level.

Furthermore, the multilateral system of global governance, underpinned by the UN and the rest of the Breton Woods institutions at the front row, is advocating the need for trade liberalization, democratization, environmental sustainability and poverty reduction towards the race of sustainable development with a global reach.

In an era of rapid information and telecommunication technology development, individuals are becoming more increasingly aware of the avatars of globalization and their responsibility in shaping the world's order[15]. After the WWII, the rapid inclusive development of rich countries in the North has brought its citizens to be more concerned and willing to help poor and developing countries in the South. Therefore, altruism has seen its demand globalized and, as a result, its market.

Individuals may live locally, but increasingly they will have to think globally, think of themselves as part of the global community. This "glocal" phenomenon entails more than just treating others with respect. It entails thinking carefully about when we need to act in order to make the system work and the effects and consequences that those actions will mean to other individuals and nations. Thereby, it entails to put ourselves in other's shoes. The need for this "global empathy"[16] is changing people's mindset towards one that will be essential to manage globalization in a way that should allow room for growth, equality, poverty reduction and well-being.

Under the frame of the globalization process, the conscious interdependence between people, institutions and states beyond national borders is increasing the demand of altruism at international level. The awareness of humanitarian crises, conflicts, wars and climate disasters, to name a few, along with increased inequality and the pervasiveness of poverty in many developing countries is increasing global empathy worldwide, specifically from North to South. This global altruism is strictly focused on poverty and all its dimensions. Furthermore, the dark side of globalization has opened up the adverse consequences of the process in terms of poverty, inequality and environment[17].

However, the intensity or level of global empathy largely differs among countries. For example, whereas wealthy US citizens -grown at the cradle of capitalism- are characterized by an individualistic value system that shapes a more in-country focus, Europeans have cultivated a wider sense of empathy beyond nation-states partly due to the process of their regional integration. Therefore, Europeans are generally demanding –and supplying- more altruism than Americans.

Once at the international level, the altruism market has largely gained in complexity. The main drivers of the market –warm glow, prestige and pure altruism- now coexist with other drivers –economic and political- and actors –corporations, non-profits, governments and multilateral institutions- that generate interferences with other markets. Information asymmetries among stakeholders contribute to the imperfections of the market, which is mixed up with different incentives and other markets. Furthermore, the transnational dimension of the altruism market is making stakeholders to increase their utility not only by helping individuals, but nation-states and regions.

1.3 The Market for Aid

Historically, the economic justification for government involvement in programs for the poor was based on public goods theory. In his classic book, *Capitalism and Freedom*, Milton Friedman (1962) discussed the public goods justification for poverty alleviation

[15] For extensive debate on the two faces of globalization, see Joseph Stiglitz work "Making globalization work", Penguin books (2007).
[16] Bhagwati calls it "cosmopolitan altruism".
[17] Ibid.

when he wrote, "I am distressed by the sight of poverty; I am benefited by its alleviation; but I am benefited equally whether I or someone else pays for its exclusion."

At the national level, the government had the responsibility to allocate resources and provide public goods to the poor, as I have argued in section 1.2.4. Before the globalization movement take-off, public goods funded by the nation-state and delivered through non-profits led to greater success in strengthening the economy and enhancing individual well-being. Poverty reduction was then a local-based problem of public reach. Up to date, at international level, Bretton Woods institutions and its member states, which belong to a world order regulated by international rules and institutions, now lead the fight to poverty reduction with a global approach. Although developing countries still have full sovereignty to decide and implement their development policies, most of them are trapped and tied under the influence and conditions of such institutions and other governments' requirements.

Given the current multilateral framework (see section 1.4 below), the issue of sovereignty between institutions and member states is ambiguous and, in most cases, it is the cause of inefficient action to combat poverty reduction (Arts, 2004). The global concern for economic development, instigated by the US Marshal Plan to help the recovery of Europe after WWII, saw the birth of International Public Goods (IPG) that, from that time on, coexisted with National Public Goods (NPG) in the race to poverty reduction. The scope of IPG (table 2, Annex 1) has expanded considerably since the birth of Bretton Woods institutions. Activities that were traditionally responsibility of nation-states (i.e. security, financial stability, environmental management, etc.) are today tackled within an increasing context of international coordination (Alonso, 2010).

It is an evidence that IPG are increasingly gaining in presence and importance, directly correlated to the expansion of the global consciousness to fight world poverty. Actually, there are new concerns that are born with the label of an international issue, such as climate change too. World poverty, which is often seen as a bad public good (Alonso 2010), has emerged as a deficiency of the system that fails to deliver efficient solutions to eradicate extreme poverty (the k parameter of the non-profit organizations' objective function is closer to 0 than 1). Since the wide consensus reached through the international commitment to fight poverty globally with the adoption of the MDGs (2000) and the Paris Declaration (2005), poverty reduction is increasingly channeled beyond nation-states. However, the multilateral system, as presently articulated, does not comply with the adequate conditions to efficiently provide the IPG that society demands (Alonso 2010).

Furthermore, there is a trend that is contributing to change the scope of the development cooperation beyond nations. According to Alonso (2010), the decisions adopted in a local context generate increasing transnational effects. At the same time, the international environment strongly influences the national framework, conditioning the degree of autonomous decision-making of governments and societies. All in all, one of the main challenges of the market for aid is the design of effective development policies that aim to coordinate cooperation to development at the national and supranational level and to synchronize them to the multilateral institutional framework for further efficient implementation of such policies.

1.3.1 The Dynamics of the Aid Market

Defining aid. A donor-driven approach

Now, we have identified the core elements of the market. First, the aid market attempts to eradicate world poverty. Developing countries –aid recipients- form the demand side of the market, while developed countries are the supply side –or aid donors-. Second, political and economic interests dominate the market's incentives. Third, aid is both delivered at the nation-state and transnational level.

At its broadest, foreign aid consists of all resources –physical goods, skills and technical know-how, financial grants (gifts) or loans (at concessional rates)- transferred by donors to recipients. When aid's purpose is to eradicate poverty, aid is referred as development aid. It has been defined (in general terms) as that part of foreign aid whose purpose is to contribute to human welfare and development in poor countries[18]. This definition, largely donor-driven, it is substantially based on agreements made by the leading donor countries more than 30 years ago, and has not really been contested (despite recent attempts of some scholars to reflect the true value of the aid provided, Roodman 2004). Indeed, it has been the donors who have always decided how much to give, the form in which aid is to be given and who have decided how development aid should be defined (Riddell, 2007).

Surprisingly, given the length of time that aid has been provided for development purposes, the issue of how much aid is needed has not been addressed with much rigor. Historically, debates about aid-giving have been dominated by aid allocations based not on poor country needs but on donor country wealth[19]. It has only been in the last 10 to 15 years that serious attempts have been made to estimate how much aid is needed globally, and even more recently that estimates have begun to be made to assess needs on a country-by-country basis.

Even so, the aid estimation was based under the key assumption that increased aid would in future be used efficiently for development purposes (Devarajan et al. 2002). The World Summit on Financing for Development (2002) felt able to conclude that in order to reduce by half the proportion of people living in poverty, it would be necessary to double the amount of aid by at least 50% (Zedillo 2001). In the same line, a World Bank study (2005) suggested that to achieve the MDGs including halving the proportion of people living in poverty, official aid levels would need to be doubled. Another example that shows the focus of wealthy nations emphasizing this key assumption is the UN ODA target to reach the 0.7% of GNI's disbursement of DAC countries to development aid (including humanitarian aid). In 2009, only five countries exceeded this target: Denmark, Luxembourg, the Netherlands, Norway and Sweden, while the average of DAC countries was 0.31% of GNI.

Furthermore, these crude assessments are made with the objective to halve poverty.

[18] Some scholars using a 'purpose-based' definition have focused less sharply on the poverty and welfare dimensions of aid. For instance Krueger, Michalopoulos and Ruttan (1998) define (foreign) aid as 'an instrument used by government to strengthen the economy of another country'.
[19] Measured by the ratio of ODA to gross national income (GNI).

Thus, to eliminate it, one could reckon to even double the estimations previously made. Considering all the above, it is an evidence that there remains a huge mismatch between the rhetoric of donors acknowledging their responsibility to respond to severe poverty and the amounts of aid they give and are planning to give.

The aid market, therefore, it is clearly led by the supply side. As long as there are developing countries stuck with pervasive poverty (poor) versus developed countries willing to expand their external relations (wealthy), there will always be nations demanding aid for their development.

1.3.2 The Supply of Development Aid

In a perfect market, a developing country that wishes to get out of poverty should have different choices that could match his needs without influencing prices[20]. Under this assumption, the developing country would be the consumer that makes the decision, gets the utility and pays for it. Instead, the market for aid does not work like this. Rather, it is a system of donors that choose which countries to give aid with the objective to eradicate poverty. Donors, who feed from the money collected from the taxpayers, plan and manage the system and decide how the funds are spread. In such scheme, the taxpayers, who own the money, could be the real consumers of the market. They should get utility by contributing to the government's efforts to eradicate poverty with their money.

In practice, however, the market of development aid is much more complex and imperfect. The supply is mainly dominated by an oligarchy of Western donors that decide the objectives, set the rules, discuss the priorities and implement the agreements, internationally recognized and regulated at the OECD's DAC[21]. Actually, the most intense and substantial work undertaken to develop a set of operational definitions of what constitutes foreign aid has been led by DAC. It sought merely to define that part of overall aid provided by donor governments to poor countries. This is named official development assistance (ODA), a term that has stuck with us ever since. The core definition, first agreed in 1969 and then refined in 1972 is as follows:

> ODA consists of flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following two criteria: (1) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and (2) it is concessional in character and contains a grant element of at least 25% (calculated at a rate discount of 10%). Source: Führer (1994).

Donor aid agencies are, therefore, official channelers of development aid. The rationale underlying the aid market, such as Barder (2009) points out, raises the following issues:

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[20] Nicholson, Walter. "Microeconomic Theory". 9th ed. 2005".

[21] The OECD Development Assistance Committee is a unique international forum of many of the largest funders of aid, including 24 members. The World Bank, IMF and UNDP participate as observers. The DAC's doors are open to countries beyond its members who are making growing contributions to development co-operation. The DAC became part of the OECD by Ministerial Resolution on 23 July 1961.

if individuals in rich countries want to help people abroad, why don't they simply give money directly to people in developing countries, for them to buy private goods such as food and shelter, and to the governments of developing countries for them to provide public goods such as security and infrastructure? Why do we need donor agencies to connect the donors and the intended beneficiaries?

Aid agencies exist for many of the same reasons that NPO exist, namely that they coexist in a world of imperfect information, diverse objectives, increasing returns to scale, and transactions costs. Aid agencies, acting as intermediaries between donors and the intended beneficiaries, reduce the costs of delivering aid (transaction costs) by:

- Mediating between the competing interests of donors and recipients, and the interests of the various individuals and organisations in the aid delivery chain;
- Reducing transactions and information costs, by reducing uncertainties in delivery by monitoring performance, and so managing the challenges of incomplete and asymmetric information;
- Achieving returns to scale in aid management, including gathering and communicating information, acquiring knowledge, expertise, and reputation, and establishing systems for transmission of resources.

However, aid agencies are distorted by the same drawback, asymmetric information. It has its origins at the upper level of setting the objectives of aid giving. While poverty reduction is at the core of its *raison d'être*, in practice donor agencies pursue an additional set of national objectives such as promoting national security, commerce and prestige. Hence, aid agencies, as they are all accountable to their respective nations and regions, have diverse and sometimes conflicting national objectives (see Alesina and Dollar, 2000; Bandyopadhyay and Wall, 2007; Collier and Dollar, 2002; Easterly and Pfutze, 2008; Milner, 2004; Ostrom *et al*, 2002).

Therefore, poverty reduction is not a single objective but a set of goals, some of which are complementary but among which there are also important trade-offs – for example about which people are helped, in which ways, and when (Barder, 2009). Because donors have broader objectives than just poverty reduction, they are also likely to compete with each other directly. For example, donors that use aid not only to reduce poverty but also to build market share for their exports, to improve strategic relationships with a recipient country, or to secure a greater proportion of the supply of natural resources, are pursuing objectives that directly compete with the corresponding objectives of other donors.

The convergence of divergent incentives into a set of goals packed under the overall attempt to reduce poverty covers the real influence of geopolitics in the political economy of aid. What it is undeniable and apparent for professionals of the aid industry is often dismissed information for other key stakeholders such as taxpayers in donor countries or beneficiaries in recipients. With the right information, they could contribute with more accuracy to the forms in which the market for aid is organized, likely improving aid effectiveness. The multiplicity of goals of donor agencies toward political and economic objectives is a means of increasing competition between donor agencies and countries. Aid trends since the 1970s show a steady donor fragmentation, which is related to the shift of aid towards other emerging developing countries (Klein and Harford, 2005). Since the aid take-off in the 1960s, many aid agencies have emerged whereas none of them has closed down. Indeed, increasing competition carrying out aid fragmentation has converted into one of the main drawbacks of the aid industry (see figure 1, Annex 1). Aid harmonisation was pointed out as one of the five principles of the PD to improve aid effectiveness, and thus, contribute to alleviate poverty.

Although much of the research literature about development aid refers to the aid disbursed officially by donor governments and multilateral institutions (see ODA's definition above), it is important to have a relative perspective about development flows related to the overall capital inflows to developing countries. Let's take a look to these flows. Private capital inflows are enormously increasing compared to official capital inflows. In fact, private financial flows are dominating developing countries' financing. According to the World Bank's Global Development Finance database, gross unofficial flows –foreign direct investment, migrant worker's remittances, portfolio equity flows, grants from NGOs, and loans without a sovereign guarantee- increased sixfold between 1970 and 1985, and nearly tenfold between 1985 and 2002 (see figure 2, Annex 1). Official flows –loans, grants, export credits, and publicly guaranteed debt- were less than half this level in 2002. This trend steadily continues to grow in recent years.

Net flows give an alternative picture, because large repayments or profit repatriations can make gross flows huge even while net flows are small or negative (Klein and Harford, 2005). Net flows to the private sector in developing countries display clear patterns. Net debt and portfolio equity flows are trivial compared with FDI and gross remittances. And, what it is most remarkable, private flows go mostly to middle income countries. While FDI move primarily without a concern to allocate flows to the least developed countries, going mostly to upper-income countries (see figure 3, Annex 1), remittances, though smaller overall, have already outpaced ODA and would even exceed FDI flows if the data excluded China. Remittances have some advantages worth mentioning. While FDI flows to developing countries are roughly proportional to the size of their economies, remittances to low-income countries are large relative to the size of their economies (see figure 4, Annex 1). They are also important because they go directly to households, often for spending on essentials or investing in a new house or business. The total flow is much more stable than foreign aid or FDI (Ratha 2003), because the income and number of migrant workers change slowly.

The last decade saw a determined increase in international capital inflows to the 128 developing countries reporting to the WB Debtor Reporting System until the beginning of the financial crisis in 2007. The percentage of GNI allocated as net capital inflows -both private and official- to developing countries jumped from 2.7 in 2002 to 8.0 in 2007 (Global Development Finance Report, 2011). The rise was mainly instilled by large amounts of net equity inflows (mostly FDI) and net debt flows by private creditors. The global financial crisis has hampered poverty reduction without doubt. The 8.0% of capital inflows as percentage of GNI attained in 2007 has been reduced to the 3.7% in 2009, mainly due to the fall of FDI and net debt flows –the two instigators of the rise-. On the other hand, net official financing even increased since 2007, led by a substantial increase of multilateral loans by Bretton Woods institutions –IBRD, IDA and IMF-.

Regarding the total amount of net capital inflows, USD 597.8 billion was allocated to developing countries in 2009. Out of this amount, net official financing was "only" USD 171.4 billion, the 28.7%. Despite the enormous rise of private flows to developing countries in the 2000s, the least developed countries have a strong dependence on official development aid. In this aspect, Africa is the continent that represents major risks with ODA average close to 9% of GDP (in comparison, South Asia has reduced its dependence to only 1%).

The content of net capital inflows to developing countries needs to be read relatively. As mentioned above, the main bulk of private flows tend to go to middle income regions –Brazil, China, India- which are characterized for rapid development and economic growth rates. According to the WB Debtor Reporting System, East Asia and Pacific was the first region in terms of net capital inflows receiving USD 191 billion in 2009, followed by Latin American and the Caribbean with USD 167 billion, Europe and Central Asia with USD 90 billion, South Asia with USD 77 billion and Sub-Saharan Africa with USD 45 billion.

The relative importance of each source of development finance considerably differs by region (Mold 2010). Whereas private flows underpinned by FDI mostly go to middle income countries -characterized by rapid economic growth and a suitable regulatory investment framework-, as an instrument to invest in emerging economic sectors, least developed countries, often found in the poverty trap, are out of private flows targets –except for the investment aimed at the exploitation of large mineral resources-. Therefore, low-income countries rely mainly on official flows in order to finance their development (concretely ODA).

We have mentioned that net official inflows have even increased since 2007 at the doors of the global financial crisis. Concretely, net inflows of capital from official creditors –loans and grants- were estimated at USD 171 billion in 2009, an increase of about 50% over the comparable figure for 2008[22]. This increase was driven mostly by the rapid rise in the net inflow of medium and long-term loans from the IMF and multilateral development banks[23]. Most OECD countries provided a large share of their bilateral assistance in the form of official grants, particularly to low-income countries with little or no access to market-based financing.

However, recent trends show the significant shift from grants to loans in financing from official sources. By 2009, grants, as a share of the net inflow of official financing, are estimated to have fallen to 55%. By contrast, net official financing provided by multilateral institutions –including the IMF and grants from IDA- rose from USD 11.4 billion in 2007 to USD 70.8 billion in 2009. However, it is important to note that the distribution of official financing by region is dominated by Europe and Central Asia, and Latin America and the Caribbean by far. Far ahead lays South Asia and Sub-Saharan Africa[24].

[22] Global Development Finance Database 2011.

[23] The decision was made at the Group of 20 London Summit in April 2009 in order to accord these institutions a central role in crisis response for developing countries.

[24] IDA's operations, targeting the poor, are concentrated in South Asia and Sub-Saharan Africa. New loan commitments from IDA rose 15% in 2009 to USD 10.4 billion. It also disbursed USD 2.5 billion in grants in 2009, an increase of 19% compared to 2008.

Although the volatility of official flows is lesser than private flows, the failure in accomplishing donor commitments in aid flows has undermined the predictability of official ODA (dominated by grants), particularly in most aid dependent countries in Sub-Saharan Africa.

Much of the debate is centered on the amount of ODA that donors might disburse to developing countries. The Global Development Finance Database, the main source of data of this section, just focuses on outlining the main figures and explaining the development financing trends quantitatively. However, it lacks an explanation about the direct effects of the disbursements in alleviating poverty in these countries. Nevertheless, the last decade has seen the rise of a hot debate on how the aid disbursed is delivering results. Aid effectiveness is at the top of the donor agenda, institutionalized at the PD in 2005 and followed up upon the Accra Agenda for Action on aid effectiveness in 2008. One of the main drawbacks in order to analyze potential ways forward is the absence of impact information as a result of the lack of focus on results.

The low levels of information collected from the impact of ODA in developing countries has its roots in the lack of incentives in designing and implementing monitoring and evaluation methods and instruments focused on results rather than inputs. As explained in the *market of altruism* section, impure altruism incentives derive utility from the conditioned act of giving. This explains why the development aid debate is largely dominated by the discussion of the quantity of aid to be disbursed rather than the results achieved by aid disbursements –that is, how the aid disbursed can be more effective and efficient-.

Table 3 in Annex 1[25] well summarizes the relationship between effectiveness and the political economy of aid, the two main issues that contribute to explain the dynamics of the supply of development aid. We have argued that the supply of aid is donor-driven and, therefore, it is largely dominated by donors' multiple objectives. Poverty reduction's goals coexist with broader political and economic interests. Such incentives represent an enormous barrier that hinder the achievement of the first and second principles of the PD on aid effectiveness –*ownership* and *alignment*-, widely agreed over one hundred Ministers, Heads of Agencies and other Senior Officials in 2005[26].

In the same line, competition between donors leverage into competition between aid agencies, which try to negotiate its own conditions and targets with recipient governments. This type of collective action between aid agencies foster their proliferation and fragmentation, opposed to the third principle of the PD –*harmonization*-, which seeks to reduce aid fragmentation by simplifying procedures and share information to avoid duplication.

Furthermore, the imperfect information that characterizes the market for aid, biased in benefit of the supply side and underpinned by separate monitoring and evaluation mechanisms, is contrary to the fifth principle of the PD –*mutual accountability*-. The conditions, influence and dependence that donors impose to most low-income countries

[25] An excerpt of Barder's "Beyond Planning: Markets and Networks for better aid" (2009).

[26] See the Paris Declaration and Accra Agenda for Action principles in http://aideffectiveness.org.

on development aid hamper the inclusion of transparent and responsible accountable mechanisms. This feature is related to the principal-agent problem that affect aid agencies, which often are required to focus on inputs rather than results. Herein, the improvement in the fourth principle of the PD –results- does not seem to move into the same direction that the situation in which most donors are found.

In such circumstances, the objective function of donor aid agencies follows the same theoretical logic that the one of the NPO (see section 1.2.4). In this case, donor agencies parameter is closer to 0, and therefore they behave in maximizing the budget. The combination of a principal public donor (budget) and a public agency with k=0 is one of the worst scenarios: maximum budget and minnimum utility for the beneficiary. The taxpayer, who is the donor-must, cannot control, the parliaments do not have the incentives to oversee and furthermore donor agencies can act as rent-seeking, because they are aware that the government has committed to provide aid as a share of the budget.

The aforementioned features of the supply of aid, which seriously undermine the effectiveness of aid were the cause whereby donors started to find out possible solutions to improve the quality of aid (it seems that donor agencies k is closer to 0). The PD meant a tipping point towards that direction. However, the slow progress made after the declaration provoked the reaction of donors, who gathered again in Accra to discuss potential ways forward to boost progress. It seems that the way to improve aid effectiveness is not straight, plain and fast as expected. But, what are aid beneficiaries' opinion? Who is the real aid consumer?

1.3.3 The Demand of Development Aid. Who is the Real Consumer?

I started the last section –the supply of aid- making the logical assumption that a donor country that offers development aid is because there is a recipient country that demands that aid. Or, following the same rationale, a recipient country that demands aid is due to the existence of a country that provides it. But, according to the donor-domain of the aid market (see the last section), aid is pushed by donors rather than demanded by recipients. Therefore, as ODA deals between and among countries, it seems that the consumer of aid is the recipient country.

In most markets, the consumer of a good or service is both the purchaser and the intended beneficiary (Barder 2009). In the case of aid, the funders are usually taxpayers of the donor country, and decisions are taken on their behalf by the aid agency buying the development services, instructed by the political office-holders leading those organisations. The decisions are almost never made by the intended beneficiaries of aid, and there is no cost-effective way for the purchases to gather information about what services are needed and whether the service has been properly delivered.

There is, therefore, a big gap with a broken feedback loop between the purchaser and the intended beneficiaries. Market-like mechanisms will only be effective if the interests of decision makers are closely aligned with the interests of the intended beneficiaries. As far as the purchaser's utility comes from the mere act of giving, as argued above, the incentives to close the gap with the intended beneficiaries are not in place. This is one of the main features that hamper an effective functioning of the aid market. Winters

(2009) points out that there is so much evidence of development aid allocations that do not reach poverty reduction purposes for corruption of misuse of funds. Actually, one of the response to advocates like Jeffrey Sachs (2005) who call for a massive increase in foreign aid is that doing so is just throwing money down the rat's hole of corruption and waste –that there is no sense in giving additional money to developing countries if donors cannot even be sure where the money is going (Easterly 2006).

The WB (2004) discusses two possible approaches to closing the feedback loop, known as short chain accountability and long chain accountability, respectively. The short chain way to make aid more accountable to the beneficiaries is to give beneficiaries more control over the organisations that deliver services. The same Easterly (2007) suggests that one way to do this is to provide aid directly to the intended beneficiaries –for example, in the form of cash transfers or vouchers. However, it seems that giving directly choice to them is not creating the mechanism for them to look for sustainable approaches to development, as sometimes the intended beneficiaries' information and behavior does not comply with the right frame to make the most righteous decision. They are not found in a context of opportunities and freedom (Sen, 1999).

The long chain way to make aid more accountable is to give much greater emphasis to transparency, community engagement, measurement of results and feedback through the political system. CSO and politicians in donor and recipient countries should have access to information about how aid has been spent and what the impact has been. What it seems evident for the vast majority of aid practitioners and research scholars –it is actually the roadmap for improved action- in practice is still a utopia. This would enable them to put pressure on policy-makers in both donor and recipient countries to improve the effectiveness of how aid is used. But this would generate a collision between groups of interests in pursuing some of the objectives of development aid as discussed in the previous section. Again, the right incentives for policy-makers are not in place.

The aid debate is moving from how much aid should be disbursed to how to disburse it between agencies and/or governments. The market for aid is, thus, highly institutionalized. Bertin Martens has described the political economy of aid institutions at length (and much of this discussion is informed the analysis in Martens, Mummer, Murrell, Seabright and Ostrom, 2003; and in Ostrom et al, 2002). He argues that measures to make aid work better should pay more attention to institutional economics. He warns, for example, that measures to increase the voice and power of developing countries in the aid partnership may have the unintended consequence of reducing support for aid in donor countries, because it disrupts the equilibrium that has been established between the interests of the donors and the interests of the recipient. Martens notes that aid increased during periods of maximum conditionality – such as during the time of the structural adjustment policies promoted by the international financial institutions, and that it declined when the pendulum swung towards ownership by developing countries.

<u>From institutional planning to institutional market</u>

The roadmap for more effective aid is moving towards the proliferation of market-like mechanisms. Since the failure of the over-institutionalized aid planning (Easterly, 2006), many market-oriented initiatives have emerged as successful mechanisms for poverty reduction at the local level (Yunus, 2005; Sen, 1999; Easterly, 2006). These initiatives are inspiring donors in the design of market-based approaches to aid delivery methods in order to improve aid effectiveness (i.e. Growing Inclusive Markets[27], UNDP, 2007; Output-based Aid Program[28], WB, 2003; Aid for Trade, EC[29], 2005).

These donors believe that these new approaches can overcome some of the challenges facing the aid system. Particularly, principal-agent problems in the aid delivery chain can be tackled with greater use of explicit contracting, aligning incentives of aid agencies and contractors with the intentions of their funders (i.e. WB's output-based aid). Furthermore, markets can reduce information needs by decentralizing decision making (i.e. Cash on Delivery Aid, an approach designed by the Center for Global Development, in which donors make payments based on the achievement of particular outputs or outcomes, require the donors to know much less about the specific circumstances of a country, and so help to overcome asymmetric information (Birdsall, Savedoff and Vybomy, 2009). An explicit market would increase incentives for aid agencies to collect and report information about impact (Barder, 2009). In addition, markets are often an effective way to coordinate the collective action of multiple decision makers with diverse and competing interests, but only if the market operates within institutions that enforce the rules of the market, and ensure that decision-makers bear the consequences of their decisions (for example, by penalizing or subsidizing negative or positive spill-overs).

Nevertheless, even though the benefits that market-like approaches add to many of the aid system challenges are undeniable, the development of a market for aid has three components that altogether shape the Achilles heel of the proliferation of a mature institutional market. First, as far as the consumer is not identified and accepted by all the stakeholders across the aid delivery chain, the gap between the purchaser and the intended beneficiaries is too big for an effective allocation of resources, thus dismissing the potential of the market as an effective mechanism to improve effectiveness. Second, in the aid market there is no obvious analogue to price. Markets work by simplifying large amounts of information about preferences, costs, and effectiveness into a simple, transparent price signal. In the aid system, there are rarely explicit measures of the price of each output that would provide signals to producers and consumers. Third, the development and implementation of market-based initiatives is still in a too early

[27] The GIM approach seeks to demonstrate how business can significantly contribute to human development by including the poor in the value chain as consumers, producers, business owners or employees ('inclusive business models'). GIM highlights portraits of successful simultaneous pursuits of revenues and social impact by private actors, from social entrepreneurs to local small and medium-sized enterprises, large domestic companies and multinational corporations, but also state-owned companies and civil society organizations.

[28] Output-based aid (OBA) is an innovative approach to increasing access to basic services – such as infrastructure, healthcare, and education – for the poor in developing countries.

[29] Aid for trade is financial assistance for developing countries specifically targeted at helping them develop their capacity to trade. It can include help in building new infrastructure, improving ports or customs facilities and assistance in helping factories meet European health and safety standards for imports. It believes that helping developing countries develop the means to benefit from open global markets is an important part of a long-term strategy for global poverty reduction, alongside debt relief and general development aid.

inception phase. Thus, this novelty impedes to have systematic impact information of the actions with properly designed monitoring and evaluation schemes focused on results.

All in all, experience from other sectors using explicit markets suggests that there will be two key challenges for efforts to create more explicit contracts for the delivery of aid services: (i) finding ways to articulate results in a way that can be rigorously defined and monitored and (ii) creating incentives for decision-makers to focus primarily on results, and the impact on intended beneficiaries, as opposed to making choices based on other institutional objectives.

Despite the lack of an empirical wide-accepted view of the impact of market-driven initiatives in the race to poverty reduction, along with the aforementioned challenges to overcome, the rise of market-like aid approaches during the first decade of the XXIst century at the light of the aid effectiveness' debate highlight the evolution of the aid system. This system is thirsty of new approaches and innovations. Whereas it is still relying too heavily on planning, aid initiatives supported at the meso level of the aid architecture –inspired by successful actions at the local (and micro) level, are changing the mindsets of traditional aid practitioners and decision-makers. They are pushing them to adopt a more decentralized policy framework (at the macro level) that can support the design, development and implementation of market-oriented policies to poverty reduction (see figure 5, Annex 1). They are creating the conditions for a new ecosystem of aid institutions to evolve.

In the following section I will review the different strands of development models that have shaped the aid system from post-WWII to these days with the aim to corroborate whether this aid trend is accompanied by the predominant development model of this time.

1.4 Modern Development Economics, a Theoretical Perspective

There has not been one single prevailing development model over the last sixty years. Rather, cycles of consensus have taken place among the economic policy elite despite often wide disagreements 'on the ground,' with mainstream economics pivoting from neoliberal to non-neoliberal, from the right to the left of the political spectrum. Four competing strands of thought have dominated development economics since the end of the Second World War and the signing of the Bretton Woods Agreements, with the last one being the currently predominant view being widely held by major development institutions. They are historically contextualised below and subsequently described in a brief analytical way.

The five lustra following WWII saw the rise of the "inward-oriented, state-oriented development paradigm driven by an acceptance of the pervasiveness of market failures (or nonexistence of markets) in developing countries"[30]. Import-substitution strategies emanating from export pessimism became central to the development mentality of policy-makers in developing countries. The industrialisation success attributed to Keynesian policies in Western countries after high unemployment rates in the 1930s, as

[30] Kanbur (2009), Pg. 6.

well as the impressive transformation of the Soviet Union through the communist revolution, had a far-reaching influence in development economics at the time.

Kanbur (2009) argues that as a result, the developing world shaped its policies accordingly. India developed its Five Years Plans aiming at managing aggregate demand and heavily investing in tariff-protected state industries. African states also took similar economic steps after achieving independence and created state-owned companies and regulated prices to avoid the shocks produced by world prices fluctuations. Furthermore, international development agencies like the World Bank also joined in politically and economically supporting these strategies, starkly contrasting with their posterior neoliberal drift.

On the academic field, the 1950s and early 1960s understood the process of development as a series of economic stages through which every country would, in time, pass: the linear stages-of-growth model. The economic reforms and changes undertaken by developed countries in their developmental path were thought as the blueprint Third World nations should follow in order to achieve industrialisation and thus higher growth rates. The stress on economic growth was marked by a belief that following the right economic recipe could attain economic development: the proper mixture of saving, investment and foreign aid.

By the end of the 1960s, and throughout the 1970s, the rapid and successful development of the East Asian countries moved into the spotlight. High and sustained economic growth characterised the 23 East Asian countries, which have grown faster than economies in any other part of the world during the 35 years preceding 1990. Eight economies were mainly responsible for this extraordinary performance, namely Japan, the four Asian Tigers and the three Newly Industrialised Economies. The group known as the Tigers includes South Korea, Taiwan, Singapore and Hong Kong, while the so-called NIEs are Thailand, Malaysia and Indonesia. The record since the 1960s of these eight Highly Performing Asian Economies (HPAEs) shows that they grew twice as fast as the rest of East Asian countries, three times faster than Latin America and South Asia, and about five times faster than Sub Saharan Africa. In the 25 years between 1960 and 1985, the real income per capita of the NIEs doubled while that of Japan and the Tigers grew fourfold[31].

Arguably, the greatest achievement of the HPAEs consisted in having been able to share the benefits of growth, since these were the only economies combining high rates of growth with declining inequality at the time. In fact, the most rapidly growing of them, Japan and the Tigers, were the most equal in terms of income distribution. Social welfare, particularly life expectancy, experienced more than substantial improvements, far superior to those of other regions of the world. Poverty has been reduced dramatically in these countries while aggregate outcome has grown rapidly[32].

Although the important redistributional role played by land reform, public education and export-oriented state intervention that created demand for unskilled labour were acknowledged at the time, trade openness was credited to be the main reason for their

[31] World Bank (1993).
[32] World Bank (1993).

success. Kanbur (2009) summarises the different interpretations that still prevail today on the reasons behind what the World Bank named 'the East Asian Miracle'[33]: That the East Asian economies had rising unskilled wages, that there was increasing employment in light industries manufacturing for exports, is agreed. But how exactly this came about, and its policy implications for other countries, is disputed. In particular, the importance of sequencing, of starting with protection and then gradually opening up, is much debated. However, the social implications of growth have its roots in the collectivist behavior of its population, correctly fostered by state policies.

Contrary to the mainstream development paradigm that was to prevail for the following decades, far-reaching equity-enhancing measures (particularly land reform in economies where the agricultural sector is large), initial protectionism of key sectors, sound extensive government intervention and widespread participation by the workers in decision-taking and in sharing the benefits of growth were decisive contributing elements of the East Asian 'miracle.' As such, the so-called miracle has to be understood within a context shaped by an Asian value system formed with specific cultural and behavioral attitudes that boost development with an egalitarian intrinsic implication. Asian Values is the term used by Western scholars to explain the rapid economic development of Asia between 1970 and 1980 (Lee Hong-Jong, 2003). In fact, the role played by the value system of such economies as a factor for its egalitarian economic development is absent from the East Asian Miracle report.

Academically, the late 1960s and 1970s however, witnessed a significant shift in development perceptions and consequently experienced a marked departure from the previous approach. Concerns about the distributional implications of growth became central spurred by experiences such as that of Brazil, where Fishlow (1972) reported poverty to have most likely increased despite fast growth rates due to worsening inequality. The joint WB-IDS volume by Chenery et al. (1974) called Redistribution with Growth may well exemplify "the development thinking at that time," Kanbur (2000) points out, "reflecting concern that growth of the type […] promoted by the international community might not benefit the poor because of its distributional pattern, and that active intervention was required to manage the distributional consequences of growth processes."[34] This stage also saw the rise of the basic needs approach (ILO, 1976) as an opposed theoretical stream to counterbalance structural adjustment.

Thus, two competing schools of thought sharply divided economists' views over the failure by most Third World countries to rapidly industrialise despite their adherence to the liberal policy recipes regarding the removal of obstacles to growth and the supply of missing components like capital, foreign exchange skills, and management. One side focused on theories and patterns of structural change, and attempted to analyse and describe the 'typical' process of structural change developing nations would have to undergo in order to lift themselves out of underdevelopment through higher growth rates. Again, this model was based on the historical stages experienced by developed countries in their process of development and considered that the potential for

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[33] Ibid.
[34] Kanbur (2000), Pg. 793.

development lay exclusively within the domestic realm, quite independent from external and historical factors.

The other approach, instead, the international dependence revolution, interpreted the underdevelopment in which Third World nations found themselves not only as a result of 'domestic' processes but also, and particularly, as the outcome of domestic and international power relationships. The inability of developing countries to take-off emanated from the existing imbalance in these power relationships, rigidities present in both institutions and economic structures, and the growing social and economic dualism within and between countries.

Institutional and political constraints, both external and internal, were seen as the main factors hindering economic development. Thus, in a departure from previous and contemporaneous approaches, growth per se was not seen as the only objective and a certain egalitarianism able to attenuate the imbalance in power relationships was considered essential.

With the 1980s came the neoclassical counterrevolution backed in the international political arena by the new conservative administrations of Reagan, Thatcher and Kohl in the US, UK, and West Germany, respectively, which successfully extended their influence and control onto the international development institutions. This approach held free markets, open economies, and privatisation of publicly-owned enterprises as the basis for growth, and regarded government intervention and regulation of the economy as obsolete mechanisms to economic development. The use of 'religious' terms was not gratuitous since its adherents believed in the 'magic of the marketplace' and the 'invisible hand', as Reaganism and Adam Smith respectively put it, which would set the right prices and allocate resources in the most efficient way.

A high US dollar and the debt crisis of this decade had a profound macroeconomic impact on developing countries. Compelled by the need to generate foreign exchange in order to service debts and purchase imports, and by the conditionalities imposed by international financial institutions, developing countries embraced trade liberalisation. The main argument pointed to rapid integration into the global economy as the best poverty reduction strategy by encouraging faster growth.

These policies involved the freeing of the exchange rate, the gradual removal of quantitative trade restrictions, and the lowering of tariffs in large parts of Africa. In Latin America, significant austerity in public sector budgets was imposed so as to honor debt obligations and continue debt repayments, seeking a balance between government revenue and expenditure. The fall of the iron curtain in the early 1990s shoved formerly communist transition economies of Eastern Europe into 'shock therapy' as economies were opened up and privatized overnight in a process whose results are still source of much contentious debate. Indeed, the implosion of the Communist block brought about some of the worst deteriorations of human development indicators ever experienced in history by any region in a period of peace. Finally, the Chinese government followed a policy of progressive openness to the global economy.

Contrastingly, Kanbur (2009) argues that "while politically communist, China increasingly took on the characteristics of a market economy, with peasants being allowed to keep what they produced, inward foreign investment, and spectacular increases in exports, investment and economic growth," which brought about "perhaps the most dramatic reduction in poverty in history."[35]

Resurfacing from previous development discourses, the late 1980s and 1990s saw a slow and steady rise of the new growth theory. This alternative consensus tried to reformulate and extend traditional growth theory so as to incorporate explanations for the wide spectrum of developmental paths followed, and results obtained, by developing nations, as well as for the uncontestable economic role played by governments with varying degree of success. The failure by developing countries that were subjected to the structural adjustments, based on the neoclassical approach and imposed on them by the Washington Consensus (Williamson, 1990), paved the way for a new approach.[36]

Other factors also played an important role for the development of the latter approach. The first was a better understanding of the so-called East Asian Miracle that had been wrongly claimed as an example of laissez-faire economics, and which highlighted the significant room for governments to participate in the economy in a successful manner. A second factor was the experience of the Eastern European block mentioned above whose 'shock therapy' is claimed by Kanbur (2009) to have represented 'more shock than therapy.' He further argues, in line with Hoff and Stiglitz (2004), that the poor development record of this transition is attributable to "an overly hasty and radical move from a statist past to a market oriented future without regulatory safeguards and without safety nets."

A third factor was that despite the adoption of more outward-oriented policies, first by China and later by India, their success in achieving high rates of growth could not be attributed to the neoclassical policies that had been strongly encouraged during the 1980s. Their governments continued to maintain controls on capital flows, domestic redistribution to prevent worsening inequality, and, in the case of China, exchange rate control to favour its exports with extraordinary results.[37] In the following sections, the five development theories predominant in the last sixty years, and historically contextualised above, are briefly explored in an analytical way, as discussed in Todaro (2009).

1.4.1 The Linear-Stage Theory

After the Second World War, two economic considerations played a relevant role in renewing interest in poor countries' development processes, namely the success of the Marshall Plan and the historical interpretation of developing countries' economic evolution. The former was seen as the key to Europe's fulgurant recovery despite the devastation suffered during the war and seemed to point to the importance of investment to spur economic growth. The latter was understood to set forth the way in which the backward agricultural economies would transform themselves into successfully industrialised countries. Rostow's stages of growth model, Rostow (1960),

[35] Kanbur (2009), Pg. 8.
[36] Ibid.
[37] Ibid, Pg. 10.

proposes a set of five stages through which developing economies pass their way to becoming industrialised and self-sustaining. First, traditional societies who manage to extract savings from agriculture may then be able to start investment in the manufacturing sector. As the latter starts absorbing the rural labour surplus, the economy moves into a stage where the pre-conditions for take-off into self-sustaining growth are met. When the investment ratio reaches 15% to 20%, then the economy can take-off and move rapidly upward by achieving growth rates of around 5%. After a stage in which the economy experiences a drive to maturity, it finally settles in the age of high mass consumption.[38]

The mobilisation of foreign and domestic savings to generate a sufficient investment to accelerate growth is thus crucial. The mechanism by which more investment leads to more growth is known as the Harrod-Domar model[39]. This model independently explains an economy's growth rate in terms of the level of saving and the productivity of capital. Beyond the replacement of current stock, an economy needs additional capital stock, which can be obtained by sacrificing domestic consumption, receiving foreign aid or attracting foreign investment. In this model, the growth rate is proportional to the saving ratio divided by the capital-output ratio, which is the base for the claim that massive injections of capital like the one provided by the Marshall Plan are key for industrialisation.

The problem with the stages of growth model is, Todaro (1994) points out, not only that developing countries suffer from a relative low level of capital formation, but also that saving, and subsequent investment, are in fact a necessary but not sufficient condition for accelerated rates of economic growth. Developing countries were assumed to be able to follow the development path experienced by the developed nations without taking into account their fragility in terms of structural, institutional and attitudinal conditions inherent to them. Mostly, their stories were not as successful as that of Western Europe mainly because they lacked "well-integrated commodity and money markets, highly developed transport facilities, a well-trained and educated work-force, the motivation to succeed, and an efficient government bureaucracy."[40] Furthermore, this model does not take into account the interactions of a highly integrated and international system with far-reaching consequences at the domestic level.

Theory of structural change

Using the neoclassical theories of price and resource allocation, structural change economists try to explain the mechanism by which underdeveloped countries with a predominant, large agricultural sector can transform themselves into a diversely industrialised, manufacture and service-relying, and more urban economies. Two well-known exponents of this stream of thought are Lewis (1954), and Chenery (1960), who presents a model of industrialisation that takes into account the international 'medium' in which a domestic economy operates and the constraints of developing countries ignored by Lewis.

[38] Todaro (1994).
[39] Domar (1946) and Harrod (1948).
[40] Todaro (1994), Pg. 73.

The domestic constraints present in Third World nations that Chenery's model contemplates can be categorised as either economic or political (without outlining cultural factors). The former category refers to resource endowments and to the size of the country and its population, whereas the latter concerns institutional constraints such as government policies and objectives. The model offers a detailed list of characteristics of the development process, namely: The shift from agricultural to industrial production, the steady accumulation of physical and human capital, the change in consumer demands for emphasis on food and basic necessities to desires for diverse manufactured goods and services, the growth of cities and urban industries as people migrate from farms and small towns, and the decline in family size and overall population growth as children lose their economics value and parents substitute child quality (education) for quantity[41].

The empirical research carried out by Chenery is valuable insofar as it assesses the way that economic structural change occurs and estimates the parameters involved in that process.

1.4.2 The International-Dependence Theory

Todaro (1994) distinguishes threes schools of thought within international-dependence models, namely, the neocolonial, the false-paradigm and the dualistic-development.

The neocolonial dependence model

This neomarxist approach explains underdevelopment by viewing it through the lens of the historical evolution of the capitalist system that subjects poor nations, the periphery of the system, to the exploitation by rich economies, the centre. This imbalance in power relations explains per se the situation in which poor countries find themselves and which prevents them from becoming self-reliant and independent. The model also takes into consideration the important role that elite ruling classes play in poor countries and the ways in which these classes serve and are rewarded by international interest groups for perpetuating the international system of inequality. These groups include the Bretton Woods Institutions controlled by developed countries, multinational corporations, aid agencies, etc. Thus, unlike the previous models where underdevelopment was caused by internal constraints, in this case it is an externally induced phenomenon from which developing countries need to free themselves.

The false-paradigm model

This school considers that rather than a process of exploitation stemming from unbalanced power relationships, the cause for underdevelopment is to be found in the bad advice given to developing nations by experts from or trained in developed countries. These experts base their inappropriate policy advice on poorly-informed, biased and ethnocentric analysis armored behind elegant theories and econometric models, which compose the core teachings at educational, academic and training centres in developed countries. Furthermore, it considers previous models to serve the interests

[41] Ibid, Pg. 73.

of power groups as they fail to account for crucial elements of the Third World such as the "role of traditional social structures (tribe, caste, class, etc.), the highly unequal ownership of land and other property rights, the disproportionate control by local elites over domestic and international financial assets, and the very unequal access to credit."[42] This model introduces some behavioral concepts that are country-specific and, therefore, serve the basis to forward endogenous-led models.

The dualistic-development model

This approach understands the world as a system of dual societies, both at the international level between poor and rich countries, and the domestic level of poor nations with pockets of wealthy elites. Dualism purports a coexistence of groups, sectors and nations falling into superior and inferior categories, that is chronic and not transitional, as growing international inequalities would indicate, and that is the cause for the perpetuation of underdevelopment.

The three dependence schools coincide with the need for fundamental economic, political and institutional reforms, both at the domestic and international level. Moreover, they confer upon the government an important role in the economy along with private activity. This theory contributes to the realisation of the important effect decisions taken in developed countries and the rule of elite groups in the poor nations have on the lives of millions throughout the developing world.

1.4.3 The Neoclassical Counterrevolution

This model focuses on supply-side macroeconomics, and involves the privatisation of public corporations in developed countries and "the dismantling of public ownership, statist planning, and government regulation of economics activities in developing countries."

Underdevelopment, profess neoclassical economists, is due to poor resource allocation as governments in developing countries are too interventionist and implement incorrect pricing policies aimed at achieving political objectives. This is believed to cause growth to slow down as too much state intervention is inefficient and eliminates adequate economic incentives only possible in the context of a laissez-faire economy where resource allocation is carried out by Adam Smith's 'invisible hand.'[43]

The recipes for developing countries in order to stimulate growth included the establishment of competitive free markets, privatisation, trade openness and export expansion, attracting foreign investment and eliminating government regulations and price distortions. Under this approach, trade openness is strongly recommended as a way to attract investment and to thus increase the rate of growth, as predicted by the Harrod-Domar model where investment is the key factor to increasing output. Additionally, trade openness is to bring about, through higher growth rates, a real income convergence at higher levels.

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[42] Todaro (1994), Pg. 83.
[43] Todaro (1994), Pg. 85.

The problems of this theory are many. Mostly, Todaro (1994) argues, they stem from the fact that neoclassicism does not take real account for the reality of developing countries. Poor nations do not have competitive markets and they are fragmented. Consumers do not decide and information is at best limited. They are plagued with monopolies, which decide prices as well as what and how much is to be produced. They are badly affected by widespread externalities and indivisibilities in technologies. In addition to all of this, large parts of their economies are non-monetised.

Beyond the theoretical problems of a model that purports a one-size-fits-all recipe, reality shows that in fact developed countries only selectively applied some of their recommendations, whereas they sought to implement the whole package to developing countries through the influence of the Washington Consensus. While total trade openness is advocated by the neoclassical supporters for developing countries, developed countries continue to pick the sectors where they are competitive enough to open up and maintain protection to those which are considered to be sensitive such as certain industries, agricultural products, services, etc.

Todaro (1994) concedes that there is little doubt about the efficient-enhancing ability of a "proper, functioning price system as an integral part of any successful development process." The neoclassical claims concerning the inefficiency of state-owned enterprises, the government induced domestic and international price distortions, as well as the failures of development planning, he suggests, have been empirically backed by evidence, to a certain extent. Not so, however, as regards "the unquestioning exaltation of free markets and open economies along with the universal disparagement of public sector leadership in promoting growth with equity in the Third World."[44]

1.4.4 The Endogenous Growth Theory

Given the poor performance of neoclassical theories observed during the last two decades of the twentieth century, a growing dissatisfaction led to shift in mainstream development paradigm. The 'new growth theory,' as Todaro (1994) names it, also appears as an attempt to explain very different growth rates in countries with similar technologies. This suggests that growth cannot only be caused by technological improvements, prompting the need to analyse the determinants of technological innovation, which are considered exogenous in neoclassical theory.

Furthermore, the new theory based on endogenous growth is a response to the failure of structural adjustment programmes, which attracted little productive foreign investment, failed to halt domestic capital flight, and produced little to no growth in the least developed countries.

As opposed to neoclassical theory, the new model considers "GNP growth to be a natural consequence of long-run equilibrium."[45] Among the determinants of growth, the model recognises the relevant role played by savings as described by classical theory, but goes beyond and affirms that there is no evidence or indeed reason why there should be income convergence between poor and rich countries. Furthermore, it explains how

[44] Todaro (1994), Pg. 91.
[45] Todaro (1994), Pg. 89.

international inequality is exacerbated by anomalous international capital flows from poor to rich countries.

While developing countries are able to produce high rates of return by means of low capital-labour ratios, low levels of complementary investments offset this potential comparative advantage. The weakness of governments to assume a relevant public role in terms of supplying the necessary investments in human capital (i.e. education, infrastructure and research for technological innovation), renders developing countries in a disadvantaged position.

In this regard, the theory represents a sharp departure from the neoclassical view which restricted the government to a minimum policing role, insofar as it "restores a significant role for government policy in promoting long-run growth and development."[46]

Pointing out a shortcoming of this theory, Todaro (1994) mentions its failure to account for the presence in developing countries of inefficiencies arising from poor infrastructure, inadequate institutional structures, and imperfect capitals and goods markets. He further argues that due to the theory's reliance on the determinants of long-term growth rates, the impact of allocation inefficiencies on short- and medium-term growth is ignored in economies making the transition from traditional to commercialised markets.

Arguably, a summary of the ideas behind the new growth theory is found in the Commission on Growth and Development (2008) or Spence Report, hereafter CGD (2008). This document is the product of two years of inquiry and debate carried out by top policymakers from finance ministries and international institutions, along with two Nobel Laureates in economics and experienced businessmen, who heard from leading authorities on the relevant issues. The document is thought by Rodrik (2008) to have achieved a large degree of consensus despite markedly departing in many places from the traditional approach contemplated in the Washington Consensus. It focuses on a notion of 'inclusive growth' reminiscent of the 'shared growth' used to describe the East Asian Miracle. He assesses the CDG's conclusions as follows:

The Spence report represents a watershed for development policy –as much for what it says as for what it leaves out. Gone are confident assertions about the virtues of liberalisation, deregulation, privatisation, and free markets. Also gone are the cookie cutter policy recommendations unaffected by contextual differences. Instead, the Spence report adopts an approach that recognises the limits of what we know, emphasizes pragmatism and gradualism, and encourages governments to be experimental.[47]

The foundation stone of the CGD (2008) is the understanding that "growth is not and end in itself [...] [but] a necessary, if not sufficient, condition for development" by making it "possible to achieve other important objectives of individuals and societies."[48] Very high growth rates are deemed to be possible thanks to a large extent to the fact

[46] Ibid, Pg. 90.
[47] Rodrik (2008). In: www.bepress.com/ev/vol5/iss3/art4
[48] Comission on Growth and Development (2008), Pg 13.

that economies are now open and integrated as growth strategies exclusively relying on domestic demand have been found to not to produce such expansions.

The report[49] also argues that the reliance on markets as the most efficient-allocation mechanism is necessary, as there is no known effective substitute. It stresses, however, that public policies have an important role to play in shaping the outcomes by means of experimental approaches. Furthermore, instead of unquestioningly applying the previous recipe of "stabilisation, privatisation and liberalisation," governments should not inhibit themselves from acting as the economy grows and develops. The CGD (2008) also notes that in spite of much controversy, it is clear that present economies with high growth rates have not been "free-market purists" but rather have applied a policy mix to help diversify exports and sustain competitiveness. This policy mix has included "industrial policies to promote investment in new sectors, and managed exchanged rates, shepherded by selected capital controls and reserve accumulation."[50]

The Growth Commission recalls the crucial role played by the pace of public and private investment in the speed of growth in early stages of development thanks to the abundant labour and global demand. As noted earlier, investment is determined by the availability of savings, the reason for which foreign investment was much sought-after by developing countries in an effort to emulate the saving rates above 20% that was present in many developed countries.

The report warns, however, that "foreign saving is an imperfect substitute for domestic saving, including public saving, to finance the investment a booming economy requires."[51]

While the Commission proposes rather general recommendations so as to allow for experimental and contextualising approaches, it forcefully provides a set of "bad ideas" for development. It is understood that the policies contained in the following list are detrimental in terms of involving large costs or inefficiency in pursuing the declared objectives, and it is thus recommended that they be adopted only in a limit and temporary manner if at all:

- "Subsidising energy except for very limited subsidies targeted at highly vulnerable sections of the population.
- Dealing with joblessness by relying on the civil service as an 'employer of last resort.' This is distinct from public-works programs, such as rural employment schemes, which can provide a valuable social safety net.
- Reducing fiscal deficits, because of short term macroeconomic compulsions, by cutting expenditure on infrastructure investment (or other public spending that yields large social returns in the long run).
- Providing open-ended protection of specific sectors, industries, firms, and jobs from competition. Where support is necessary, it should be for a limited period, with a clear strategy for moving to a self-supporting structure.

[49] Ibid.
[50] Comission on Growth and Development (2008), Pg 7.
[51] Ibid, Pg. 3.

- Imposing price controls to stem inflation, which is much better handled through other macroeconomic policies.
- Banning exports for long periods of time to keep domestic prices low for consumers at the expense of producers.
- Resisting urbanisation and as a consequence underinvesting in urban infrastructure.
- Ignoring environmental issues in the early stages of growth on the grounds that they are an 'unaffordable luxury.'
- Measuring educational progress solely by the construction of school infrastructure or even by higher enrollments, instead of focusing on the extent of learning and quality of education.
- Underpaying civil servants (including teachers) relative to what the market would provide for comparable skills and combining this with promotion by seniority instead of evolving credible methods of measuring performance of civil servants and rewarding it.
- Poor regulation of the banking system combined with excessive direct control and interference. In general, this prevents the development of an efficient system of financial intermediation that has higher costs in terms of productivity.
- Allowing the exchange rate to appreciate excessively before the economy is ready for the transition towards higher-productivity industry."[52]

The Commission expresses its belief that "growth strategies cannot succeed without a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth."[53] As is in the case of the World Bank report[54], it underlines its concern for equality in opportunities, as outcomes remain dependant on individuals' skills and motivation. The report further recommends that governments seek to contain increases in inequality as growth rates accelerate economic output. Otherwise, it warns, the "economy's progress may be jeopardised by divisive politics, protest, and even violent conflict."[55]

Additionally, it notes that countries with a record of sustained rapid growth have consistently kept very high rates of public investment in infrastructure, education and health care. This is known to encourage the development of new industries while raising the returns of private firms, who benefit from educated and healthy workers, greater markets accessibility, and reliable power.

An important innovative contribution of the CGD (2008) is its mention of environmental externalities as concerns growth strategies. The report stresses its belief that countries in early stages of growth should by no means neglect the protection of the environment, particularly air and water pollution, as the future costs incurred will be greater than

[52] Commission on Growth and Development (2008), Pg. 68.
[53] Ibid, Pg. 7.
[54] World Bank (2006).
[55] Commission on Growth and Development (2008), Pg. 7.

those of its current prevention. On a related note, the report ends by reviving an old question, namely whether there are natural limits to growth in the light of recent growth successes by large developing countries.

Rising commodity prices may indicate that limited world natural endowments may already be constraining global supply, while climate change continues to worsen as industrialisation in developing countries accelerates. The Commission concludes that technological innovation and growth based on goods and services less dependant on natural resources will be key to achieving equitable and sustained growth.

A final consideration by Rodrik (2008) on the recommendations set forth in the Spence Report is that it "manages to avoid both market fundamentalism and institutional fundamentalism." It does not provide infallible recipes, but instead attempts to find the proper mix of policies at the country level. As Kanbur (2009) puts it, this new consensus shows a high degree of openness to country specificities, it brings distributional concerns to centre stage and is altogether a stark departure from the previous consensus.

1.5 The Global Architecture of Official Development Assistance

The long-term record of ODA, development (and emergency) aid provided by official donors, remains the best initial indicator of trends in overall-aid giving. Out of all development assistance given to developing nations, ODA provided by bilateral and multilateral donor agencies account for most of the overall aid (see figure 6, Annex 1). Other aid sources, though less important in volume, encompass development assistance given by emerging non-DAC countries and private donations. The focus of the analysis lays on official aid flows, which counts with regular and periodic data recorded by DAC since the 1950s, just after the institutionalization of development aid.

Since that time, ODA not only continued to expand over the past 60 years, but it has grown to become a key part of the architecture of international relations, as more and more countries have become donors, and none has stopped providing aid. Ironically, despite the growing levels of overall ODA in absolute terms, the share of GNI provided as ODA has overall decreased since the beginnings of modern ODA history (see figure 7, Annex 1), in spite of the target claimed by the UN to achieve the 0.7% of ODA/GNI ratio, first pledged in a 1970 General Assembly Resolution[56].

This figure, however, illustrates a varied record of aid-giving. Although there is no simple and single explanation to these fluctuations (Dasgupta and Pezzini, 1999), ODA levels have been affected by a mix of factors. These are mainly related, directly and indirectly, by the (i) dominant development approaches of the time (described in the last section) that influenced the contributions of aid to development; (ii) economic and financial conditions within donors and recipients and (iii) the varying political,

[56] "In recognition of the special importance of the role that can be fulfilled only by official development assistance, a major part of financial resource transfers to the developing countries should be provided in the form of official development assistance. Each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7 percent of its gross national product at market prices by the middle of the decade." (UN 1970 paragraph 43)

economic and strategic influences within and across both donors and recipients too. It is against this backdrop that I proceed to briefly describe the history of modern ODA as a way to contextualize and further explain its current architecture and future trends.

1.5.1 A Snapshot of Modern Aid Historical Background

Modern development aid –the so-called Post-War aid- takes off with the birth of Bretton Woods institutions right after the WWII when delegates from forty-four countries discussed to establish a framework for a global system of financial and monetary management[57] in an attempt to avoid a repeat of the Great Depression of the 1930s. As a result, three organizations were born in 1945: the International Bank for Reconstruction and Development (commonly known as the WB), the International Monetary Fund (IMF) and the International Trade Organization. Since its inception, the WB was designed to facilitate capital investment for reconstruction, and in the aftermath of the war the IMF was to manage the global financial system.

Development aid (initially coined as reconstruction[58]) then, was rooted as an institutional international activity. In the 1940s, the International Labour Office (ILO) had argued for aid funds to be provided in order to raise living standards in poor countries. Soon after it was established in 1943, the United Nations Relief and Rehabilitation Administration (UNRRA) was receiving funds from more than 40 countries in order to help it provide food, medicines and agricultural and industrial goods to recipients in almost 50 countries.

This institutionalization expressed at the global level even takes greater significance with the ideas contained in founding documents of the UN. The UN Charter, agreed in 1945, committed all countries to work for the promotion of higher living standards, full employment and economic and social progress and development (article 57), and to do this by working cooperatively. Complementary, the Universal Declaration of Human Rights (1948) states that “everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care” (Article 25), and that “everyone is entitled to a social and international order in which the rights and freedoms set forth in this Declaration can be fully realized” (Article 28).

Nevertheless, with the bedrocks of an international institutional development cooperation system in progress, the first big aid initiative was undertaken by the US with its famous Marshall Plan (officially the European Recovery Program) in 1947. The Plan[59], aimed at the reconstruction of Europe after the devastating war, had the US objectives of removing trade barriers, modernize industry, and make Europe

[57] For a more detailed discussion of the early days of post-1949 aid, see OECD (1985), Krueger et all. (1989), Browne (1990), Lumsdaine (1993) and Dichter (2003).

[58] In later years, both institutions would come to occupy centre-stage in the development discourse, but the original mandate targeted reconstruction, rather than development per se.

[59] The beneficiary countries were: Austria, Belgium, Denmark, France, Germany, Greece, Iceland, Ireland, Italy and Trieste, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and the United Kingdom (UK, France, Germany and Italy, the largest recipients). The Marshall Plan also offered aid to the Soviet Union and its allies, but they did not accept it. See “Historians and the Cold War. The History today”, Roberts (2000) and “The Cold War. Very Short Introductions”, McMahon (2003).

prosperous again (Hogan, 1987). The program totaled $13bn, equivalent to over $85bn at current prices, an amount of ODA only surpassed for the first time in 2005.

Post-war development aid originated during the 1940s emerged under the frame of a new international institutional system aimed at safeguarding international security, financial and monetary stability and economic development. This system, although agreed by both developed and developing countries[60], was a donor-led initiative dominated by a centrality of Western countries' ideas, programs and policies. (this phenomenon is often regarded as Occidentalism). The US-led multilateralism, at the light of the Cold War, was born.

The institutionalization and planning of massive cash injections as the predominant aid modality of the Marshall Plan placed the beginnings of development aid as financial flows targeted at helping the reconstruction of a damaged continent that was already developed before, with existing physical, legal and social infrastructures that needed to be fixed again.

1.5.2 The 1950s & the 1960s: "Institutionalization and Scaling-up of Development Aid"

The success of the Marshall Plan in the recovery of Europe remained, to a large extent, unquestioned. The plan brought Western Europe back onto a strong economy footing, providing the US with the vehicle to influence foreign policy, winning it allies in Europe and keeping US economy afloat while the world around it had crumbled (Moyo 2009). The Marshall Plan, indeed, proofed that the political economy of aid could benefit both donor(s) and recipients, thus shaping international foreign relations through a hypothetical win-win situation. Automatically, this success was the basis for scaling-up the approach to other regions: in words of Dambisa Moyo, "if aid worked in Europe, if it gave to Europe what Europe needed, why couldn't it do the same everywhere else?"

By the end of the 1950s, once reconstruction in Europe was seen to be working, attention turned towards other parts of the world, and specifically, in the context of aid, to Sub-Saharan Africa and Asia. Furthermore, as US funds fueled Europe's reconstruction, Bretton Woods institutions (WB and IMF) monies –provided by its member organizations- were emerging as a significant source of development finance.

Whereas the 1950s saw the consolidation of international institutions with development aid concentrated in the hands of very few donors[61] (US, France and UK mainly), the 1960s shaped the appearance of many aid agencies or ministries of new bilateral donors such as Canada, Germany, Japan, Sweden, Switzerland, Belgium, Denmark, Norway and the Netherlands. As a result, the relative importance of the US, France and UK over total net ODA declined substantially in the 1970s.

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[60] Latin American and Asian countries were amongst the earliest to call for the establishment of development assistance. In the late 40s the Indian chair of the UN's Sub-Commission on Economic Development formally called for the UN to provide concessional loans to poor countries unable to obtain loans from commercial sources.

[61] During the Post-War Security phase, most aid (88%), according to aggregate DAC data at current prices, came from the US (58%), France (22%) and the UK (8%).

The scaling up and sub consequent donor aid fragmentation by the creation of the aforementioned bilateral agencies was matched by the creation of an international development "framework" that introduced the approach to work in a "consortia" of donors[62]. This idea came to the table in order to overcome the coordination problems of a multitude of individual aid programs that were emerging (Rosenstein-Rodan, 1968). Aid fragmentation and the need for coordination, a trending topic today discussed at the top of the agenda on aid effectiveness –prominently introduced at the official level back in 2005 with the PD-, was already introduced right after the first coordination problems appeared in the 1960s.

In this context, the WB's International Development Association (IDA) was set up in 1960. Through IDA the WB started its concessional lending activities (soft loans for investments in infrastructure and production), and it grew to become probably the largest single channel for concessional aid to poor countries. In parallel, OECD's DAC was created in the same year[63] as a key forum of major bilateral donors. It still remains the major global forum and the rule-setter of the aid development system. Furthermore, the UN would provide, through UNDP, funding for its many specialized agencies, programs and funds supporting developing countries on specific issues and launch new development themes through its conferences. WB's IDA, OECD's DAC and UN's UNDP were at the top of the aid institutional framework.

The 1950s also provided the first ODA academic debates and writings. At that time, the predominant development theory understood development as a series of economic stages illustrated by the linear stages-of-growth model (see section 3 above). First aid scholars believed a direct relation between aid and growth. Thus, Arthur Lewis (1954) identified capital shortages as a major impediment to development and necessary structural transformation. Milikan and Rostow (1957) identified two specific roles for aid in order to achieve faster rates of economic growth: technical assistance and finance capital. Rosenstein-Rodan has long been credited with creating and promoting the idea of the "big push"[64], and Chenery and Strout (1966) provided the first presentation of the two-gap model, understood later that aid was needed to fill both a savings gap and a foreign exchange gap in poor countries.

It was also in the very beginnings of ODA's academic discourse that scholars argued aid factors beyond injection of capital flows to developing countries. Chenery and Strout advocated the need for human skills and institutional change as requirements to make aid work. Likewise for Rosenstein-Rodan, one of the most critical factors determining

[62] During the 1950s, donors started operating together through international consortia. The first such case was the Colombo Plan ("Council for Technical Cooperation in South and South-East Asia"), established in 1950, which included India, Pakistan and Ceylon as regional members and Australia, Canada, New Zealand, US, Japan and the UK as donors. The WB assisted developing countries by assembling international consortia like the India Consortium created in 1958 with Canada, Germany, Japan, UK and the US, and the Pakistan Consortium of 1960 with the same membership and objectives.

[63] The original name was Development Assistance Group, substituted a year later by Development Assistance Committee. Initial members were Belgium, Canada, France, Germany, Italy, Portugal, UK, and the US. Japan and the Netherlands joined during the same year.

[64] Providing massive amounts of aid to address different constraints, which limit the ability of economies to raise investment levels.

the effective use of aid was identified as the efforts of the citizens of recipient countries. For the first time, right after the birth of ODA, scholars highlighted the importance of recipient ownership and institutional change as key factors towards improving aid effectiveness. Today, also trending topics of the global ODA debate.

In the same line, after a "glory period" of increasing ODA, the declining ODA levels[65] by the end of the 1960s pushed the President of the WB, Robert McNamara, to set up the first-ever commission on international development, under the chairmanship of the former Canadian Prime Minister, Lester Pearson. Many of the key messages of the Pearson Commission, an outcome of the commission released in 1969, remain as relevant today as they were when written more than 40 years ago. They claimed mainly for increased efficiency of the aid used, a pledge to reach the 0.7 of GNI by 1975, a donor-recipient relationship based on cooperation and partnership, the adaptation of projects and technical assistance to the needs of developing countries, the risks of the politicization of some bilateral aid and about the impact of aid agencies' proliferation (Pearson, 1969).

All in all, the development of the international aid system was not evolving alienated to the foreign political situation during the Post-War period. Rather, it had the Cold War as the backdrop, as well as the phase of decolonization[66] with the state-independencies of many African and Asian countries. In the race for the world hegemony between the Western bloc led by the US and the Soviet bloc, aid became a tool for expanding the political and economic domain beyond traditional regions to new allies in developing countries.

1.5.3 The 1970s & the 1980s: "From Poverty at the Centre-stage to Liberalization"

Up to the early 1970s, little analysis had been undertaken focusing on poverty in particular. Discourse about aid and development could take place without any explicit mention of poverty reduction or eradication. Indeed, there were not even any crude international estimates of the numbers of people living in poverty.

After the first years of development aid records during two decades of flows, the first voices did not wait much time to come. Thus, the first disappointment as a consequence of the failure of meeting aid-giving targets and the inability to translate ODA injections in infrastructure to higher growth rates in developing countries fostered the discussion of poverty and unemployment in the DAC. The growth-oriented strategy was widely believed in economic circles to have failed in its mission to deliver sustained economic growth.

The main precursors of the new approach were the WB's President McNamara and the ILO. They argued that development to tackle poverty it was insufficient merely by trying to raise growth rates and stimulating structural and institutional changes to an economy that would lead to an "indirectly" reduction in poverty. Poverty thus, needed to be

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[65] One of the underlying reasons for the decline of ODA levels was the reduction of aid levels by the US due to the escalating costs of the Vietnam War.

[66] See David Birmingham's (1995) "Decolonization of Africa" and James Martin's (1978) "The Decolonization of Asia" for extensive review of the independence of Asian and African countries after the WWII.

addressed directly. This approach was termed "redistribution with growth" by the WB (Chenery et al. 1974) and "basic needs approach to development" by the ILO (Ghai et al. 1980).

The first impacts were imminent. Neither aid-giving nor the discourse about aid for development were to be the same again. In 1973, the prime purpose of US aid was changed from growth to the satisfaction of "basic human needs". In 1975, the UK produced a new White Paper on aid entitled "The changing emphasis in British aid policies: more help for the poorest (Ministry for Overseas Development, 1975). The same year, US passed the International Development and Food Assistance Act, which stipulated that 75% of its Food for Peace Program would go to countries with a per capita income of less than USD300. Poverty reduction took, for the first time-ever, centre stage.

Overall, there were important implications under these new approaches of aid-giving. First, aid was redirected away from large infrastructure investment (power, transport, etc.) and put towards particular sectors and sub-sectors of aid-recipient economies. This gave far greater prominence to aid provided in the form of concrete projects in social sectors –education, health, water- and rural development with the same common denominator: the poor as the direct target. The proportion of poverty-oriented lending rose from 5% in the late 1970s to 50% by the early 1980s. In 1974, after the first oil peak, the volume of poverty-related aid flows increased threefold; it more than doubled at the time of the second oil jump between 1979 and 1980.

Second, these changes were accompanied by a renewed expansion in aid levels. ODA from DAC donors quadrupled in current price terms, from $6.8 bn in 1970 to over $27bn by 1980, rising 50% in real terms. However, by mid-decade, the ODA/GNI ratio was only half of the 0.7% target, and it failed to rise substantially thereafter for the next quarter-century, until today. The rise in ODA levels was partly to help to address the consequences of the oil crisis (Riddell 2007), but above all by the boost to aggregate official aid provided by leading oil-exporting countries. Overall, DAC donors' share of total ODA was at its lowest in the 1970s when non DAC donors accounted for about a third of total ODA[67].

Third, the diversification of ODA flows into a wide variety of sector-based projects in developing countries, along with the increase of ODA levels, fueled the number of people involved in the business of providing aid. Many church-based agencies and independent NGOs shifted their approach to development, diversifying and expanding their activities into the areas of rural development, credit and saving, as well as non-school-based skill training. Many other NGOs and Foundations aimed at reducing poverty were just created. Most of them relied on ODA for its own funding, and this period saw a steady rise in NGO income. In parallel, as multilateral organizations arose as emerging donors – the WB became the largest donor in 1973 surpassing the US- the need for development

[67] Historically, the former Soviet bloc accounted for 10% of total ODA till the end of the Cold War. ODA from Arab countries reached a peak of 30% of total aid by 1978. Since the mid 1990s though, DAC donors have accounted for 95% of all ODA flows.

specialists in implementation and monitoring of projects increased significantly. The aid industry, thus, swelled.

It is undisputable that the rise of poverty at the centre stage of the development debate with its impacts contributed to enhance employment and wealth across donor countries through their bilateral aid agencies, NGOs and multilateral organizations dealing with it. Donor countries, therefore, had become direct beneficiaries of their own ODA as well (Moyo, 2009).

Short after donors "discovered" poverty in the 1970s, the 1980s represented a radical shift towards the development approach that dominated the international aid system. Two critical factors underpinned such a shift. On one hand, neo-liberal thinking emerged. There was growing sense among leading policymakers that there were structural impediments to the functioning of economic markets. Excessive government involvement was viewed as the prime obstacle to growth. As a result, the laissez-faire paradigm prompted free-market proponents such as Milton Friedman, which influenced policy making of US President Ronald Reagan and UK's Prime Minister Margaret Thatcher.

The neoclassical counterrevolution (as referred in section 2), on the other hand, had the alibi of the fastest-ever growing Asian economies (HPAEs), which revealed a different recipe for rapid economic success accompanied with development and vast amounts of people lifted out of poverty. These economies achieved high growth rates and unprecedented poverty reduction with free-market policies and an outward orientation of an export-led economy (World Bank 1993; Moyo 2009).

The new approach meant two new aid-based programs for developing countries: first, stabilization to reduce a country's imbalances to reasonable levels; and second, structural adjustment aimed at encouraging trade liberalization and reducing price and structural rigidities by such means as removing subsidies. The WB and IMF led the process with aggressive aid programs (e.g. IMF's Structural Adjustment and Enhanced Structural Adjustment Facilities). Developing countries' governments received cash in form of budgetary support, and in return agreed to embrace the free-market solutions to development pushed by the Bretton Woods institutions. Alongside, with donor imposition of more and more complex conditions and linked "policy advice" attached to ODA.

Within this context, ODA levels shrunk in early 1980s and over the course of the following years all major bilateral donors cut their aid budgets. Recipients were encouraged to open up their markets, privatize state assets, adopt a more export-oriented, less protective trade regime, and reduce direct government expenditures, a condition from which key services such as health and education were not exempted.

The second major international report on development aid was published in two series in 1980 and 1983, entitled "North-South: A Program for Survival" and "Common Crisis", and issued by the Independent Commission on International Development Issues. So-called Brandt Report I and II. In sum, the report claimed for the need of the rich to help the poor, in the (self)interest of the rich. Echoing Pearson, the report called for a doubling of ODA by 1985 in order to reach the famous 0.7 ODA/GNI target. It dismissed the new assumed neo-liberal approach and it emphasized again the need to appeal for poor country objectives and strategies to be "respected" (Brandt 1983), taking over Pearson's words of 1969.

All in all, the second part of the decade was marked for the recovery of the severe crisis after the oil peak and the pledge of some donors –mainly Scandinavians, Canada and the Netherlands- that the adjustment medicine was not working and that more aid was needed. Hence, ODA levels increased to $53 bn in 1990 (compared to $27bn in 1980). A series of high-profile reports focused on the problems and the plight of Sub-Saharan Africa, which, awash of aid, saw its situation worsening. Therefore, in a moment where Asia was achieving high economic growth and development, it seemed that major development attention was focusing on Africa. Poverty, technical assistance and the role of institutions had returned to the aid agenda again. Even more, the WB acknowledge that part of the continent's problems lay with donors, reconfirming Pearson's claims of 1969.

However, this turn was a mirage, since by 1989, the Washington Consensus, a standard reform package of market-friendly economic policy prescriptions framed under the neo-liberal approach, became the backbone of the development strategy pursued by the Washington DC-based institutions (the IMF, WB and US Treasury Department).

1.5.4 The 1990s & 2000s: "From Pessimism to Rediscovery: the New Dimensions of Poverty

The last decade of the XX century started with one of the most important events of the contemporary history, the end of the Cold War, meaning the failure of Communism and the triumph of the West versus the East. The event uncovered the geopolitical rationale for aid-giving, as the pro-capitalists states were not required to continue channeling aid to its sponsored developing countries as a priority. Finally, the world order consolidated the US-led hegemony. Thereby a new era of international relations and development aid had begun.

In parallel, the 1980s were marked by the heavy external debt burden of emerging-market countries. By the end of the 1980s, debt was at least $1 trillion, with a colossal cost of servicing these obligations. Indeed, in the midst of structural adjustment policies framed under neo-classical growth models applied by Bretton Woods institutions at the edge, developing countries' economies saw a substantial recession of its growth levels. Africa experienced a decline from 6.7% of average annual GDP growth between 1970-79 to 4.2% between 1980-89[68], and Latin America even branded the 1980s as his lost decade.

The turbulent early years of the 1990s propelled by economic recession, development failures, aid broken promises and the political disorientation of the end of the Cold War resulted into a new era of ODA pessimism. Actually, ODA flows from 1990 to 1997 fell sharply to account only $48 bn (in terms of DAC members contributions).

[68] "Economic Development in Africa: Performance, Prospects and Policy Issues", UN (2001), UN Conference on Trade and Development, Geneva, Switzerland.

The notion of aid-dependency arose in donor circles in line with emerging voices airing that aid did not work (Boone 1994, 1996). For the first time, it was explicitly argued that too much aid was detrimental to development as it encouraged recipients to depend continually on aid as a source of finance, thereby discouraging the expansion of domestically created revenue and self-sustaining development.

The last years of the century hosted an intense debate and discussion about development aid and its role in the world, especially within official aid agencies. These donors, worried about the pessimistic aid atmosphere that dominated the major part of the 1990s, aimed at reversing the situation. Particularly, the refocusing of aid was due to the advocacy of the UN (concretely UNICEF, the ILO and UNDP) and the WB. The first outcome was that after a 20-year pause, poverty was rediscovered, and its direct alleviation reinstated as the primary purpose of development aid.

This time, the term poverty was coined within a multidimensional perspective. Starting in 1990, the UNDP launched annual Human Development Reports (HDR) including annual rankings and changes in development performance measured through Human Development Index (HDI). They consist of a mix of life expectancy, knowledge and living standards index. Likewise, they have drawn attention to the scale, extent and complexity of poverty, including the dimension of human development. Central to this understanding are Amartya Sen's concepts of development as freedoms and capabilities (Sen 1999). It entails the need for poor people to be able to make choices about their lives and well-being. In other words, they need to be empowered to make the choices that will make a difference to their lives.

In the same line, the WB placed poverty back at the core of its approach with the World Development Report, "Attacking poverty" (WB 2000). The report highlights the complex nature of poverty, advocating a comprehensive approach to address it, according to three main drivers: expanding economic opportunities, facilitating empowerment and enhancing security. It also stressed the need for recipient countries to design their own development strategies (ownership). In only few years, that changed the mood of the aid industry: aid was thought to work out once again. Now, though, provided to recipients who are committed to using it well, supported by policies and institutions which facilitate its efficient use (Dollar and Burnside 1998).

Fifty years of development aid records did not work to eradicate poverty as expected. One big lesson could be extracted of that period. Neither the linear-stage approaches to development nor the neo-classical model worked out. The development aid industry needed another recipe. This time, the novelty seemed to appear in the middle of the two aforementioned strands. The endogenous growth theory, as explained in section 3, restores a significant role for government policy in promoting long-run growth and development (Todaro 1994). Instead of criticizing the role of market-oriented policies to development, it emphasizes its key importance in optimizing an effective use of market-like mechanisms to poverty reduction. This time, though, underpinned by government policies.

Replicating UN and WB's claims for a new ODA revival, the DAC's international conference gave birth to the 1996 publication "Shaping the 21st Century: the contribution of Development Cooperation" (OECD 1996). This report contributed to shaping the thinking that informed the background inputs feeding into the Millennium Development Summit of Heads of State, convened by the UN in September 2000. Far from shaping new ground, the report re-emphasized old lessons of early periods of aid giving. Some of the most important advocacy themes were the need for ownership, accountability, partnership, harmonization, institutional strengthening and evaluation based on results. Issues that would later become central to the PD on aid effectiveness in 2005.

The 2000 Summit was pivotal for the future of aid because it agreed the Millennium Declaration (MD), pledging all nations to commit themselves to ridding the world of extreme poverty, and, in particular, to halve the proportion of the world's people whose income is less than one dollar a day by 2015. Concretely, the Summit was another claim to raise ODA levels by developed countries, highlighting the particular plight of the LDCs, and specially Sub-Saharan Africa[69]. A year later, the MD led to the articulation of the more detailed Millennium Development Goals – MDGs- (see table 4, Annex 1), which all nations, recipients and donors, committed themselves to help achieve[70]. As it is well known, the MDGs quickly became a central yardstick against which most development and development aid-giving efforts were subsequently to be judged.

Doubtless, the MD contributed to push higher ODA levels by donors. Together with the shift towards a new aid-advocacy era brought increasing ODA flows to developing countries, experiencing a revival. Since the beginnings of the 2000s, ODA levels have seen its highest-ever levels, reaching its peak in 2005 with $120 bn. However, expectations are far to be met. As the UN points out in his report The MDGs 2010, "though progress has been made, it is uneven. And without a major push forward, many of the MDGs targets are likely to be missed in most regions"[71].

The MDGs campaign provided the backdrop for a new wave of reports. Ernesto Zedillo, Mexico's former President pioneered the work of a UN panel to assess the funds needed and strategies required to mobilize funds to achieve the MDGs. Estimations requested to "almost double the ODA currently provided" (Zedillo 2002). The Monterrey Consensus also pledged for increasing financial flows to developing countries as well as removing trade restrictions and reducing unmanageable debt. Following Monterrey, the UN set up an independent advisory body named the Millennium Development Project, originally conceived to assess performance and progress. Its 2005 report, "Investing in development: a practical plan to achieve the MDGs" (UN Millennium Project 2005), led by Prof. Jeffrey Sachs, is a forward-looking blueprint critical to the way ODA had been provided and requesting more commitment, ownership and the need for aid to help break out the poverty trap. A few weeks later, Tony Blair commissioned the report "Our Common interest" (Commission for Africa 2005) calling also for a big push on many fronts –aid, trade, debt relief- this time to Sub-Saharan Africa. Overall, these reports have been used to press leading donors to increase their development aid.

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69 For the full text see <www.un.org/millennium/declaration/ares552e.htm>

70 The full details of the MDGs can be found at <www.un.org/documents/ga/docs/56/a56326.pdf>

71 For an extensive review of the MDG progress, see www.un.org/milleniumgoals/reports.shtml and MDG Report 2010 Progress Chart.

In parallel to this decade of aid-advocacy fed with pledges to increase the volume of aid, many ODA critics appeared questioning the current aid-system with robust evidence of the vicious cycle of aid that does not work (Erixon 2005, van de Walle 2005, Easterly 2006, Klein & Harford 2005, Banerjee 2007, Collier 2008, Moyo 2009, Hubbard & Duggan 2009, among others.). Even civil society in general is decreasing confidence among EU citizens in their national governments' ability to help the poor[72]. The debate is beyond whether ODA levels have to increase or not. It's more on the quality and effectiveness of the aid provided. Aid opponent Dambisa Moyo, in her book "Dead Aid" (2009), even proposes a world without aid.

In front of this loss of confidence and the centrality of the current aid system to absorb and translate its pledges into reality, other alternatives and approaches are emerging in the recent years, such as the increasing levels of private-giving, the South-South cooperation, the decentralization of cooperation, or the proliferation of market-like initiatives, to name a few. The next section will review the current situation and trends of the ODA system.

1.5.5 Aid Architecture: Current Trends in ODA Flows

According to IDA, aid architecture can be defined as the set of rules and institutions governing aid flows to developing countries. While aid has an architecture, it has no single architect[73]. It has evolved over time much of it without a pre-defined blueprint. As we have seen in the description of aid history, most of today's aid principles and institutions are the result of over sixty years of debate and joint decision-making. The objective of this section is to provide a close review of major ODA trends by means to facilitate a better understanding of the key issues affecting the existing global aid architecture.

<u>ODA is not delivering on promises, neither expected results</u>

The UN-led aid crusade of the 2000s contributed significantly to raise ODA levels during the first decade of the new millennium. According to DAC data, net ODA disbursements in 2000 accounted $78 billion (at 2009 prices), reaching an ever high of $127.5 billion in 2010. The scaling-up in aid volumes was accompanied by an increase of the ODA/GNI ratio from 0.23% in 2000 to 0.32% in 2010. Despite the hopeful results in aid volumes achieved during the 2000s in absolute terms, aid records are still far from meeting aid commitments. Donors have failed to keep promises made at the 2005 Gleneagles G7 Summit, and they have clearly not met their commitment to "concentrated efforts towards the target of 0.7%" made at 2002 Monterrey Consensus on Financing for Development.

ODA, which is "officially" aimed at alleviating poverty and facilitating the achievement of the MDGs[74], is not delivering on results as most of the targets are uneven and unmet as

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72 Eurobarometer, "Attitudes towards development aid" (2005), p.4.

73 A discussion of possible roles for an aid "architect" can be found in Burall, S. and S. Maxwell, with A.R. Menocal (2006), "Reforming the International Aid Architecture: Options and Ways Forward". Overseas Development Institute Working Paper 278, October.

74 The primary objective of the EU Development Cooperation, the largest donor area by far, is "poverty reduction and the pursuit of the MDGs", according to the European Consensus on Development,

initially expected (see the MDGs Report 2010). At the same time, poverty reduction is still localized in the rapidly growing economies of East Asia (China and India taking the lead), which have the capacity to generate highly sustained economic growth rates along with poverty reduction. Although the global economic crisis has also impacted negatively LDCs inflating their numbers of poverty estimates, their response to the crisis is generally characterized for an important resistance capacity facing a context of difficult external circumstances (Mold 2010).

As mentioned above, what is significant of the past years is that ODA is increasingly occupying a minor role in the overall development financial system, losing its share in favor of private funding and other official financial flows. As a result, developing countries, as a group, have turned out to become lesser dependent on ODA flows as a financial mechanism, whereas they are becoming more capable to attract private capital flows. As shown in figure 8, Annex 1, US official resource flows to developing countries have turned out to decrease to 17% in 2005 compared to the 71% in 1960.

This analysis seems to be a repetition of ODA's same dynamic, which enters a vicious circle of advocacy, promotion and fatigue all over again. However, this time the alternative to aid financial flows is coming from private sources, which find in globalization a good ally in entering the aid market. I will go back to this issue in the next section.

Aid fragmentation and proliferation

The increase in overall ODA flows has been accompanied with the proliferation of many new donors and aid agencies, which in turn have initiated the implementation of many new aid projects and programs spread all over the developing world. These are the so-called aid proliferation and fragmentation phenomena. According to IDA, *proliferation* is associated with the number of donor channels providing ODA to a given recipient country, and *fragmentation* with the number of donor-funded activities as well as their average value.

Data analysis shows that there are a growing number of bilateral donors and international organizations, funds and programs over the last half century. The number of bilateral donors grew from 5-6 in the mid 1940s to at least 56 (IDA, 2007). There has also been a dramatic increase in the number of international organizations, funds and programs (see Annex III, "An overview of the main trends of ODA flows", IDA, 2007). According to OECD data (2009), there are 3700 aid relationships, of which DAC donors represent 2400. About one quarter of the DAC donor-partner country relationships are micro-aid schemes of under USD 250000 per annum each, amounting to only 0.1% of Country Programmable Aid (CPA).

When aid comes from many sources and is spread over too many co-operation programmes, it creates high transactions costs for both donors and recipients. Transaction costs of aid are understood as "the costs arising from the preparation, negotiation, implementation, monitoring and enforcement of agreements for the

agreed by the EU heads of States and governments, the European Parliament and the Commission in 2005.

delivery of official development assistance (ODA)" (DFID, UNDP, 2000). These include administrative costs as well as indirect and opportunity costs (the value lost by diverting resources toward management of aid portfolios). Fragmented, sometimes competing donor practices, especially where there are many small donors and no large donors acting as leads or "anchors" for others, erode the administrative capacity of recipient partner governments (Knack and Rhaman, 2004).

There are two methods two measure a ratio of aid fragmentation. From the donor viewpoint, fragmentation is the average number of recipients that a given donor supports (Hirschman-Herfindahl index[75]). From the recipient viewpoint, the fragmentation ratio refers to the number of donors that are providing aid to a given recipient country. The increase of aid fragmentation is not lineal at relative level. That means that whereas some countries have lately decided to reduce the reach of their aid (e.g. Sweden, Australia, Denmark, Finland), other donors have expanded their network of recipients (EC, Spain) or new comers have contributed to the increase of aid fragmentation (e.g. South Korea had 24 partner countries in 2009). Symmetrically, some recipients have decided to reduce the amount of donor countries providing aid, as this was the case of India or Tanzania[76].

All in all, and despite PD and AAA's efforts, where donors committed to aid harmonisation, fragmentation has not shown substantial progress yet (DAC 2009). They rather continue to allocate their aid budgets following an arbitrary selection of countries, which are prioritized in terms of external relations, namely for economic or political interests as discussed at the beginning of the chapter. It is undeniable to conclude that global efforts to increase aid harmonization and thereby to reduce transaction costs will have to be channeled toward a different recipe of policies capable to lead with the issue of state sovereignty over development issues.

<u>Bilateral vs. Multilateral aid</u>

Since the 1960s and 1970s, multilateral institutions have played a prominent role in providing official aid resources to the development world. Some well-known arguments for providing multilateral aid are the advantages that a multilateral agency has in terms of generating economies of scale, large scale of capital and knowledge, lower units costs, the provision of public goods and political neutrality and legitimacy (DAC Report on Multilateral Aid, 2008). In addition to these, a recent report of DAC (OECD 2010) highlights the speed and flexibility of response of multilaterals to the current financial and economic crisis.

Conversely, there are also arguments against providing multilateral aid. Among them, there is perceived institutional complexity, lack of transparency, or higher absolute

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[75] Mold, Prizzon, Frot and Santiso (2010) provide a detailed analysis of this index in his paper "Aid flows in times of crisis", presented at the "Conference on Development Cooperation in times of crisis" in Madrid, 2010.

[76] However, a large share of aid to Tanzania is through more than 700 projects managed by 56 parallel implementation units. Half of all technical assistance provided to the country is not coordinated with the Tanzanian government. Tanzania received 541 donor missions during 2005 of which only 17 percent involved more than one donor (DAC, Progress report on the 2006 survey on monitoring the PD).

costs. But more recently the debate has turned to question the neutrality advantage that supposedly multilaterals have in providing development aid, a central point widely claimed by aid observers and policy makers (Schneider and Tobin 2011). Recent research indicates that multilateral aid[77] allocation exhibits similar biases -compared to bilateral aid- with detrimental effects on development outcomes (Stone 2002, 2008, 2010; Nielson and Tierney 2003; Copelovitch 2010).

The multilateral share of total ODA has been relatively stable. In the 20 years from 1989 to 2008 multilateral ODA increased from USD 23 billion to USD 35 billion, ranging from 27% to 33%. Among all different multilateral agencies, the EU has experienced the most remarkable rise. Excluding contributions to her, the multilateral share has declined from 22% to 20%.

Multilateral ODA is concentrated in six big clusters. In the 2004-08 period, 82% was allocated to the EU (37%), the largest multilateral donor by far, the International Development Association (IDA) of the World Bank Group (21%), UN Funds and Programmes (10%), the Global Fund (6%), and African and Asian Development Banks (4% and 3%). Multilateral ODA to EU institutions, at USD 13 billions, also makes up the majority of EU MS' multilateral ODA (51%).

Due to the large amount ODA fueled by MS channeled through the EU, the case of the EU is of particular interest and study. Several scholars and observers have welcomed this development. Rodrik (2005), for example, argued that the primary rationale behind delegating substantial management and agenda-setting powers to the EU is that the EU can exploit independence and information advantages to diffuse strategic interests and to ensure a more development based approach to foreign aid.

However, the theoretical predictions of this hand-tying argument have not found consistent support in empirical applications of European aid allocation. Rather, scholars find a consistent and dominant effect of EU member interests on the allocation of European aid (Tsoutsoplides 1991; Zanger 2000; Kostadinova 2009; Baumann et al. 2010). National strategic interests reflected through members' coalitions influence the rationale of European aid giving. The same theory is likely to dominate the rationale of other multilateral agencies aid allocation (Schneider and Tobin 2011). I will go back to this argument next chapter, which will explore thoroughly the model of development aid of the EU.

<u>ODA does not prioritize LDCs</u>

The pattern of aid distribution across countries is insufficiently coordinated. Individual

[77] Multilateral aid advocates defend the neutrality role of such organizations toward promoting allocations of development aid. Whereas *strategic aid* focuses on the economic development needs of those recipient countries in which the donor has a national political, military, or commercial interest, *development aid* focuses on the development priorities of those countries most in need, be that from a human development or economic perspective. The principle of development aid is nowadays explicitly linked to the principle that aid should be allocated to economically deprived countries that utilize aid effectively even though the research on how institutional quality affects aid effectiveness tends to be fragile (Easterly et al. 2004).

donors (public and private) decide separately which country programmes to assist and to what extent, based on their unique set of values, goals and criteria, shaped by specific contexts and historical relationships. The absence of timely information on other donors' forward intentions impedes everyone's ability to adjust their own plans accordingly. Furthermore, accountability to taxpayers or boards is seldom focused on correcting the actions of others, predictable or not: each donor has its own priorities and incentive framework.

This asymmetrical pattern generates inefficiencies and inequities. The resulting geographical gaps and overlaps, commonly called "aid darlings" and "aid orphans", can entail considerable global costs, to the extent that the aid community as a whole fails to invest systematically where aid is expected to have the most impact. "Darlings" are not fully symmetric with "orphans", however; they may remain under-aided in absolute terms, or in important areas, yet involve large numbers of small donors, entailing high fragmentation costs.

Donors have committed "to start a dialogue on international division of labour across countries and work to address the issue of countries that receive insufficient aid" (AAA). However, actual aid allocations are still mostly driven by factors other than need or merit. Again, donor strategic interests dominate the decision-making process of donors when it comes to decide where to give aid. A recent study[78] using DAC data finds that almost half of the predicted value of aid is determined by donor-specific factors, only one-third by needs and only 2% by performance.

This scrutiny is evident when looking at the list of main recipient countries (see Figure 9, Annex 1: Gross bilateral ODA figures 2009). Iraq and Afghanistan, with vast geo-political interests, cope the list with more than USD 10 bn received, followed by Indonesia, China, India and Vietnam. The top ten recipients agglutinate the 28% of total ODA disbursed in 2009. China, India, Indonesia and Vietnam, fast-growing emerging economies, which do attract a large amount of private development financial flows, are also a magnet for official aid flows. This shows the importance of commercial and economic interest of donor countries in emerging countries. In parallel, once imperial countries such as UK, France or Spain prioritize their allocations mainly to former colonies (71% in the case of UK and 51% in the case of France, for example).

It is widely acclaimed by scholars and practitioners that ODA would need to be allocated to the countries where poverty is more pervasive, deep and extended. These countries are often called fragile states (EC), referred as countries that are in the poverty trap (Collier) or, into a more standard classification, LDCs (see table 6, Annex 1). These countries score the lowest HDI and they meet the criteria[79] of (i) belonging to a low-income country (GNI per capita lower than USD 905), (ii) having human resource weakness (based on indicators of nutrition, health, education and adult literacy) and (iii) economic vulnerability (based on instability of agricultural production, instability of exports of goods and services, economic importance of non-traditional activities,

[78] See "Need, merit or self-interest-what determines the allocation of aid?", Hoeffler and Outram, CSAE, Oxford, July 2008.
[79] UN-OHRLLS, The criteria for the identification of the LDCs.

merchandise export concentration, handicap of economic smallness, and the percentage of population displaced by natural disasters).

Nevertheless, ODA fueled to LDCs was about USD 25.1 billion (average 2008-2009), less than the USD 30.3 billion disbursed to low-middle income countries. Per region, Sub-Saharan Africa, the poorest region by far, is the main geographical block receiving ODA (USD 26.6 billion), only slightly above South, Central Asia and Oceania (USD 26 billion). This incongruence it is not surprisingly correlated to the motivations and incentives of donor countries to decide their aid allocations following their pattern of self-national interests.

Even though the debate over how to improve aid distribution across countries is on the table (specially since AAA), this is pivoting into discussions other than the issue of state sovereignty and the reform of global governance system. Rather, efforts are concentrated in raising the awareness of the problem of collective action, seeking to improve complementarity among donors' different approaches and in rebalancing upcoming aid increases.

<u>Investing in Social Sectors</u>

I have reviewed above the economic nature of aid giving, which was initially directed towards supporting mostly large economic infrastructure projects in developing countries (energy, transport, etc.) -when the two-gap model was the predominant development theory- and productive activities, to a lesser extent. However, during the 70s, when poverty was put at the centre stage of the development policies, ODA flows shifted to support mainly social sectors. This trend has grown steadily since nowadays, where social sectors represent more than 60% of ODA (2007), a substantial increase compared to the 30% represented in the 1970s.

Aid agencies are prone to recurring trends and fashions, which are reflected in changes in orientation of the assignments. Donors used to invest heavily in infrastructure before moving to social issues. This trend has been observed elsewhere (Easterly, 2009). In the early days of aid, the emphasis was on increasing the amount of physical infrastructure and to a lesser extent, agriculture. The rationale then stated that developing countries lacked investment, and therefore had to help finance large projects (dams, power plants, roads, steel mills, etc.).

However, in the nineties, donors realized that the poor maintenance of these large-scale projects had been ineffective. From the eighties onwards, donors favored a program of structural adjustment and macroeconomic reforms. The subsequent disappointment with this program led to focus on institutional reform, corruption and democracy, as evidenced by the rapid expansion of aid to the government sector and civil society. The importance of institutional quality, property rights and the rule of law was emphasized by North (1990). Acemoglu et al. (2001) also launched a vast literature on the long-term institutions' consequences.

While no one rejects the fact that the promotion of democratic governance, institutional strengthening and civil society is necessary condition for development, some scholars are increasingly claiming the need to prioritize development interventions into economic sectors that largely contribute to make a living. This is the case of the agricultural sector in Sub-Saharan Africa, the first source of economic income by far. Although some positive results have been achieved, like the Green Revolution in India or the recognition of the importance of agriculture in development, support provided to agriculture in Africa –which has been minimal in proportion to its importance- is widely perceived as a failure (Easterly 2009).

In the same line Caselli (2005) shows that, according to industry figures, one of the main reasons why poor countries are poor is that labor productivity is much lower in the agricultural sector. The author quantifies this effect by calculating the income differences between countries, and the surprising result is that if all countries had the same productivity of agricultural labor than the U.S., global income inequality would virtually disappear. Improvements in agricultural productivity, therefore, would result in considerable benefits. The small number of agricultural projects and, in general, weak commitment to this sector seem to imply that aid donors have recognized this potential, or at least there were other reasons not to exploit it.

The agricultural sector, left out of the priorities of both donors and recipient governments[80], has been taken as a blue ocean of investment by new donors such as China and Middle-East countries, that have started to invest intensively in this sector. It seems clear that the "abandonment" of agricultural support by traditional donors has opened the way for emerging donors in this sector.

The field research undertaken in this thesis, which I will detail in chapter 4, points at low agricultural performance and the lack of other income opportunities in rural areas as the main contraints to development in the Dodoma region of Tanzania. The debate should not stress whether to prioritize economic or social projects and programs, but rather on how to identify and foster the main areas of potential development supports and identify and mitigate the areas of deprivation. However, the research evidences that poor rural settlements value the opportunity to increase their productivity and expand their economic sources of income rather than receiving other kind of supports (see section 4.3, chapter 4). It fits the theoretical framework that robustly argues that economic development within a nation is a likely starting point for any explanation because it is demonstrably associated with psychological changes that in turn should impact people's happiness (Diener, Diener & Diener ,1995). Inglehart (1997) also hypothesized that economic development brings a societal-level shift from maximizing economic growth to maximizing survival and well-being[81].

Amartya Sen (1999) made an eloquent classification of the multidimensions of poverty that affect deprivation and hamper development. According to him, development should

[80] Foreign aid to agriculture fell sharply between 1980 and 2004, but government spending also fell by half in the sector during the same period.

[81] Inglehart's human development model (2003, 2005) proposes that human development shifts emphasis from the pursuit of happiness through economic means toward a broader pursuit of happiness by maximizing free choice in all realms of life. The belief that one has free choice and control over one's life is closely linked with happiness (Johnson and Krueger, 2006), and this link seems to be universal. Happiness is linked with people's sense of freedom across all major cultural zones (Inglehart & Welzel, 2005, p. 140). In many societies, people value free choice as much as they value economic security (Sen, 2001), and emphasis on freedom increases with rising economic security.

be measured by how much freedom a country has since without freedom people cannot make the choices that allow them to help themselves and others. He defines freedom as an interdependent bundle of: 1) political freedom and civil rights, 2) economic freedom including opportunities to get credit, 3) social opportunities: arrangements for health care, education, and other social services, 4) transparency guarantees, by which Sen means interactions with others, including the government, are characterized by a mutual understanding of what is offered and what to expect, 5) protective security, in which Sen includes unemployment benefits, famine and emergency relief, and general safety nets.

Following this framework, social investments are always needed in the poorest regions, but support to key economic sectors is key for a country's development and modernization. Such as Inglehart and Welzel widely argue, the core idea of modernization is that economic and technological development bring a coherent set of social and political changes. A large body of empirical evidence supports this idea. Economic development also brings mass demands for democratic institutions and more responsive behavior by elites. These changes together make democracy increasingly likely to emerge, while also making war, conflict and poverty less acceptable to publics.

These arguments suggest that, rather than viewing social or economic sectors as trade-offs, it is critical to identify the interconnections among the whole spectrum of dimensions of the poverty phenomena into a holistic approach that seizes the need to invest in sectors according to their potentialities to development of a given region or country, where, in the case of the poorest, pivot around economic sectors.

<u>Donor concentration at absolute terms</u>

Despite the proliferation of new donors as new agents for ODA disbursements, overall ODA flows continue to be concentrated in hands of few countries. With a total net ODA disbursed by DAC members of USD 128.73 billion in 2010, USD 80.6 billions flew from the top five, with a share of 62.6% (among 23 DAC donors). DAC records most of the ODA data available, which estimates an input of 9 to 10% of total ODA fueled by non-DAC members[82].

However, non of these top five countries accomplished to meet the target of the 0.7% UN ODA/GNI target. This is only attainable for the following five North European countries: Norway (1.1), Luxembourg (1.09), Sweden (0.97), Denmark (0.9) and the Netherlands (0.81). The rest are still far behind, with an average ratio of 0.32, equal to 2005. At the multilateral level, we have already seen that the EU is the largest donor by far (37%), overpassing the WB (21%) and the UN (10%).

These figures show the thick accent of the predominance and leadership of the G5 over the rest of the countries. This bias domains also the main fields of discussion and policy debate among the DAC, which is currently the main organizations that leads the development process among the rest of the international institutions that shape the interntional aid architecture.

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[82] According to OECD recent estimates, nineteen non-DAC members, of which Saudi Arabia is the largest provider, report their aid flows to DAC.

ODA-dependence

We are witnessing the enormous increase of private flows to emerging countries in the recent years, largely surpassing official flows. These private flows, namely foreign direct investment, remittances and trade flows (including tourism, which is an important incomce source for many developing countries[83]), have not only increased but have shown strong adaptation despite times of crisis (Mold et al. 2010). These flows, however, are normally allocated to emerging countries or fast-growing economies that offer substantial benefits for profit organizations.

Therefore, this increase is not significantly benefitting LDCs, which in turn depend larger on official aid flows. Africa is the continent that shows major dependence-risks with average ODA about 9% of GNI, far ahead South Asia, which has reduced its ODA dependence to just 1%. This dependence is eminently focused on Sub-Saharan Africa, and differs widely depending on the country. Thus, while South Africa shows no sign of ODA dependence, countries like Mali (13%), Malawi (20%), Sierra Leone and Burundi (more than 30%) have preoccupying indices of ODA dependence (Glennie, 2008). Overall, this dependence is shown in table 7 of Annex 1, which offers a comparison between Sub Saharan Africa and the developing countries. As average percentage of net capital flows between 2000 and 2006, SSA receives only 38.4% from private flows and 65.4% from ODA, while developing countries conversely enjoy more private resources (84.9%) rather than ODA flows (19.5).

Since the G8 Summit in Gleneagles in July 2005, the great challenge of donors has focused on increasing aid flows, especially to Africa. However, reality has not met expectations and the commitments made at this Summit have not been accomplished. In real terms, ODA in 2007 was only 15% higher in 2004 compared with 60% required in 2010 to meet the commitments made at Gleneagles (OECD, 2008). Roodman (2008) has argued that as a result of the financial crisis, including existing aid budgets are under threat. In fact, this author points out specific instances where important financial crises have reduced development aid budgets (e.g. Finland, Japan, Norway, Sweden and Spain).

But while increasing ODA flows has predominated donors debates and agendas, along with aid effectiveness, much less emphasis is put on the interconnections between official and private flows and the incentives that would foster a more cooperative role between private and official aid organizations. Although some multilateral agencies are advocating for a more policy guided framework for the support of private led and market oriented initiatives[84] (mainly following scholars and practicioners recommendacions), this issue is still in its inception stage, lacking consensus and, above all, implementation. I will go back to this issue in chapter 4, where I will review private-led initiatives that have a high degree of adaptation to local communities as one of the critical factors of their success.

[83] See Honeck (2008).
[84] Such as Growing Inclusive Markets (UNDP) or the Asia Program on Corporate Social Responsibility and Engaging with the Base of the Pyramid - East and South Asia (WB).

Reducing ODA over-dependency remains a bigger challenge. Its consequences have external affects that hamper the development of entrepreneurial homegrown initiatives and favors the embeddness of corrupt elites among the management of official aid flows in developing countries[85].

Economic uncertainty hampers long-term planning

Developing countries face many sources of economic uncertainty. Low-income countries tend to be dependent on primary product exports, and are therefore vulnerable to climate and trade shocks, as well as other factors affecting commodity prices. Low and Middle-income countries have historically been dependent on short-term capital flows, leaving them vulnerable to currency and real-sector shocks from capital flight. Political instability and policy uncertainty tend to plague these countries to a greater degree, dampening private sector growth and investment. And in addition to these factors, developing countries also receive aid flows that are highly volatile.

Recent evidence shows that aid flows to developing countries are much more volatile than government revenues, household consumption or GDP (Desai and Kharas 2010). The adverse effects of aid unpredictability are well-known: volatile aid flows worsen public financing, shift government expenditures from investment to consumption and exacerbate business cycles, among other effects. These effects are logically more accused in ODA-dependent countries.

The determinants of aid volatility, according to Desai and Kharas, are mainly (i) internal political events, conflicts or adverse regime change in recipient countries, (ii) domestic political instability, (iii) an aid portfolio characterized by high volatile donor predominance (i.e. US) and (iv) bad donor planning.

For a developing country, aid can be uncoordinated and fragmented. Donors support one sector for a year and then move toward a different sector. They are unaware of each others' operations and often duplicate analytical work. The whole system produces volatility, waste and overlap of activities because of an inability to predict and plan resource flows over the medium term (Kharas 2008).

There are two strategic measures to reduce the impact of aid volatility[86]. At the recipient level, developing countries can deal with tax adjustment and spending plans, as well as adjustment of foreign exchanges revenues and domestic non-monetary financing (Fielding and Mavrotas, 2005). Policymakers have other choices of technical proposals that could be implemented to help limit volatility. Cohen et al*.* (2008) suggests automatically linking repayment on soft credits with an export shock, using a countercyclical loan instrument, implicitly targeting net foreign exchange at some level. Berg (2007) proposes that the IMF should permit countries to draw down foreign exchange reserves when there are aid shortfalls and that this should be built into financial programming models.

[85] See "The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It by" Paul Collier (2007).

[86] According to Kharas (2008), the deadweight loss associated with aid volatility is between 15 and 20 percent of the total value of aid in recent years. At current aid levels, this loss is about $16 billion.

Second, donors should concentrate more in implementing effective policies to foster aid harmonization, one of the key five principles stated in the PD. To speed up the measures agreed in the Rome Declaration on Aid Harmonization (2003) remains a challenge yet (i.e. the International Finance Facility). The constraints shown in its progress are related to the incapacity of the current aid system to generate the necessary sovereignty to coordinate donor aid efforts at an aggregate level.

The issue of aid volatility goes beyond the mere fact of affecting public financing. The lack of predictability shapes an atmosphere of uncertainty that inevitably pushes the recipient government to focus on the short-term, which characterizes the behaviour of a low-income country. This variable is correlated with the lack of short-term planning observed in the field research in Dodoma region, Tanzania. Through aid unpredictability, donors are reinforcing this attitude, which seriously hamper the potential of the country to become educated, entrepreneur, self-sufficient and to support and promote public and private investment, growth and development.

In the same line, Agenor and Aizenman (2007) argues that aid volatility may have permanent costs both in terms of production and growth and to create a poverty trap. Large projects require sustained inputs of capital and a sudden failure could seriously jeopardize their achievement. This is especially true for receptors that ODA is an important part of their total income. For example, in 2007, grants accounted for 30% of total tax revenue in Tanzania. The figure reached 47% in Rwanda. For these countries the disturbances in the delivery of aid represent significant variations in income. Arellano et al. (2009) even conclude that a fall in the volatility of aid would be a significant increase in welfare.

Is ODA a transparent measure of development aid?

There is a long debate over which measure better reflects the cash flows disbursed to recipient countries for development purposes. ODA is still the headline measure of spending of donors in favour of developing countries. This captures grants and concessional loans made to developing countries and multilateral development institutions for development purposes. Bilateral outflows cover a broad range of expenditures, including several items which are challenged by advocacy groups. For example debt relief, imputed student costs, aid administration and technical co-operation, while scored at face value as ODA within DAC guidelines, may not represent actual transfers of funds to recipient countries. Various attempts have been made by NGOs and scholars to strip out these and other items from ODA to derive a more meaningful, "real aid" measure[87].

As a consequence of this claim, DAC came out in 2007 with a new terminology to measure core development aid, named Country Programmable Aid (CPA). CPA is the portion of aid that each donor (bilateral or multilateral) can programme for each recipient country. CPA is a subset of ODA outflows. It takes as a starting point data on gross ODA disbursements by recipient but excludes spending which is: (1) inherently unpredictable (such as humanitarian aid and debt relief); or (2) entails no flows to the

[87] Action Aid International, "Real Aid, making technical assistance work" (2005).

recipient country (administration, student costs, development awareness and research and refugee spending in donor countries); or (3) is usually not discussed between the main donor agency and recipient governments (food aid, aid from local governments, core funding to international NGOs, aid through secondary agencies, ODA equity investments and aid which is not allocable by country). Finally, (4), CPA does not net out loan repayments, as these are not usually factored into aid allocation decisions. CPA, in short, tracks the portion of aid on which recipient countries have, or could have, a significant say and for which donors should be accountable for delivering "as programmed". CPA outflows from multilaterals to recipient countries are measured directly in this definition.

Taking this "real aid" approximation into figures, we see how ODA is inflated compared to CPA. Overall, for DAC members CPA is roughly a little over a half of their gross bilateral ODA (54%). Since late 1990s, the main driver of the more recent increase of total ODA has been debt relief, while the resumption of growth in ODA to CPA has not grown as fast as total ODA. CPA significantly contributes to foster aid transparency as it well captures the main cross-border aid flows to recipient countries. It is also useful for analyzing concentration across and within countries and agencies, as it simplifies the procedures to measuring.

However, CPA is not yet a perfect measure of real aid. It includes technical cooperation, which in most cases does not follow recipients' procedures, and CPA allows for donor-specific contracts to NGOs that escape host governments' scrutiny. What is evident is that if the UN target had referred to CPA, real aid figures would be at some point even insignificant. Less encouraging are figures that exclude technical cooperation in CPA, with the aim to count the flows that can be used by recipient governments to invest in social and infrastructure development programs. As Kharas (2008) points out, only USD 38 billion (37%) out of USD 107 billion of net ODA in 2005 were allocated for strict development purposes at the expense of the recipient country (he calls it net development aid). Looked at through this lens, net development aid has even shrunk between 1985 and 2005 (from 59% to 37%).

<u>Budget Support, looking for new ways to reinforce ownership</u>

We have argued that CPA is a more realistic measure of disbursing net development aid, as this net aid is formed of cash flows that the recipient government receives for development purposes. Budget Support (BS) is the financial modality of aid delivery that directly disburses donors' flows to the recipient government's Treasury, which in turn must comply with a set of eligible criteria. In other words, BS is CPA designated for use in the government sector which is not earmarked to specific projects or expenditure items and which is disbursed through the recipient government's own financial management system.

The DAC definition for BS, termed "direct budget support", is "a method of financing a partner country's budget through a transfer of resources from a donor to the partner government's national treasury. The funds thus transferred are managed in accordance with the recipient's budgetary procedures" (OECD, 2006). Although BS has been long used as a financial aid modality, its importance takes off under the aid effectiveness debate at the wake of the new millennium, which brought the assumption that traditional forms of support have not delivered on development objectives and remain highly risky because they provide goods and services in recipient countries that only last as long as donor funds flow because governments have no ownership of aid-funded policies and spending.

Likewise, they also far too often provide public goods and infrastructure of which the real impact on service delivery is diminished because the recurrent costs of the public good provided can not be covered by the recipient country. Most importantly, the aid effectiveness agenda also recognizes that traditional aid instruments result in a set of incentives in recipient countries, which undermine the development of effective, accountable states. Traditional forms of aid support preoccupy recipient country governments such that they have little capacity or incentive to manage their own funds properly or be accountable to their own populations.

The advocates of BS claim[88] that it contributes to strengthen national processes and systems, enhance country ownership, facilitate harmonisation, reduce transaction costs, and so improve prospects for better public spending and faster achievement of development goals. However, despite the compelling theoretical arguments that favour the use of massive BS flows to developing countries, recent empirical studies have questioned with evidence that "it is not gold all that glitters". Most of recipient countries lack robust and effective control mechanisms (i.e. Parliament, Supreme Audit Institutions), have weak public financial management systems and a high degree of corruption. Against this backdrop, BS associated risks[89] (fiduciary, development and reputational) are quite likely to be transformed in perils that put into question the effectiveness of this modality.

After more than ten years of using BS as a preferred modality, criticism among some EU MS -led by Germany- pushed the European Parliament to commission some studies on the monitoring of BS in developing countries. One of them, elaborated in 2010 based on three case studies[90] (Ghana, Burkina Faso and Dominican Republic), in which I participated as author of the American country case, highlights the weakness of national control mechanisms to the point that most Parliamentarians do not understand nor even know BS procedures.

In the case of the Dominican Republic, the country was receiving BS even though it did not qualify for one of the most relevant conditions, which was to have a National Development Strategy in place. The role of the Parliament in budgetary oversight is almost testimonial and its effectiveness very weak. This is constrained by the following handicaps: a strong culture anchored in the lack of civil society participation; lack of political will and commitment to influence political decisions; lack of technical support; lack of time for scrutiny and lack of valuable information concerning national priorities

[88] See European Consensus on Development (2005) and Mokoro (2008) for an extensive review of BS effects.

[89] See an extensive review of major risks at "The BS Instrument New Paradigm: can it enhance ownership in development assistance?", Hadziyiannakis and Mylonakis (2006).

[90] "Monitoring Budget Support in developing countries. A comparative analysis of National Control Mechanisms", EP, Directorate General for External Policies (2010).

and development objectives; lack of open and participatory discussions; low level of Parliamentarians training and the diminished role played by the Supreme Audit Institutions.

My objective is not to thoroughly review pros and cons of BS, but this hint of the BS's "love-hate" story brings us strong evidence that, even net development aid is transferred to recipient governments, aid does not see directly its ownership improved nor overall effectiveness gains. Worse, in some cases can even undermine other development efforts. In the mid of the debate "increase ODA disbursements – improving aid effectiveness", which has characteristics of a "dead end" if no major changes are instilled, new trends are emerging as an alternative (or a complement) to the current ODA system.

1.6 Emerging Trends to the Current Aid System

Section 4 has reviewed the characteristics of the International Aid Architecture (IAA) to date. Main challenges still remain from old days (i.e. broken promises, lost commitments, national strategic motivations, aid dependence, aid overestimation) and new ones arise from globalization forces that reshape the aid system with the specialization of traditional agencies into split units and, above all, with the entrance of new players (i.e. aid fragmentation and proliferation). It is precisely the emergence of new actors to the aid market that are knocking the door of the IAA. This is still dominated by the autocracy of the main players (G5), the big force behind the need to reformulate the current system.

On one hand, the dynamism of these players brings competition and innovation with new perspectives, methodologies, tools and types of intervention, as well as additional sources for financing development. On the other hand, presents challenges to coordinate efforts and avoid further fragmentation, conflicts of interest, administrative costs increased supervision, and generally reduced the effectiveness of aid. These new actors can be classified as Southern Emerging Donors (SED), Non-Profit Organizations (NPO) and the Private Sector (PS).

1.6.1 New Emerging Donor Agencies from the South (South-South Cooperation)

Providing assistance to poor countries is no longer the sole province of rich countries. Transition economies and middle-income countries now give to poor countries. At last count, 29 such countries have established or are building aid programs. The new bilaterals include small donors like Thailand, Brazil and some of the new members of the EU, medium size donors like Korea (a new member of the DAC since 2009) Turkey and large donors like China, India and Saudi Arabia, which have annual aid programs of $1 billion or more.

Recent estimations guess that the new SED contributed about USD 8 billion in development aid in 2005[91] (DAC 2005). Unlike traditional donors, with mature aid

[91] Based on a sample of new bilaterals reporting to the DAC, about 19% of aid goes for emergency relief and administrative costs. If this is extrapolated to all new bilaterals, the total net development aid would amount USD 6.5 billion in 2005.

markets, the new bilaterals give little in the form of debt relief (as they have small outstanding liabilities), and little in the form of technical cooperation (as the domestic consulting industry in small). Correspondingly, a greater fraction of their aid is in the form of projects and programs.

This new form of cooperation, so-called South-South cooperation, can help shape a more horizontal relationship between donor and recipient countries on the basis of common interests and solidarity, respect for sovereignty in internal affairs and, in many cases, the efficiency due to lower relative costs of cooperation among developing countries. Their motivations are beginning to transcend the global level and to exercise significant influence, with high levels of financial independence due to its ability to mobilize domestic resources[92]. They have wider range of motivations compared to traditional aid schemes. In addition to strategic considerations, political, commercial, and solidarity reasons they also encompass ideological considerations and cultural affinity, as well as pragmatic considerations related to specific interests shared in regional areas such as watersheds, shared cross border natural resources, and joint vulnerabilities.

For the recipients' viewpoint, SED are recognized as successful contemporary development benchmarks that have a lot to transfer for the development of the poorest (this cooperation encompasses from political commitment to joint negotiations and trade integration agreements to partnership agreements on specific issues -transport, education, monetary policy, working conditions, pension systems, science and technology-, and runs through different modalities -funding, exchange of experts, technical assistance, information on best practices, and increased joint negotiating capacity).

Furthermore, these countries do not have the heavy burden of colonialism, so they are rather seen like horizontal partners with whom to set up win-win scenarios of cooperation. Against this backdrop, SED have a competitive advantage compared to traditional donors, which is based on an empathic relationship that renders mutual beneficial collaborations. These new successful developing countries have unique particularities defined by their own development experiences, models and approaches.

China, for example, has built on its own strong history of infrastructure project management to focus its aid, and prides itself on short project preparation and implementation periods compared to traditional donors. Korea, which is broadly admired for its rapid development of the 1970s, places an emphasis on export-led projects, human resources, and rural development and ability to pool human resources along with capital is a core comparative advantage. Her successful rural development programme implemented in the 1970s it is currently benchmarked in many poor countries[93]. Brazil's aid is characterized mainly by adapting successful experiences from

[92] For example, the Corporation China Investment acquired assets of Morgan Stanley for $ 5.3 billion, the Corporation Korean Investment in conjunction with the Authority, Korean Investment invested $ 5.4 billion in Merrill Lynch and Investment Authority Abu Dhabi acquired U.S. $ 7.5 billion in Citigroup stock (Singh 2008).

[93] Saemaul Undong was a community-based integrated rural development programme of the Republic of Korea in the 1970s which contributed to narrowing the developmental gap between urban cities and rural communities over a decade. Its success can be attributed to its implementation of basic strategies

Brazil to other areas with similar social conditions, usually through the dispatch of experts, training scholarships, internships or donation of equipment (Federal Republic of Brazil 2008). Among the main motivations of Brazilian cooperation are: strengthen or create new markets for their products, services and investment, preserve national interests may be threatened countries, and strengthen the international prestige of Brazil to achieve greater bargaining power in international affairs.

South-South Cooperation (SSC) has attracted a lot of interest and debate. Although the benefits discussed are evident and potentialities are huge, there are also some cons. The case of Chinese presence in Africa, for example, is a trending topic not detrimental of controversy. China has provided external market opportunities for African economies. In doing so it has, at least to some extent, helped to provide the preconditions for African nations to establish self-sustaining economies (Broadman 2006, Goldstein et al. 2006; AUC 2006). China's trade, investment and massive capital exports (though they are often provided in kind not in cash) sent a welcome message of opportunity and hope to African countries. Its development case also shows that a country can develop by a mixture of factors, beyond the simplistic neoclassical recipe of free markets and trade (Chang, 2008). SSC has become a viable feature of globalisation where Africans are treated as equal business partners and not belittled in their self-esteem as recipients of charitable donations from the industrialized world.

However, China's role in the black continent is often seen in the West with criticism, with a concern that China's engagement was undermining development strategies, protection of human rights and good governance support. The lack of institutions aimed at designing developing policies or a more development aid "western" approach bothers China's skeptics to the good or bad the Asian giant is doing in Africa. Anyhow, Chinese are welcome by most African politicians[94], businessmen and scholars, who see Sino-African cooperation as a complement to the traditional Western-aid approach, incapable to lead the development process in many African countries despite big efforts and resources poured to that aim.

There is extensive evidence that Chinese products are filling a gap into the African markets, as a way to provide commodities that expand the capabilities of the poor to fight their deprivations (one only has to personally witness Sub-Saharan Africa's both urban and rural areas). Its investments in infrastructure are also boosting public procurement procedures and fostering businesses and the private sector. Whether this approach is sustainable or will render developmental benefits in the long-term is very much debated. Nevertheless, the China-Africa cooperation goes beyond mere opportunistic economic trade-offs (Brautigam, 2009), which is the predominant public view in the West. China and Africa have jointly created the Forum on China and Africa

of poverty reduction adapting to and making use of the Korean contexts—promoting opportunities and facilitating empowerment for rural people. See more in "Analysis of Saemaul Undong: a Korean Rural Development Programme in the 1970s", Sooyung Park, Asi-Pacific Development Journal (2009).

[94] See Paul Kagame's article in the Guardian (Rwandan President) arguing that Africa must attract broad investment, not rely on handouts, if they are to sustain development ("Why Africa welcomes the Chinese", November 2, 2009, http://www.guardian.co.uk/commentisfree/2009/nov/02/aid-trade-rwanda-china-west).

Cooperation (FOCAC) in 2000, and they are members of AU's NEPAD (the New Partnership for Africa's Development of the African Union), in an attempt to raise its role and awareness at the regional and multilateral level. It is a clear sign that China is claiming for a more prominent weight of her international relations according to the emerged status as one of the leading world economies and fastest grower.

1.6.2 Expansion of Nonprofit Organizations

The other major driving force is seen in the philanthropic private sector. Its increasing financial flows have transformed the development landscape. We have already concluded that private flows like FDI or remittances and other capital flows are much larger than official flows to developing countries. Although nonprofit development aid does not yet surpass ODA, recent estimates suggest a comparison between about USD 33-39 billion of nonprofit aid to USD 61 billion net official development aid (2005). However, these estimates have not yet a robust calculation method due to the difficulty in acquiring official data from all countries and parties involved[95] and the complexity to split gross and netted amounts to avoid overlaps. This amount will steadily increase in the forthcoming years. Private charities, foundations, international NGOs, religious-based organizations and higher education institutions form the array of growing NPO that are transforming this arena. Gates Foundation, Ford's, Rockefeller, World Vision International, Save the Children International, Care USA, Oxfam, Action Aid and a large etcetera are becoming development aid super powers with large budgets and big networks.

The destination of private aid is difficult to assess, but general trends suggest a focus on Africa and Asia more intensively. These organizations provide aid in different areas of specialization (health is prominent), some have more a holistic approach (international NGOs mainly) and all of them use its own approach and code of conduct. This itself represents a challenge and an opportunity.

These philantropic donors bring more money to development, but more importantly, bring new attitudes and ways of working. The larger foundations are less dependent on public resources for future funding, so they may be willing to support less popular and photogenic causes (eg, support for statistical systems in developing countries). Foundations often are created by successful entrepreneurs, who may be more willing to operate under the principles of business, including the taking of evidence-based decisions, strict control of overheads, the adoption of new technologies and increased focus on results. They may be willing to take more risks and accept failures for further exchange for greater success. They tend to select projects according to their characteristics more than to the country. Foundations may be more able and more willing to work closely with the private sector, which plays a key role in development, which have not worked easily with government agencies yet.

[95] These estimated are based on US estimates, the country with more traditional and record keeping in nonprofit aid. It is assumed that US nonprofit financing to development is about 49-58% of the global total.

Some scholars highlight these benefits, arguing that NPOs can occupy a micro-leading and risk-taking role that can complement the more macro and holistic approach of bilateral governmental agencies (Maxwell, 2010). However, the expansion of these donors can exacerbate the current proliferation and fragmentation problems that are overwhelming the aid effectiveness debate and its community. Transactions costs increase, recipients have limited capacity to deal with an increasing number of initiatives and accountability turns out to be utopian. Instilling vision and long-term planning to structural developmental challenges remains a big challenge given the lack of a sovereign, inclusive and transparent aid architecure system that could set up guiding strategies, priorities, policies and coordination.

1.6.3 Implications for an Upgraded International Aid Architecture

The emergence of these new players has important implications for the current IAA. This is still anchored in an old and already obsolete governance system that has its roots in Bretton Woods. Despite the changing environment, there is no single architect, even though DAC is the leading organization cutting the wood. There are some relevant implications as a consequence of the new driving forces that are pushing, sooner or later, the aid system to accommodate these new realities.

The effect of SSC goes beyond the scope of analysis and debate in the North. Most importantly, it is attracting a great deal of attention in the South, acting as a catalyst of social entrepreneurship programs and projects, that involves local stakeholders, closer to beneficiaries. This movement is also strengthening regional integration mechanisms and processes. It is even fostering cooperation with Northern institutions that jointly cooperate with Southern partners in a triangular cooperation by forming a vertex that adds financial support, technical cooperation and awareness-raising to Southern developmental challenges[96].

In parallel, the for profit private sector is redesigning the approach to penetrate emerging markets with a focus on inclusive business models that stress the importance of scaling up business opportunities at the bottom of the pyramid[97] (BoP) while achieving social and environmental benefits with the same endeavor, what is called the triple line of benefits. This approach, which became popular after C.K. Prahalad book and Stuart Hart and Ted London articles, has attracted the attention of the private sector (both profits and nonprofits -MNE, SMEs, NGOs, Foundations), governmental agencies (bilaterals, economic promotion agencies, etc.) and multilaterals (UN, WB).

The BoP approach, which delivers important benefits for local populations in poor countries by becoming part of the value chain of these new business models (not just mere beneficiaries), has the novelty to bring together economic interests of private

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[96] Sagasti et al. discuss this issue in his paper presented in Madrid, "the New face of Development Cooperation: the role of SSC and Corporate Social Responsibility" (2010).

[97] In economics, the bottom of the pyramid is the largest, but poorest socio-economic group. In global terms, this is the 2.5 billion people who live on less than $2.50 per day, or the 4 billion people livng on less thant $8 a day, according to Global Issues and Stats. The phrase "bottom of the pyramid" is used in particular by people developing new models of doing business that deliberately target that demographic, often using new technology. This field is also often referred to as the "Base of the Pyramid" or just the "BoP".

corporations along with poverty reduction objectives of developing countries (and donors, by extent). This win-win-win scenario is built in market-like approaches that bring innovative solutions to help developing countries to grow and develop. Although there are some skeptics that question the changing nature of the private sector and the suitability of this approach to render substantial benefits for the poor (Karnani), the BoP concept is already impacting a big number of MNE that are adapting its business models to capture the big tapped markets at the BoP[98]. They are pushed for the need to diversify its target markets to emerging economies, due to the global financial crisis affecting more severely traditional wealthy markets in the North.

BoP is transforming the traditional approach of Corporate Social Responsibility (CSR), in which the enterprise, targeting the markets at the top of the pyramid, allocate some of its revenues to social and environmental issues, like poverty reduction through private-run foundations at the bottom. Although both approaches coexist and complement each other, the BoP is likely to be more attractive to shareholders and consumers than CSR by conceiving BoP markets at the core of its business models. Therefore, this approach is contributing to change the corporate governance system. I will analyse in more detail the driving forces, impacts and consequences in chapter 4, where BoP approaches could contribute to the socioeconomic development in Tanzania.

The BoP scope goes beyond providing goods and services to the poor. By effectively achieving its goals, the profit private sector needs the cooperation of public organizations and nonprofits that have strong experience, networks and know-how in BoP countries. Thereby, this approach strengthens the need to formalize strategic alliances among the private and public sector, civil society, profits and nonprofits (the so-called private-public partnerships or PPP). The participation of different stakeholders favors the inclusion of their different interests and contributes to create a participatory approach that enriches an innovative development process.

Therefore, the emergence of market-oriented approaches like the BoP is attracting the interest of bilateral and multilateral donor agencies, which see these types of mechanisms as useful in filling the gap between the aid micro-macro paradox[99]. Thus, PPPs have been increasingly recognized as an effective and appropriate mechanism to manage the complexity of the development challenges and the attainment of the MDGs. The UNDP[100], for example, helps the private sector leverage its financial and professional resources to move beyond philanthropy toward a more sustainable approach to

[98] The 2009 edition of the "Fortune at the bottom of the Pyramid (Prahalad, 2002) shows successful business cases of BoP approaches of MNEs, and for more practical information on cases studies, see www.inclusivebusiness.org and www.nextbillion.net.

[99] The major findings by Paul Mosley and others conclude that it is impossible to establish any significant correlation between aid and growth rate of GNP in developing countries. One reason for this is the fungibility and the leakage of the aid into unproductive expenditure in the public sector (Mosley, 1987, "Foreign Aid, its defense and reform", University Press of Kentucky). However, at a micro level, all donor agencies regularly report the success of most of their projects and programs. This contrast is known as the micro-macro paradox.

[100] It launched the initiative "growing inclusive markets" in which seeks to demonstrate how business can significantly contribute to human development by including the poor in the value chain as consumers, producers, business owners or employees (inclusive business models).

reaching out to the poor and to support sustainable development at global and national levels.

The private sector has also strong incentives for adopting inclusive business approaches. It is a way to strengthen its reputation among shareholders and consumers that are increasingly having more bargaining power in social and environmental issues. This is positively contributing to a changing environment in which social communication networks act as catalyst for multiplying this effect to a wider audience.

The new aid reality, with more donors and players bringing new approaches to the table, adds more complexity to the already tangled IAA. The side-emergence of new driving forces such as SSC and SED indicate the need for a soft governance system instilled by collective action. The reframing of the new architecture might develop in line with the benefits that might deliver, as Maxwell (2010) points out: foster positive externalities, reduce negative externalities, coordination, prevent free-riding, share information and learning, division of labour and cost-efficiency, ensure investment in public goods, orientate the incentives to development objectives, protect the long-term objectives to the pressures of the short-term, and voice and accountability.

The widely expected reform of the IAA moves to the deregulation and decentralization of the system to allow the aid market to develop these effective mechanisms to assign players and recipients through their needs and comparative advantage, foster efficiency and accountability, expand recipients’ opportunities to development financing, and opening up the market to embrace development innovations and networks.

1.7 Concluding Remarks

I started this chapter by reviewing the fundamentals of the market for altruism and how the act of giving is the main engine that spurs the supply of aid. Taxpayers from wealthy countries, voluntary charities and private donations emerge. However, the fact that the act of giving is not purely altruistic has important implications for the formation of the aid market, in which the nation-states and its transnational multilateral institutions take the lead to finance development aid that is delivered to low-income countries by donor agencies and nonprofits as a sort of IPG. Instead, the motivation of providing aid comes from the increased utility or satisfaction under ethical/moral reasons, widely known as the warm-glow effect (and complementarily, for prestige as a shortcut to achieve social status).

This rationale is key to understand that nation-states also have its impurely altruistic incentives to supply development aid in form of ODA to developing countries. Despite their attempt to publicize its poverty reduction overarching goal while uncovering implicit self-national interests, it might be politically correct to publicly acknowledge the different nature of motivations involved for aid giving. It would add more transparency to the current aid system.

When globalization and technology speeded up the exchange of goods, services, communications and international cooperation to a large extent among countries, new interests arose and also civil society became aware of global problems like poverty, environment and climate change. Global empathy towards poverty reduction issues emerged then as a noble reason whereby taxpayers could be demanding governmental action to tackle such international public "bad". Donors thereby aligned their foreign policy objectives with poverty reduction goals, and development aid became a strategic instrument of external action. The market for aid was then scaled-up at global level.

But sixty years of development aid have yielded poor results. Development aid by itself has not the power to transform societies/governments and force economic development in recipient countries, although it can contribute to positive impacts under specific circumstances and environments (Burnside and Dollar). As time goes by aid continues to disappoint many scholars, practitioners and policymakers around the world. Dambisa Moyo's Dead Aid book even questions whether aid is an adequate policy instrument to eradicate poverty. Recipients have limited absorptive capacity to manage large aid inflows and, furthermore, the mere provision of aid also creates perverse incentives and unintended consequences.

The donor-driven and supply-led aid market is only effective in creating a prominent and affluent aid industry in donor countries and in some recipients' elites (job creation in public employment, consultancy services and related associated sectors –transport, tourism, logistics, construction, etc). The objective function of aid agencies is of maximizing the budget and taxpayers and final beneficiaries have minimal impact information of their contributions and almost a null control over the budget ($k \rightarrow 0$).

Furthermore, the current aid system is also effective in positioning donors in strategic countries for economic, political and security gains. However, the "one-size fits all" policy recipes do not translate into effective results in reducing poverty in LDCs. This old-fashioned approach is discussing same old issues all over again. The need to improve country ownership, to propel coordination among increasing aid donors, to align divergent policy objectives among them with recipients' development goals, to deliver on results and to design systems of mutual accountability were issues raised more than 40 years ago (Pearson in 1969, Brandt in 1983 and the Paris Declaration in 2005, among others).

Against this strict and centralized aid system, orphan of innovative policies, collective action is emerging from developing countries and the private sector. They are bringing new aid approaches and ideas –SSC, SED, inclusive business- that are demanding a more inclusive and participative aid architecture that can accommodate developing countries needs and realities (see the driving forces in figure 12, Annex 1, "Reform of the current IAA: unstoppable driving forces). The new aid portrait, in order to take-off, would need to be painted out-of-the-box. It might be able to foster an innovative environment (see figure 11, Annex 1, "Characteristics for a new aid market") in which new solutions can develop at macro and micro level following a lateral pattern of co-creation of value.

The new market has a major challenge: how to bring the increasing private development flows to LDCs in cooperation with official development aid sources. The imbrication of both approaches through SSC, triangular cooperation, SED and BoP-inclusive business mechanisms can create a "domino effect" by linking traditional donors from wealthy countries (top of the pyramid), new donors from emerging economies (middle of the pyramid) and LDCs (BoP), see figure 10, Annex 1.

The new aid system must overcome one of the major critical constraints to the evolution of the current aid architecture, the prioritization of strategic national interests versus divergent poverty goals. However, the issue is not to size them out but to make them converge into the same system. Only this premise can ensure the allocation of incentives to all stakeholders that will guide a more efficient attraction of agents and resources (k->1).

The global approach anchored in the current donor-driven multilateral and bilateral system of development aid relationships has failed in identifying the needs of the poor[101]. The aid architecture debate has often left out the region-specific and local cultural aspects that can open up the poor to actively engage and participate in their development process. Rather, donors have understood that the mere fact of supporting the national development strategy of recipients entails promoting their culture and country-specific conditions. But there is no guarantee that the government is inclusive of the poor, who, unfortunately, can seldom engage into active civil society participation. Indeed, in some LDCs the sake of the poor is left in hands of selfish dictators or wealthy political elites who benefits from the system. The inclusion of the socio-cultural local aspect at the top of the debate is the cornerstone of this work, as it will be deeply analyzed in chapter 4.

[101] Although in the 1960s prominent scholars like Chenery and Strout and Rosenstein-Rodan pointed out sociocultural factors as determinants of development beyond the injection of capital flows (human skills, local institutions, participation of local citizens).

Fortunately, the scientific discourse and emerging trends are paving the way for unstoppable reform. The multidimensionality definition and conceptualization of poverty (Sen, 1999), along with the endogenous growth theory (Spence Report) provide an adaptative theoretical framework that can allow sufficient policy reform of the IAA. Again, global scientific and technological forces drive social change, propelled by the communication era of social networks that is empowering civil society to engage in collective action. Changing traditional aid mentalities and mindsets will be the next step.

CHAPTER 2:
"THE EUROPEAN UNION DEVELOPMENT COOPERATION PROCESS"

Abstract

"The European Union's Member States combine part of its share to the European Commission to jointly state and deliver development aid to third countries. As a result, the European Commission has converted into one of the biggest actors and donor agencies in allocating resources for the development of low-income countries. However, the EC development policy is an instrument of the overall EC foreign policy, which hinges on the promotion of economic integration through trade liberalization. Instead of adopting a single, tailored development cooperation approach to developing countries, the EC follows a standard model of cooperation that is characterized by an asymmetric paternalistic relationship in which the donor seeks to maximize its interest and impose its supply-driven and exogenous approach."

2.1 Introduction

The EU holds the status of being a unique and biggest experiment of regional integration in the world. The Treaty of Paris, signed on April 1951 by the six foundational member states, gave "proof of their determination to create the first supranational institution and that thus (they are) laying the true foundation of an organised Europe. This Europe remains open to all countries that are free to choose. We profoundly hope that other countries will join us in our common endeavour". These words where the outcome of a noble idea of a unified Europe, able to "make war unthinkable and materially impossible and reinforce democracy", as enunciated by Robert Schumann and other leaders in the Europe Declaration (1951).

Created in the aftermath of the WWII, the EU[102] has delivered half a century of peace, stability, and prosperity, helped raise living standards, launched a single European currency, and is progressively building a single Europe-wide market in which people, goods, services, and capital move among MS as freely as within one country. Today, after sixty years of European integration, the EU has expanded the scope of its interventions beyond economic interests and boundaries, becoming a global power able to exercise political influence at an international scale.

It is precisely the scope of external action that has characterized the nature of EU's internal cooperation among MS and external cooperation with its neighbors and other regions at global level, with a strong focus on promoting its development approach and values all over the world, for its own and others' benefit. In words of Walter Hallstein, "one reason for creating the European Community (was) to enable Europe to play its full part in world affairs…. (Its is) vital for the Community to be able to speak with one voice and to act as one in economic relations with the rest of the world[103]."

Whereas the degree of EU's effectiveness in exercising its influence at international level with one voice is very much debated, the EU foreign policy is exercising a bigger role in international political economy. Currently, it is engaged with relationships with practically all countries in the world and it has 136 EU delegations spread over and it plays a major lobby role among multilateral and international organizations. Its scope, traditionally rooted in defense and security issues, has undergone many challenges in order to adapt to the fast-changing society, economy and environment. The EU has embraced a wide array of horizontal issues such as Common Foreign and Security Policy, Justice and Home Affairs, competition policy, European Neighborhood Policy, human rights, peace and democracy, the influence of the European integration model and the perception of the EU by the international public.

Development policy occupies a central role in projecting EU's external relations in other regions. The EU, at an aggregate level[104], is the larger provider of official development aid to developing countries, with USD 67.1 billion (net ODA, 2009, DAC figures), 56% of

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[102] The term EU used here encompasses the historical namings of the European Economic Community, the European Communities, and the European Community, refered to them before the European regional integration process took the name of the European Union in the Treaty of Maastricht in 1992.

[103] Walter Hallstein, "United Europe: Challenge and Opportunity", Harvard University Press, 1962).

[104] Amounting the bilateral disbursements provided by individual MS plus the multilateral aid delivered by the EC.

the total. It has recently surpassed the WB as the first multilateral aid agency with 37% of total multilateral ODA and the EC, conceived as a donor agency, ranks the second major aid agency right after the US. Its development approach has a long-record focus in Africa, with whom started cooperating at the very creation of the European Economic Community (EEC) in 1957 under the firstly elaborated Yaoundé Convention.

Development cooperation complements the regional integration process in promoting the values that have underpinned EU's economic success beyond its borders (Lister, 1997). The advocacy of democracy, social welfare, human rights and liberalism has rendered its pay offs in developing Europe. But, does the same work for Africa (or for developing countries, lo a large extent)?

2.2 The EU's Development Policy

The term 'foreign policy' is defined to mean the activity of developing and managing relationships between the EU and other international actors, which promotes the domestic values and interests of the state or actor in question. Foreign policy can entail the use of economic instruments but its aims are explicitly political or security-related, in contrast with foreign economic policy, whose objectives and means are economic. The scope of investigation is thus broadened beyond the EU's specific mechanism for foreign policy cooperation, the Common Foreign and Security Policy (CFSP, to the EU's other constituent pillars, the European Community and the Justice and Home Affairs). The EU is a foreign policy system, composed of the three pillars as well as the member states' foreign policies (the emphasis here lies with the EU as a supranational organization).

The EC has outgrown the time when its external competence was limited to trade. Development cooperation policies have gained a lot of weight; agreements can be concluded on migration and movement of persons as much as on imports and exports; and there is a broad external competence in matters of environmental policy, social policy and monetary policy. CFSP is to serve as a multiplier for EU influence, through concrete actions notably in the fields of conflict prevention, crisis management, peacekeeping, peacemaking and disaster response. Development, then, is at the heart of EU's external action. It occupies a central role along with security and trade.

The EU development policies, which had born with the ACP agreement in 1957 in the Yaoundé Convention, have largely and widely evolved towards a multidisciplinary area with interconnected fields of intervention. This evolution has been an outcome of a tortuous process of debating whether development policy should be a subservient of broader foreign policy. In 2005, the EU agreed to apply the Policy Coherence for Development approach in twelve policy areas[105] that could accelerate progress in achieving its goals. This policy document, however, is an intentional approach to policy coherence, limited by the diversified and decentralized management structures of the different development policies of the EU. The performance of the Lisbon Treaty, which has given more relevance and competence to the EC External Action with a high

[105] The twelve areas include: trade, environment and climate change, security, agriculture, bilateral fisheries agreements, social policies (employment), migration, research/innovation, information technologies, transport and energy.

representative and more integrated functions delegated to the brand-new European Union Delegations (EU's External Action Service), will mark a tipping point in the implementation of such integrated approach translating development policies into impact.

However, there is an important aspect that is attracting intense discussion at the international relations debate, the degree of influence of the EU as a global actor. Development cooperation is a strategic instrument in geo-political positioning. Facing the inception of a new world order characterized by multipolarism, the EU might be able to adapt better to developing countries' priorities and strategies. The understanding of these emerging realities will play a prominent role on how to decide the scope and deep of the development policy interventions.

2.2.1 The EU's political influence as a global actor

To understand today's development process carried out at the level of the European Union, the EC particularly, is needed to review at which point the scope of the EU foreign policy actorness, or in other "more European" words, external relations, has reached its influence to other countries, nations or regions outside Europe.

Initially, from the time the Treaty of Rome was adopted, the EU was entrusted with so-called exclusive competence in the area of trade, meaning that that it is the union and its institutions that manage the international relations regarding trade policy. This issue has even been more accentuated with the establishment of the WTO in 1995. Thus the nature of the EU is the conviction that economic cooperation is the best solution for achieving economic development and, in the end, to raise the living standards and welfare of the citizenship, based on a free circulation of goods and services in an open market (trade liberalization).

Although at that time some tried to push the EU forward betting to build a global titanic, with the proposal for a federal Europe with its own army, its rejection neglected the aspiration to become Europe a superpower. Instead, the EU concentrated on bringing the member states closer to each other, by guaranteeing peace and free trade within the union's borders during the first 40 years of European cooperation.

This more reactive union's process of facilitating the expansion of the multilateral trade agreement in the world, unfolded behind the priorities of each member state, had a shifting point with the end of the Cold War, which for instance increased the EU's opportunities to play an active role in the area of development politics. Therefore, the EU turned to become a more proactive actor among the overall scene of international politics, speeded up by the unstoppable process of globalization, in which the EU's aim is to become a key player in a multilateral scenario of a new global order characterized by the rise of emerging countries such as China, India, Brazil or Russia as key players and influent actors to the world politics.

Today, such as Roy Ginsberg and Michael Smith (2005) argue, the EU is one of the most unusual and widest-ranging political actors in the international system. This capacity has gradually expanded to encompass foreign policy initiatives towards nearly every corner of the globe, using a full range of foreign policy tools: diplomatic, economic, and now limited military operations related to peacekeeping and peace enforcement. All these, it was neither included in the original Treaty of Rome, nor was it predicted by many knowledgeable observers of European integration[106].

The above situation is due, above all, to the notion of *presence* that Bjorn Hettne points out (2008). Europe as external actor is more than the EU's foreign policy, and more even than the aggregate of the EU's policies across all areas of its activity. Simply by existing, and due to its relative weight (economically, demographically and ideologically), the Union has an impact on the rest of the world. Its footprints are seen everywhere. This also provokes reactions and creates expectations from the outside.

Economically and demographically, the table 1 shown in the annex 2 provides some key indicators showing the size and presence of the EU compared to the other world power blocks. Thus, the EU-27 accounts for almost 500 million people, far ahead from the US and Japan, although the demographic trends show the imminent ageing of its population, which brings to the table strong policy debates of social and economic reforms. In terms of share of world GDP, the EU-27 accounts the first position of the ranking generating 22.5%, ahead of the 21.6% of the US and leaving Asian powers far below. Nevertheless, EU and US economy show signs of stagnation and China is growing at a much higher level which indicates the trend that still continues today of long economic growth, boosted by an extraordinary record on the current account balance as percentage of GDP.

The raise of China, in one hand, along with the consolidated weight of the EU and US, has accelerated the process of redefining the international political order in a multilateral scenario. This process is confronted by bilateral strategic partnerships seeking for a more privileged position of mutual cooperation. As a mode of example, the EU and China signed in 2007 the Partnership and Cooperation Agreement that outlines the main fields and actions of their cooperation, shaped by the sectoral dialogues and the regular political, trade and economic meetings.

Ideologically, the EU has the concern to foster democracy, human rights and the rule of law beyond its borders. Besides, the "ten commandments of the European Union", as stated by Michael Emerson (2005), Senior Research Fellow at CEPS[107], are completed with the 'four freedoms'; social cohesion; sustainable economic development; the abhorrence of nationalism; multi-tier governance; secular governance and multiculturalism; multilateralism; the use of force; and an inclusive and integrative EU.

The EU attempts to spread out its values and principles throughout its development policy. Herein, this consists of two pillars: trade and foreign aid. However, as Cramér, Gustavsson and Oxelheim argue (2007), an important distinction between these two

[106] Ernst Haas explicitly excluded foreign and security policy from his neo-functional logic of regional integration, which stresses spillover processes in socio-economic affairs. Stanley Hoffman once characterized the European Community as an "international regime" when he gave the keynote address at the first conference of the Council on European Studies in 1979; he also argued that the EU would not be able to strengthen its political cooperation efforts due to the issue of sovereignty. David Allen once argued that the EC/EU can not have a foreign policy because it is not a nation-state, while Henry Kissinger predicted that Europe's global ambitions would amount to very little, particularly in the Middle East.

[107] Based on the set of values the Constitutional Treaty laid down.

areas is that the EU lacks exclusive competence in the latter. Only a small fraction of the aid that member states allocate from the overall budget are disbursed through the EU[108]; much of these are instead processed by national foreign aid agencies. Additionally, international environmental cooperation and security are the other areas of the utmost importance in development policies in which the EU and its member states have joint responsibility for the policy that is being conducted (referred to as shared competence).

2.2.2 The nature of EU's development cooperation: exporting the model of Economic integration

Aligned with the development agenda and policies of multilateral international organizations such as the OECD, the WB and the WTO, aid for trade is the cornerstone of the development agenda of the EU overseas, especially in Africa, as part of the EU commitments to poverty reduction and sustainable development signed in Cotonou on 2000 and revised in Luxembourg on 2005.

Empirically, it is evident and a common wide-shared principle among the development community demonstrated by successful country cases that have developed rapidly thanks to trade openness, such as most of Asian tigers and emergent economies[109]. Economic growth led by trade openness seems to be the right path to economic development and poverty reduction. However, the same formula does not work for everybody, although many scholars and policymakers advocate for other factors underpinning the development process. This assumption was ratified by Martin Ravallion, head of the Development Research Group at the World Bank affirming, "the results point to the importance of combining trade reforms with well-designed social protection policies".

The tool whereby the EU is exporting regional economic integration to developing countries is to free economic areas throughout Economic Partnership Agreements (EPAs). Their origin is rooted at the marginalisation of most ACP countries in world trade that negatively affects the lives of millions in these countries (Cotonou Agreement). According to Pascal Lamy (2002), "the outcome of such negotiations will have and important impact on trade flows, economic integration and investments in ACP countries".

EPAs are based on four fundamental principles ("EPA, start of negotiations", 2002, EU):

Partnership. EPAs are partnership agreements, implying rights and obligations for both sides. The respect of the obligations by each side is essential for the achievement of the entire undertaking. In particular, while the Union will be prepared to further open up its market for ACP products and to tackle all other trade barriers, the ACP States must be prepared to implement appropriate policies to strengthen their supply capacity and to reduce transaction costs.

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[108] The EU member states aid bilateral contributions to the EU are channeled through the EU via two different modalities: the EU budget, in which funds are scrutinized by the European Parliament; and the European Development Fund, whose allocations and disbursements are agreed by MS. However, both modalities manage and deliver aid through DG DevCo (EuropeAid).

[109] See "The East Asian Miracle", a World Bank Policy and Research Report (1993).

Regional integration. Regional integration is a forceful means to foster integration into the world economy. The EU itself has built its strength on regional integration. The recent progress made in regional integration within the ACP reflects the political decision of the ACP States equally to base their integration into the world economy on regional economic integration. EPAs will therefore be built on regional integration initiatives existing in the ACP. They will further follow the integration process within the ACP, as provided for in the Constitutive Act of the African Union or as may be agreed between the ACP States as a whole.

Development. EPAs are above all instruments for development. They will therefore be designed with all the flexibility which is required to take account of the economic, social and environmental constraints of the ACP countries concerned, as well as of their capacity to adapt to the new trading environment. On the other hand, they must be integrated into the development policy of the ACP countries and into the support strategies of the EU.

Link to WTO. EPAs are not an end in themselves, but intended to act as a stepping stone, facilitating the integration of the ACP countries into the world economy. They will therefore build on the rules of the WTO, taking account of the results of the Doha Development Agenda. However, in some respects, they will go beyond the WTO. They will define, within the framework of those rules, more specific and more operational, bilateral trade relations intended to alleviate all practical barriers to trade between the ACP and the EU and to establish closer integration between both sides economies.

Nevertheless, many developing countries have not been able to capture the benefits of trade. Collier, Sen or Sachs, among others, have largely provided evidence in the determining factors of poor countries that can not capture the benefits of trade liberalization. There are differences between countries and within countries. Access to international markets remains a problem for developing countries, particularly for agricultural commodities. Kate Bird from the Overseas Development Institute (2009) points out several constraints that face many of low-income countries: high transport costs, absent or unsupportive policies and regulations, red tape around exporting, inadequate export and trade negotiating skills, market fragmentation, poor product standards, low productivity and competitiveness, lack of export diversification and low value added.

After five years of intense and arduous EPAs negotiations, for various reasons, EC and ACP negotiators have in most cases not been able to reach a common understanding and approach on the cornerstones of the new trading arrangement, notably, and quite surprisingly, on the development component and regionalism. The lack of institutional and technical capacity on the ACP side, as well as insufficient political leadership in many regions, has also taken its toll on a smooth progress in the negotiations[110]. However, all the parties are officially committed to concluding comprehensive EPAs, and negotiations are continuing to that end in all regions. However, given past experience,

[110] "The new EPAs: comparative analysis of their content and the challenges for 2008". Executive Summary. Christopher Stevens, Mareike Meyn and Jane Kennan (ODI). Sanoussi Bilal, Corinna Braun-Munzinger, Franziska Jerosch, Davina Makhan and Francesco Rampa (ECDPM).

this goal may not be as easy to achieve as hoped and different outcomes of the negotiation process may be envisaged.

In the meanwhile, the "Compendium on development cooperation strategies" elaborated by the EC (2007) stresses the strategically and growing commitments of the EU to enhance aid for trade volume, its quality, support of effective monitoring and reporting and ensuring the Commission and Member States capacities. Other important EC communications such as the "EU consensus for development", the "EU strategy for Africa" and "Africa-Europe: the indispensable alliance" outline and widely explain the further benefits of trade and regional economic integration.

2.2.3 Brief historical overview of EU's Development Cooperation

<u>The origins: the Post-colonial French Connection</u>

The EU's development policy stretches back as far as the EU itself. Robert Schuman (1950) championed the first words that envisioned a role for developing countries in the birth of the European project:

> This production [of coal and steel] will be offered to the world as a whole without distinction or exception, with the aim of contributing to raising living standards and to promoting peaceful achievements. *Europe, with new means at her disposal, will be able to pursue the realisation of one of her essential tasks: the development of the African Continent*[111].

This expression found an official statement in the forward European Economic Community Treaty of Rome (1957), which outlines "the association of the overseas countries and territories in order to increase trade and to promote jointly economic and social development[112]". This endorsement carried out an implicit geographical focus toward the prioritization of former and forthcoming African colonies of that time. It was not, then, the outcome of a deliberate debate on how to place the first steps of EU's development cooperation to the neediest, but rather on the French imposition of setting up a new instrument of economic cooperation that would maintain and expand the commercial and economic linkages between MS and its former colonies.

This was a policy process led by France in order to strengthen its connections with recently independent African states, as part of its political strategy to unify its former colonies under the term coined as French Union (Bartels 2007). Such as Frisch (2008) points out[113], this policy was the result of an "accident of history", when very late in the negotiations leading to the Treaty of Rome, in Venice in 1956, France surprised its partners by demanding that its overseas territories be associated with the future European Economic Community (EEC).

Logically, this initial request, which arouse the criticism of Germany –it had lost its colonial possessions at the end of the WWI- backed by the Netherlands, put up

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111 Schuman, "A United States of Europe", reprinted in Selection of Texts Concerning Institutional Matters of the Community from 1950 to 1982 (1982).
112 Art. 3(k) EEC Treaty; now Art. 3(s) EC.
113 See Frisch (2008) for a detailed historical overview of the origins and evolution of EU's development policy.

considerable opposition to the French demand that the Community took on a colonial heritage. The dispute was ultimately settled by a political compromise that had two elements: the four States which had overseas territories (France and Belgium as well as Italy and the Netherlands) would give up the quasi-exclusive economic relations between the "parent" country (supplier of manufactured products) and its overseas territories (suppliers of raw materials) and open up markets to all the future MS of the EEC. In return, the six founding States agreed to play their part in financing the development of these territories.

This agreement brought the first fund for development –FEDOM- that provided with USD 581 million over a five-year period, outside the Community budget, and forerunner of the current European Development Fund (EDF), which is still set outside the EU budget. The purpose was "to promote the economic and social development of the countries and territories and to establish close economic relations between them and the Community as a whole".

The entrance of newly independent African states to the association agreement led to the Yaoundé Conventions (1963, 1969), which except minor changes were a continuation of the Treaty of Rome. These agreements were mainly driven by reciprocal trade liberalization measures. Trade policy became a development cooperation instrument. In modern times, reciprocity in trade relations is justified on both economic and political economy grounds[114]. But at that time the main reasons were ideological. First, it was said that only with mutual obligations could Africa negotiate as an "equal" with Europe; second, that these obligations went "beyond" mere contractual relations; and third, that these obligations were essential to ensure that Africa did not fall under the sway of a (non-French) economic power (conditionality).

After the first decade of the association agreement, Germany and the Netherlands were reluctant to continue with an agreement that was clearly intended to benefit the French connection. From an economic point of view, this association offered them few benefits, especially as most of the contracts financed by common resources went to enterprises of the former parent countries, especially France. As a result, new association agreements were signed with Nigeria (1966) and the East African States of Kenya, Uganda and Tanzania (Arusha Agreement, 1969). But these agreements were largely preferential trading agreements that had no provision for any technical or financial aid.

The Lomé Convention: from uniqueness to uniformity

The clash between the "regionalist" French front and the "worldwide" German front brought a harsh debate about which policy direction European development cooperation should undergo. The Commission intervened in this conflict between the "regional" and the "worldwide", by publishing its first "Memorandum on a Community development cooperation policy" in 1971. It emphasized the need to open up the association agreement to other developing countries, especially in the fields of trade policy and staple products.

[114] It benefits the country granting the trade concessions, and it additionally gives this country a means of extracting trade concessions from the other party (see Bartels, 2007).

Against the backdrop of the first EU enlargement, with the accession of the UK, twenty independent commonwealth ACP countries faced three options to adhere to the development policy of the EU: (i) to negotiate a new association agreement with the EEC together with the Yaoundé countries, (ii) to conclude an agreement along the lines of the Arusha Agreement, or (iii) to conclude trade agreements. Two and three choices obviously discarded as they did not included financial aid; there was also a sharp criticism[115] of the idea to join the Yaoundé agreement, as it was not conceiving major interests for Commonwealth countries.

These differences gave path to the negotiations between French and English speaking currents. They disembarked into the signature of the new agreement in 1975, the Lomé Convention, between 46 ACP countries and the nine European MS. The convention scrupulously avoided the term "association" in order to take account of the susceptibilities of some English speaking countries. The main novelty of the new agreement was the abandonment of the trade reciprocity principle, which was initially defended by the EEC. Thus, the Lomé Conventions[116] enshrined the principal of non-reciprocal trade preferences. This major progress was due in a period of serious criticism of the reciprocal principle by the international community, especially in the frame of the UNCTAD, which adopted a new Principle[117] (1964) that proposed that developed countries grant non-reciprocal trade preferences to developing countries.

The Lomé Convention was a model for North-South relations (Carbone 2010, Arts and Dickson 2004) and it became to symbolize EU development cooperation, more than any other agreement (Grilli, 1993), to the point that was even considered to be unique (Brown, 2004). It linked the EU with a large group of developing countries, many among the poorest, in an innovative agreement which declared itself to operate on the basis of equality of partners. Besides the non-reciprocal principle, other novelties concerned the contractual approach and the semi-automatic system of financial compensation for unstable export earnings from agricultural commodities and mining products, the so-called Stabex and Sysmin mechanism (Arts, 2000).

The uniqueness of the Lomé Convention laid in five components. According to Brown (2004), the agreement included (i) notions of the principle of partnership of equals as an attempt to rid neocolonialism forms, in which aid was to be administered jointly by the

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[115] Criticisms focused on three points: first on the very notion of association which was seen as "second class membership" with substantial neo-colonialist overtones. Then, the Commonwealth countries, which had never had preferential trade arrangements favouring the United Kingdom, rejected outright the idea of granting the same kind of preferences to the EEC as most of the Yaoundé countries. This led to discussion of the so-called "reverse preferences". Lastly, provisions on the right of establishment were also problematic, but that was merely down to an incorrect reading of the Yaoundé provisions (Frisch 2008).

[116] The first Lomé Convention was followed by three broadly similar Lomé Conventions entering into force in 1981, 1986, and in 1990, each time with a larger membership.

[117] *Proceedings of the United Nations Conference on Trade and Development* , Final Act and Report (1964), ii, Annex A.I.1 (General and Special Principles), at 20 n. 8. The principles to emerge from this meeting were: market access opportunities for developing countries (in the form of trade preferences and reductions in internal taxation), encouragement for commodity stabilization agreements, compensatory fi nancing, and support for regional arrangements. For a summary see Metzger, ' Developments in the Law and Institutions of International Economic Relations: UNCTAD ' , 61 *AJIL* (1967) 756, at 760.

two parties; (ii) aid granted by the EU was on a contractual basis, establishing an ACP country's right to a given amount of aid through the programming procedure; (iii) the aid provided was in very favorable terms, with a large grant component; (iv) aid was non-political in so far as it was to be made available to all ACP countries; and (v) the Convention explicitly recognized ACP sovereignty over internal political and economic matters and that development cooperation would not infringe each ACP state's right to determine development strategies.

However, the high expectations of the Lomé Conventions were not realized (Arts 2004, Brown 2004, Carbone 2010). The explanation is found in the light of wider donor policies to developing countries. Late 70s and 80s were times of profound changes in the international arena. The WB was the leading donor institution over this period, both in terms of its role in defining the international development agenda, as discussed in chapter 1, and because of its principal role in forging the changes to donor policies over recent years. Furthermore, the WB's policies largely reflect the Northern donor orientation over the South, and they are a good indicator of wider political and policy framework within which the EU's own policies have evolved.

Thus, the EU, as part of the donor-driven IAA, had to falter to the first changes in donor-recipient relations at the international level: the rise of structural adjustment conditionality in aid policies, or in other words, the demand for developing countries to implement processes of macroeconomic reform as a condition for the provision of aid. These changes were introduced in the adjustment-conditionality era of the Washington Consensus (early 1980s), a period dominated by neoclassical theories of growth and development.

<u>The impact of the Cold War</u>

The end of the Cold War marked the beginning of a decade of profound transformation of the international landscape, along with rapid globalization and technology innovations. The EU saw two enlargement rounds and the adoption of the Treaty of Maastricht (which set in motion the CFSP), against the backdrop of the supremacy of the Washington Consensus. These events obviously affected the EU Development policy, which, in the process of adaptation to the global development aid rules dictated by WB and OECD, saw the fall of Communism as an opportunity to play an influential political and economic role as a global superpower. The development policy, therefore, shifted towards embracing new geographical priorities with relations with all developing regions, and ACP countries had to share their privileged position, above all with Eastern Europe and the Mediterranean.

The last years of the Lomé Convention introduced a more political dimension of the agreement, with the first inclusion of human rights issues, good governance and democracy in cooperation agreements as part of the EU's quest to spread its values to the developing world (not in the absence of conditionality), now settled as a global actor. Lomé III brought policy dialogue as a major innovation. This dialogue triggered a shift away from the financing of stand-alone projects towards institutional and financial support for sector-based policies, currently the preferred aid modality of the EC. Support for non-state actors (civil society –mainly NGOs- and private sectors) also widened the scope of intervention of the EU's development cooperation. The promotion of "Western" values in the form of political conditionality has to be understood within the demand for market-friendly development policies based on neo-liberal structural adjustment programs. Thus, the newer political conditionality was seeking to extend liberal democratic principles of open accountable administration, respect for the rule of law, respect for human rights and, to an extent, the promotion of democratic forms of governance into aid policies (Brown, 2004).

The last Lomé Convention encapsulated a common EU policy that would give a high priority in development policies to boost the support of human rights and democratization, for example, through supporting holding elections, creating democratic institutions, strengthening legal systems and fostering the role of NGOs. Likewise, the resolution also provided for negative sanctions[118], including suspension of aid to the developing countries concerned.

The geographical expansion of development policies to new regions, the introduction of new aid instruments and the adoption of neo-liberal aid policies resulted into an overstretched and fragmented development policy that generated significant criticism at the political and academic level. First, various MS started threatening to repatriate their foreign aid and, secondly, a debate started on the real added value of EU development policy (Arts and Dickinson, 2004; Holland, 2002; Lister, 1998, 1999).

Cotonou and the 2000s. The re-birth of security links to development

As a result, the new Millennium started with a new cooperation agreement that embraced the major innovations of the development debate at international level. These were mainly towards the claims to conceive a poverty-centered development policy with a multidimensional approach, introducing the pursuit of the MDGs stated by the UN Declaration and in line with UNDP's Human Development Report and WB's "Attacking Poverty" Development Report.

By accommodating these trends, the EU launch a new cooperation agreement with ACP countries signed in Cotonou (2000). This agreement, more than breaking with the past Lomé Conventions, was an ongoing development and continuation of the economic and social aspects of the collaboration but now underpinned under a frame of a more global partnership integrating all the many facets of the political dimension as a political dialogue to monitor progress. The main novelty was the introduction of security issues (arms trade, migration fight against terrorism and the proliferation of weapons of mass destruction[119]), and the aim was now "to contribute to peace and security and to promote a stable and democratic political environment" (Article 1). The concern for security was not only for ACP. The EU placed a big emphasis in strengthening security and migration issues with the neighboring countries through the European Neighborhood Policy and also in strengthening its role in Asia, starting a dialogue on

118 In practice, little use was made of the sanctions procedure. Sanctions had little or no effect on the protagonists involved, unless they were targeted sanctions. Suspending external aid penalised the more vulnerable strata of society in particular (Firsch, 2008).

119 See Mackie (2005).

human rights and terrorism[120]. In parallel, Cotonou pushed forward the issues of promoting aid and trade principles (Carbone, 2010), still the main pillars of the association[121].

New trade arrangement had to be seen into the wider context of trade liberalization under the guiding principles of the WTO. Overall, they meant significant reductions in tariff protection, lowering the protection levels in respect of all trading partners. The ACP non-reciprocal tariff preferences were maintained until 2007. In 2008, a set of reciprocal alternative trade arrangements, EPAs, replaced them, following a bilateral approach compatible to the rules of the WTO. Nonetheless, the LDCs are entitled to maintain non-reciprocal integration schemes. However, recent predictions show that EPAs impact will be rather minimal, due to the fact that most ACP countries already enjoyed duty and tariff free access and thereby little new could be offered (Stevens et al., 2010[122]).

Besides the traditional promotion of economic, social and human development and regional integration cooperation, the EU also fostered the promotion of gender, environment and institutional development through thematic or crosscutting issues in all development initiatives. Some of these issues were introduced by new development cooperation funds from the EC budget, such as the Development Cooperation Instrument and the Instrument for Stability.

In addition, the 2000s was also a decade of extensive reform process of the management at the EC. Several changes were introduced within a few years: setting up of a new body, EuropeAid, in charge of all phases of the policy cycle except planning (with rests with DG Development and DG Relex); introduction of multi-annual programming based on Country Strategy Papers (CSPs); devolution of management responsibilities to the external delegations; simplification of the instruments for external assistance; and drastic reduction of the gap between commitment and disbursement (Carbone, 2010).

But the reform process also affected the content of the development policy. The European Consensus on Development (2005) emerged as the landmark for the EU's development policy, stressing greater emphasis on coordination and division of labour issues. This policy document has been seen as an attempt to position EU's development cooperation with its common view and strategic approach among the international arena (Dearden, 2008), as an alternative to the Washington Consensus (Carbone, 2010). Whether this strategic political intention will translate into effective policy implementation measures is a highly debated issue.

[120] See Crawford (2008).
[121] See Faber and Orbie (2007).
[122] Stevens, Meyn and Kennan (2010), "Duty-free, quota-free access: What is worth?", Overseas Development Institute.

2.2.4 Analysis of EU's Development Policy

The EU's development cooperation approach has largely and substantially evolved overtime in the attempt to adapt to external circumstances while following the major trends affecting the international aid architecture. Rooted in the French obsession to maintain its power to former ACP colonies, EU's development policy is currently the largest and widest, and, although ACP is still the apple of her eyes, it now shares political will and strategic resources with other regions. Holding the status of the largest trading block with most of the developing world, the EU has raised much expectation and demand from the direction, content and scope of her development policy.

This section aims to analyze the current EU's Development Policy (EUDP) following the sequence that encompasses the fulfillment of objectives aligned to a changing international and European context that shape the subsequent processes of policy design, regional prioritization and areas of intervention, and the assignment of financial instruments that will revert the resources to the developing countries. This section will be complemented with a more technical analysis on how the EC manages and delivers development aid to its partners in sections 2.3 and 2.4, respectively.

<u>Motivations, Common interests, Objectives and Priorities</u>

The nature and evolution of the EUDP needs to be understood within the broader context of the EU foreign policy. As such, foreign policy is intrinsically linked to the "idea of a state with a set of interests identified by a government" (Allen, 1996). Thus, the analysis is detrimental of the altruistic or moral view that some policymakers explicitly advocate in some development debates (Carbone, 2010). As the EUDP is a shared competence between the EU and its MS, the EUDP has common interests (often called European interests) that are complimentary of MS objectives and interest, reflecting and "indigenous and unique European quality" (Ginsberg, 1999).

Therefore, development cooperation is an instrument of the EU foreign policy with third countries. MS, apart of the constitutional setting of their respective foreign policies, align another set of factors that are common to each other and that can reinforce their policy by being catalyzed at the Community level: power, interests, world view and identity (Keukelerie and MacNaughtan, 2008). First, MS can incrementally upgrade its power by jointly promoting its national power traits into a sum of forces, namely geographic, economic, military and diplomatic under the umbrella of the EU. Secondly, interests, like power, also shape MS foreign policy (Keukelerie and MacNaughtan, 2008). In fact, the divergence of MS interests and common interests is often portrayed as major obstacles for EU foreign policy. The alignment on common interests encompasses a quite complex process. On one hand, MS have collective interests as those reflected as a primary goal of the EU foreign policy: the promotion of EU values, peace, stability and welfare in Europe and its partner regions. On the other hand, there are common interests in which MS interests converge with regard to specific issues, such as solving a conflict or promoting good governance in a specific country. Likewise, sometimes interests converge but MS are competitors in some specific areas. For example, MS interests in opening up Chinese markets can be convergent, but MS will compete for signing the best contracts against each other. In some other cases, interests diverge and are incompatible, as the case in the difficulties in the promotion of democracy and human rights in Russia (leading to the disposition of sanctions) and the appetite of MS for economic interests and geostrategic support in the UN Security Council. Or simply, quite often, there is a lack of interest, as MS are only interested in a limited range of countries.

Third, in addition to power and interests, the world view and identity of MS also shape their priorities in designing their foreign policy, and by doing so, influencing EUDP. The world view refers to the general assumptions that a MS, given by its historical experience, geographic position and security situation, give for granted when setting up relations with third countries. They define MS approach to deal with external issues such, for example, the nature of the external environment, the use of violence in international relations, the preferred world order and security architecture, or the relative importance of general principles and values. World view is influenced by a country's identity, and effective foreign policy rests upon a shared sense of national identity (Hill and Wallace, 1996). It is precisely the distinctive "strategic culture" of each MS that points to one of the crucial weaknesses of EU foreign policy: the lack of a sufficiently developed common identity (Keukelerie and MacNaughtan, 2008).

All in all, the will to leverage its power as a global actor, the fulfillment of its common interests and the spread of a European world view and identity are the motivations that shape the objectives and priorities of a supranational EUDP. I have already argued the power of the EU as a global actor (section 2.2.1). It is, in fact, the EU's economic power that first and foremost makes it an attractive partner for third countries.

As previously mentioned, development cooperation represents one of the main areas of external assistance, totaling 68% of the external assistance budget in 2010 (EuropeAid Annual Report, 2010). In her crusade to take up a prominent place in the international relations arena, development cooperation has a general goal of forging good relations with (potential) political and economic partners across the globe. It also pretends to use that position as a vehicle for advocating her values of democracy, human rights, social welfare and liberalism (Arts and Dickson, 2004) through the promotion of her model of regional integration. I have also reviewed the pursuit of a EU world view and identity based on the spread of these values as the European stamp to export its unique model of regional integration. Now it is time to analyze the common interests that define the objectives and priorities of the EUDP.

The first common interest of a EUD is obviously to facilitate the market access to developing regions through the establishment of EPAs with partner countries and the cooperation in areas of trade liberalization. The gains in ensuring the integration of developing countries into the world economy come from expanding European markets in these countries as well as ensuring the supply of basic goods and natural resources. However, the level of preference is highly variable as it depends on the particular context and implicit interests depending on the prioritization of geographical areas. Thus, for example, the EU's agreement with Turkey extends its customs union, the Euro-Med agreements include the goal of creating a free trade area with the Mediterranean and the relationship with Malaysia does not provide for bilateral preferential trade arrangements at all (Keukelerie and MacNaughtan, 2008).

Second, there is the common interest in providing financial and technical aid to support socioeconomic fields with the objective to improve and strengthen a stable political institutional and macroeconomic environment that can support the implementation of trade agreements and the setting up of a political dialogue on human rights, democracy and the rule of law. Especially after the entrance into force of the Cotonou Agreement, security and migration issues were of the utmost importance for the European Union, placed as another pillar of EUDP. Thus, most of the financial and technical aid is directed towards the strengthening of security, migration, justice and other related issues (CFSP). It was particularly a vital issue of the EU foreign policy after the end of the Cold War, when a number of violent conflicts have broken out on the EU's periphery, threatening EU's political and economics stability. Preventing thus these issues is a share primary concern, not only with EU's neighborhood but also in preventing conflicts and managing crisis beyond. This interest has even raised the sense of EU's responsibility over the historical Eastern Europe and former colonies in Africa (Smith, 2004).

During the Cold War, US policy was somehow perceived to be potentially dangerous as it was threatening superpower clashes in Central America, or simply exacerbate instability or insecurity in the regions. Hence, MS considered it imperative to counterbalance US hegemony with a European voice. Above all, the competition was geared toward securing economic advantages in developing regions, especially Asia and Latin America (M. Smith, 1998). That is one of the main reasons why EU started to expand its outreach external assistance beyond its neighboring regions. The today's race toward ensuring better position with China through ad-hoc high political dialogue is one of the trending topics of the global international relations arena.

The market access (and the spread of trade liberalization), socioeconomic supports through financial and technical aid, security and related issues, and the counterbalance of US hegemony are common interests that MS pursue through a joint EUDP. These common interests intensity and scope (in content and in place) depend on a set of factors (variables): geographic location relative to the EU, prospect of membership, level and nature of political relations, symmetry (or asymmetry) of the relationship between the EU and the third country and the bureaucracies of development policies (lobbying capacities of MS in influencing the decision-making process). The materialization of the cooperation agreements lies lastly on two political facilitators –or instruments- of the EU: conditionality and political dialogue. Thus, conditionality refers to the practice of making conclusion and implementation of agreements, cooperation and assistance dependent on certain conditions to be met. The provisions for political dialogue at highest level are meant to ensure a macroeconomic and political environment that can afford the implementation of the agreement. Efforts toward the convergence of positions in international issues of mutual concern, cooperation on matters of peace and stability, and the reinforcement of human rights, democracy and the rule of law (see table 2, Annex 2 for a summary of the main motivations of EUDP).

The aforementioned common interests, influenced by the set of dependent factors and shaped by the political instruments, hide under the major objective of the EUDP. Stated in the current general development policy document of the EU, the European Consensus on Development (ECD), 2005: "The primary and overarching objective of EU development cooperation is the eradication of poverty in the context of sustainable development, including pursuit of the MDGs". It conceives sustainable development with a multidimensional perspective including good governance, human rights, and economic, social and environmental aspects. Furthermore, it aligns to the development objectives agreed at international level (UN conferences and summits) and to ensure policy coherence among all related EU policies to development cooperation.

The ECD fails to include the primary objective of poverty reduction from a foreign policy angle, which, as I have been arguing, is key to understand the wide and deep effects of the EUDP, as it portraits the overall incentive framework for its formulation and implementation. Taking this view accordingly, poverty reduction improves welfare and stability and assists in the integration of developing countries into the international system (Keukelerie, 2008). This process of development (in)directly contributes to core foreign policy objectives. As the 2003 European Security Strategy pointed out, "trade and development policies can be powerful tools for promoting reform. A world seen as offering justice and opportunities for everyone will be more secure for the European Union and its citizens" (European Council, 2003b). Cooperation agreements are instrumental in supporting or inducing structural reforms, or in strengthening existing political, legal and socioeconomic structures in third countries (Keukelerie, 2008), with conditionality and political dialogue instruments providing support to this dynamic of expanding regional integration through aid and trade liberalism.

It is obvious that the interconnections among motivations, common interests and objectives are evident, but the EU has persistently endeavored in advocating EUDP with a pro-altruistic or moral propagandistic rhetoric, often explicitly avoiding self-interest motivations. In the case of ensuring policy coherence, an area where the EU is self-labeled with comparative advantage, reality differs. For example, it is widely debated and criticized how compatible is the objective of fostering regional integration of developing countries into the world economy with the still existing EU's agricultural and trade policies aimed at protecting EU's own economic interests[123]. Or, also acknowledged for its efforts in promoting aid coordination and harmonization, the EU, with each new round of negotiations has a tendency to broaden the range of the issues in the agreements (Hill, 1993; Keukelerie, 2008).

There is nothing wrong in declaring the pursuit of Community interests that are based on the principle of mutual benefit of partner countries in developing regions. Indeed, the pursuit of self-interests through the EUDP based on a win-win approach vis-à-vis the partner country can lead to substantial benefits in aid effectiveness. It is important to avoid the strictly moral/altruistic aid giving rationale of both individuals (as seen in Chapter 1) and states. If the state (or a group, such as the EU), acknowledges the self-interest rationale of her motivations to engage in external relations with another country, then the parental approach to aid giving disappears and the developing country understands an equality of treatment, based on the principle of mutual benefits and the approach of "working with you, not working for you". This change of concept can improve the transparency of objectives and priorities, as well as it can boost the

[123] See the Report "Spotlight on EU Policy Coherence for Development", CONCORD, 2011.

effectiveness of the relationship and, as a consequent, its outcomes. I will come back to this issue in Chapter 4, in the analysis of the endogenous development approach.

The backdrop: international and European context

The process of setting up the EUDP does not stand up by itself. Rather, it is strongly influenced by the international context orchestrated by Bretton Woods institutions and the DAC at the OECD mainly. That is to say, by the same organizations that form the IAA "family" or community. The EC communication of April 2000, which provided the basis for the EUDP statement that led to the Cotonou Agreement, stressed the need for a more focused and guiding development policy at the EC. Such recommendation was suggested by the DAC[124] in 1998 along with development ministers of several MS.

This policy has also the footprints of the Bretton Woods (BW) institutions in its design. It was based on Wolfensohn's Comprehensive Development Framework of the WB[125], OECD's DAC strategy and outcomes of the major UN conferences and summits that took place at the end of the 90s when poverty ascended at the top of the development policy debate (i.e. UN Conference on Social Development 1995 and Millennium Summit 2000). Another example is the incorporation of the Poverty Reduction Strategy Papers (PRSP) by both developing countries and donors as a reference point to provide their financial resources, due to the BW institutions' decision adopted in 1999 in order to link debt relief and poverty reduction.

The design of the EUDP is also influenced by the WTO and particularly from the Doha Development Agenda. Hence the approach to link trade and development -it was put as one of the six focal areas of the statement-. The central message of Doha for the EU is the need for more coherence between development and agricultural policy and again the EUDP already emphasizes this importance.

The commitments on the disbursements of ODA required to fight poverty and its GNI ratio are also drawn at the UN level and they are therefore incorporated to the EUDP as well. They are also other commitments from other global issues -in health, energy, forests, etc- that are also incorporated as part of the holistic approach of the EUDP. But this process of international context – EUDP interaction is not only unidirectional. EU and its MS are part of the international community and, as such, they form the tangled net of bureaucracies that also affect the decision-making.

In addition to the alignment and convergence of main policy guidelines and commitments around development, there are some events that also affect how the international context and its institutions change its priorities and policies. Of particular relevance was the terrorist attack of the S11. Represented a shift in development policy design as it strengthened the link between development and security. As a result, the EU

[124] The DAC review was clearly an important motivation for the EUDP in that the 1998 Peer Review strongly criticised EC aid as lacking focus and highlighted the absence of an overall guiding development policy statement as a serious lacuna (ECDPM, 2005).

[125] The Comprehensive Development Framework (CDF) was proposed by the World Bank in early 1999 as a means by which countries can manage knowledge and resources to design and implement effective strategies for economic development and poverty reduction.

Council adopted the European Security Strategy in 2003, with immediate effects on the EUDP. The EU Communication of April 2000, which was predominantly focused on trade and development policy and the political dimension of partnerships, was now much more crowded with a new fully fledged policy that was quickly growing in importance. Security was there, the third pillar.

The international development agenda, which is also forged by the development trends that are constantly in motion, as seen in chapter 1, is constantly evolving in a fast-dynamic that in most cases the more rigid IAA lacks the capacity to absorb the main innovations. This is the case at the EU level. A big, heavy boat that carries difficulties in sorting unpredictable currents.

The international context, although bidirectional, in the end deals with the EUDP from a top-down point of view in a vertical process. The EUDP, in turn, is a product of the internal policy making of the sum of each MS. That is, the famous EU context. This force, coming from the bottom, is brought about by different elites, both national and those based in Brussels, who are engaged in bureaucratic politics (Ginsberg, 1989). The decision-making, formulated through bargaining and compromise, "involves numerous individuals and organizations. They have varying interests, and they are involved for any single issue but without the predominance of any participant" (Rosati, 1981; Ginsberg, 1989; Peters, 1992, 1997). Besides the bargaining power and ability of the different lobbies at the EU level, there is "an apparent fragmentation… of policy making within the Commission" and there are "increased linkages of the components of the Commission to the components of national bureaucracies (Peters, 1992). This characteristic of the EU context is to be added to the widely known process of dualistic policy setting concerning EUDP between MS and the EC.

In parallel, there are structural characteristics of the EU that shape its context in influencing the development policy. These are the respective legal, regulatory and institutional dimensions of the EU. Legally, the EUDP has gradually seen its regulations aligned into joint statements, since the Amsterdam Treaty in 2000. Already since Maastricht in 1992 the Treaty outlined three objectives for the Union's development policy of which the third, the fight against poverty, was incorporated into the DP as its overriding objective, but the other two can also be found in the statement albeit in less prominent positions. Coordination, complementarity and coherence were also principles in the Treaty, as was the principle that all Community policies affecting developing countries should take into account the objectives of EC development policy. The ECD is a step forward in building a legal framework that allows the settlement of the formulation of related development policies into a single overriding document. The wide array of principles and regulations- trade, aid, security- outlined in the ECD entered into a new era with the Lisbon Treaty as the EU is a legal single entity able to sign international treaties in its own name. The EU gained for example membership of the WTO immediately after the entry into force of the Treaty, since the European Communities was a member of that organization.

The EU policy context is characterised primarily by the political interplay between the three principal Institutions: the Commission, Council and European Parliament; but on development policy, in addition to the context in Brussels, the context in the partner country must be considered. There a different prime triumvirate operates: the European External Action Service (EEAS), the Government of the country concerned and the EU MS' Missions. The context is also characterised increasingly over the four years of existence of the DP by a growing interplay between sectors in EU external relations: development, humanitarian aid, trade, security, neighbourhood policy, migration and pre-accession. This has given rise to the concept of the policy mix. Equally the environment is influenced by internal EU policies which have an external impact, such as agriculture or fisheries policy. Beyond the official players in the political context there are also non-state actors both in Europe and the partner countries which, in the development policy sphere, are very active players.

Despite the interplay between these actors, the Lisbon Treaty is meant to ensure greater coordination and consistency in EU foreign policy, by merging security, external relations and neighborhood policy under one high representative (*High Representative of the Union for Foreign Affairs and Security Policy)*, that is also Vice-president of the Commission. However, the result of this change is a patchwork of laws, rules and practices operating across the development space. The ratification of the Lisbon Treaty opens a new debate, with some hoping that the appointment of a permanent President of the Council and of a High Representative for Foreign Affairs and Security Policy, as well as the establishment of EEAS, will lead to more consolidation, and others insisting on the continued relevance of a model focused on coordination[126].

At institutional level, the Lisbon Treaty has also marked the consolidation of an arduous process of the reform of external assistance, a prime institutional concern for EC development cooperation in 2000. The key point in this was that the EUDP was introduced into a changing institutional environment where it was expected to play a unifying role. It is probable that the evolving organisational context made it easier for a new overall guiding statement such as the DP to find its place than it would have been in a more static environment, though it is also clear that its level of acceptance throughout the institutions varied considerably.

Policy processes are influenced by many factors. The links between stakeholders and the way they are organised in communities and networks, often facilitated by intermediaries, have a major impact[127]. Within the EC an important factor affecting the DP are the splits between different services in the EC: DG DEV (the originator and main proponent of the DP), DG RELEX (another implementer which has had a lesser stake in its formulation), AIDCO (the prime implementer in Brussels), and the EC Delegations (now EEAS and the prime implementer on the ground). A key linkage actor in this context for the DP is the iQSG[128] (inter-service Quality Support Group), which in many ways can be considered as the effective institutional 'champion' of the DP (ECDPM, 2005).

There is no doubt the evolution of the complex reality of the EU legal, regulatory and

[126] For a discussion of these issues, see European Think-Tanks Group (2010).
[127] See RAPID (Research & policy in development) programme at ODI.
[128] The iQSG is made up of representatives from each of the relevant external services.

institutional framework has undergone major reforms towards a more integrated, coherent and coordinated development policy. However, in a constant dynamic and changing international and European context, it remains a challenge how the EU, with its sovereignty handicap, can adapt to better respond to the demands of old myths and upcoming trends.

General policy, the ECD: main principles and guidelines

The ECD, signed on December 20, 2005, (2006/C46/01), replaced the Joint Statement of the Council, Parliament and the Commission on the European Community's Development Policy of November 2000. It represents the first attempt to lay out a framework of common principles to guide the EU's activities in the field of development cooperation, both by Member States and by the EC. It consists of two parts: the first part addressing the objectives, principles and values of EU development policy, applying to the EU MS and the Community; the second part providing guidance for its implementation at the EC level.

The Consensus is the first document to enshrine the MDGs, in all key sectors - basic education, basic health, gender equality, environmental sustainability and HIV&AIDS - as overriding objectives of EU development cooperation. It also sets out the concrete actions necessary to implement its vision at Community level. It outlines the core objectives and principles for MS International Development Assistance (Part 1). As said, the primary objective of the EDC is the reduction of global poverty in the context of sustainable development. This objective is aligned to the achievement of the UN MDGs by 2015, to which the EU has fully committed itself.

The common principles governing all EU development cooperation activities are ownership and partnership, in-depth political dialogue, participation of civil society, gender equality and an ongoing commitment to preventing state fragility. Although developing countries bear the primary responsibility for their own development, the EU accepts its share of responsibility and accountability for all actions it undertakes in partnership with developing countries.

The document also states the financing commitments. The EU will increase the aid budget to 0.7% of gross national product (GNP) by 2015, the shared interim goal being 0.56 % by 2010[129], with half of this increase in aid earmarked for Africa. Furthermore, assistance will continue to be directed primarily toward the LDCs, low-income countries and medium-income countries.

Cross cutting issues take a predominant role in the text. The objective of reducing poverty is closely related to the complementary objectives of promoting good governance and respect for human rights, values which are fundamental to the EU. Furthermore, assistance aimed at reducing poverty must uphold a balance between strategies for economic growth and social development, taking into consideration the protection of natural resources. It states that the criteria guiding the allocation of resources will be objective, transparent and based on needs and performance. In all its

[129] Again, this commitment has not been fulfilled, as the share of GNI was 0.46 in 2010, still far from the mid-target of 0.56 (DAC stats).

country and regional programming, the EC will be guided by the principle of concentration: this means that a limited number of priority areas for action will be selected and focused on, rather than spreading efforts widely over too many sectors.

Another important statement of the policy is on aid effectiveness, in line with international pledges made at the PD. It stresses that the EU will prioritize the quality of aid. Core principles for maximizing the quality and efficiency of aid are national ownership, donor coordination and harmonization, starting at the field level, alignment on recipient country systems and results orientation. In order to enable partner countries to plan efficiently, aid mechanisms will become more predictable and less arbitrary.

Coordination and complementarity between donors will be promoted by working towards joint multi-annual programming based on partner country strategies, common implementation mechanisms, joint missions involving more than one donor, and the use of co-financing arrangements. The EU will foster consistency between development policy and other policy areas, particularly international trade, security and migration.

The second part of the text outlines the priorities of the EU development assistance. Above all, reinforces the policy coherence principle. Development cooperation is understood as a major component of a broader set of external policies. It is crucial that these policies are consistent and complementary. The EC has a responsibility to achieve "Policy coherence for development". This means that all the EC's programming documents - country, regional and thematic strategy papers - should reflect this range of external policies and ensure consistency between them (trade, aid and security).

In addition, the ECD highlights the relevance of the comparative advantage of EU Aid. EC policy aims at complementing the policies of the MS. Its added value derives from its global presence and its role in promoting consistency between policies and best practice. It says that the EC's most important advantage is its potential to facilitate coordination and harmonization between the MS.

Finally, the document lists the following main policy areas of intervention for European development assistance: trade and regional integration; the environment and the sustainable management of natural resources; infrastructure, communications and transport; water and energy; rural development, territorial planning, agriculture and food security; governance, democracy, human rights and support for economic and institutional reforms; prevention of conflicts and of state fragility; human development; and social cohesion and employment.

The EC will strengthen mainstreaming in relation to the following issues, which involve general principles applicable to any initiative and which call for simultaneous efforts across several sectors: democracy; good governance; human rights; the rights of children and indigenous peoples; gender equality; environmental sustainability; and the fight against HIV/AIDS.

Regarding implementation the Consensus stresses that a range of modalities will be undertaken based on the needs and performance of each individual country. Where it is appropriate, the preferred aid modality will be budget support. The EC will adopt an approach based on results and performance indicators. The majority of EC aid will continue to be provided in the form of grants, as this approach is particularly suitable for the poorest countries and for those with a limited ability to repay.

It is a general opinion that the ECD has become a tipping point in positioning poverty-centered development cooperation in an equal footing to the rest of EUDP priorities such as trade and security. It provides a framework not only for a better coordinated policy among these pillars, but also for the commitment of MS and the EC to a common view on the promotion of international development (Carbone, 2008). It is also a step forward in addressing criticisms and weaknesses that were identified ten years earlier (Dearden, 2008).

The DAC, in its peer review of the EC development cooperation policies of 2007 recognized the substantial progress made since the 2002 review, including the “major strategic success” represented by the ECD. However, it observes that the ambitious and multiple objectives of the Consensus, including its political agenda, could undermine the focus on development and the longer term strategic priorities, especially poverty eradication, as well as the cross-cutting issues. The same Dearden, despite its overall positive assessment, argues some points that are ambiguous in terms of providing congruence with the objectives. First, the text justifies the support to low-income countries due to “large poor populations” and for their importance as a regional anchor. Second, it emphasizes the need for the EC to concentrate upon its areas of comparative advantage, but these are broadly defined an even more areas of intervention are added (water, energy, rural development, agriculture, social cohesion and employment). The document says that aid will be based upon the use of standard, objective and transparent resource allocation criteria based upon those of the Cotonou Agreement signed in 2000, which remain imprecise (Dearden, 2008).

While the Consensus represents a robust development strategy -outlining objectives, defining common principals, pledging financing commitments, mainstreaming cross-cutting issues, claiming aid effectiveness measures, detailing areas of intervention and stressing policy coherence- the reform of the Treaty of Lisbon reinforces the links between foreign affairs and security. Although development enjoys greater relevance with the upgrade of the External Action Service, it remains clear that development is still instrumental of the Union’s foreign policy. The effectiveness of the ECD as a policy statement will be determined in its implementation. An assessment will be provided in this section below. Prior to this, though, I will proceed with the sequential step of translating the general development policy of the EU into the different regional and thematic respective policies and the instruments that they use to finance development assistance.

<u>Regional policies. From Africa to the World</u>

The EU’s promotion of regional cooperation has been a mixture of far-sighted strategy and ad hoc responses to external demands (Smith, 2008). For the motivations I have already analyzed, MS use the EU for the suitability of its instruments and its supranational authority to encourage regional cooperation. The EU has developed foreign relations with almost all countries in the world, but the analysis here is to assess the extent to which the EU has gone beyond trade and contractual relations towards developing a structured development policy.

Africa. We have seen that EU relations with Africa started since the very beginning of the European integration process. It is thus the oldest and biggest recipient of EU development cooperation. But it was not until 2005 that the European Council adopted the first EU Strategy for Africa with a comprehensive, integrated and long-term framework for its relations with the continent as a whole. Even geographically, it brought an extra layer to the EU's policy by including the Northern African countries. The document proposes a strategic partnership for security and development between the EU and Africa, in which aid effectiveness and donor coordination are held as core priorities. The main aims of the strategy are the achievement of the MDGs and the promotion of sustainable development, security, and good governance in Africa.

The "preferential" treatment of the EU towards Africa is even reflected in the specific financial approach to deal with the continent. The EU structures its financial assistance to ACP countries through the only non-budgetised EDF. It is financed directly by MS contributions with an overall budget of €22682 million over the period 2008-2013 (10th EDF). The fund consists of grants managed by the EC and risk capital and loans managed by the EIB under the Investment Facility.

Besides the partnership for security and development between the EU and Africa, it advocates strengthening the EU's support for core areas such as: trans-African road and rail networks modeled on the trans-European networks; boosting economic growth and increase Africa's share in world's trade; fight against AIDS, tuberculosis, and malaria; expanded access to water supply, sanitation, and energy; exchange program for African and European students, called Erasmus-Nyerere; retention of environmental degradation and building sustainable environment; EU scientific research to help to increase access to vital medicines; stimulation of employment policies and decent work; and promotion of cultural diversity.

Despite large aid amounts spread out mainly to Sub-Saharan African countries during more than 50 years and the recent tendency to strengthen the partnership approach of the EU to Africa with increased political dialogue and security interests, the EC has also failed (like the other DAC donors) to make aid effective and bring economic and human development to the region. The EC has not adapted to the disparity of realities of the continent and has put very much impetus in exporting its model of integration based on the promotion of liberalization and privatization, which fits well with EU interests but not so well with African interests (Farrell, 2005).

There is a growing debate on the impact of EC aid in ACP countries, particularly. EC's good intentions written in the ECD do not translate into tangible impacts in poverty reduction. For so many years the evaluation of EC aid has concentrated on assessing the inputs provided and the outputs achieved, but it almost has ignored its outcomes and impact, which are obviously much more difficult to be measured. The political shift towards focusing on results is not yet targeting the poorest, which might be ideal and real beneficiaries of the aid programs. The question of whether programme priorities (and the respective input/output) lead to the most favourable results for the poor, is usually not raised in EC documents (Eberlei, 2007). This question, however, should be discussed, for example regarding the transport sector, which is one of the focal areas of EC work. In 2005, EC aid for transport projects in ACP countries amounted to around 817 million Euro in 2005 while spending on education or health stood at 185 million and 239 million Euro. Projects in the transport sector may be justified by good arguments in every individual case, but this overall allocation does not reflect an optimised poverty-oriented approach[130]. I will come back to this issue with the case-study of the EC aid impact to Tanzania in Chapter 3.

Asia. In 1967, Indonesia, Malaysia, the Philippines, Singapore and Thailand founded the Association of South-East Asian Nations (ASEAN) and by the mid-1970s, ASEAN and the EC had initiated a dialogue (the first joint ministerial meeting was held in November 1978., leading to the first economic cooperation agreement in 1980. The main driver of such agreement was the extension of economic and trade liberalization with an emerging area in the world, but the relationship of the EC has never been taken with a partnership approach and rather MS have deepen the extent of their bilateral economic and cooperation relations (Smith, 2008). In order to counterbalance US efforts in an increasingly more economically and politically appealing for global powers, the EU launched the Euro-Asia Meeting (ASEM), a clear answer to the US-sponsored Asia-Pacific Economic Cooperation (APEC) forum, which has developed far ahead the EU, mainly due to the close ties and influence of the US in the region.

All in all, following its more structured and comprehensive partnership approach, the EC set out a strategy for cooperation with Asia entitled “Europe and Asia: A Strategic Framework for Enhanced Partnership” (COM(2011)469 final). This document aims to strengthening the EU’s political and economic presence in Asia, overall, motivated for the fast growing emerging economies of the region (China, Indonesia and Vietnam, mostly). It also recognizes the continent’s diversity through different forms of partnership with different Asian countries. The strategy identifies six objectives: contributing to peace and security in the region and globally, through a broadening of the engagement with the region and a more pro-active role by the EU in regional fora like the ASEAN Regional Forum (ARF); further promoting the mutual trade and investment flows with the region and dialogue on economic and financial policy. Also collaboration to achieve advancement of the international order, e.g. in the framework of the WTO, in particular to remove non-tariff barriers to trade and investments and to improve the business environment; fostering the development of the less prosperous countries of the region and addressing the root causes of poverty through the country strategy papers (CSPs) and the multi-annual development programs; contributing to the protection of human rights and to the spread of democracy, good governance and the rule of law; constructing global partnerships and alliances with Asian countries, in appropriate international fora, to help address both the challenges and the opportunities offered by globalization, and to strengthen joint efforts on global environmental and security issues such as climate change, migration and terrorism; promoting increased awareness of Europe in Asia and vice versa, including by opening

[130] See the following document for an extensive assessment of the impact of EC’s aid in developing countries: “The EU’s footprint in the South. Does the EC Development Cooperation make a difference for the poor?”, CIDSE, 2007

EC Delegations in Malaysia, Singapore, Cambodia, Laos and Nepal, and a representative trade office in Taiwan. Other strategies include the promotion of exchanges in education, culture and science as well as fostering inter-regional civil society contacts.

The difference in scope and intensity of the relations with Asia compared to Africa not only lays on the tradition and historic influence over the continent but on the less dependency on development aid of the EC and the stronger influence of other international donors in the region, especially the US and Japan. This difference is also reflected in the aid volumes, which, although they have significantly increased over the last years, it remains far from reaching aid volumes to Africa. Since January 2007, the DCI became the legal basis for EU-Asia development cooperation, replacing the ALA Regulation for Asia and TACIS for Central Asia. A global allocation of €5.2 billion was made for the 2007-2013 period.

Latin America. The EC started developing consistent relationships with Latin America in the 1990s. Until that time, there was very little involvement, mainly due to the authoritarian regimes that governed in many Latin American countries. Furthermore, the US was the dominant external presence in the region and regional cooperation schemes were ineffective, thereby leading to a lack of interest for the EC (Piening, 1997). The only exception was Central America, where the 1984 the EC showed some interest in resolving the conflicts in Nicaragua and El Salvador, but EC MS were alarmed by the extent of the military conflict as well as the deep involvement of the US in taking part of.

The first approach of the EC to cooperation with LA was, of course, through regional cooperation attempts to strengthen trade and economic links. In 1983 the EC concluded a regional framework agreement with the Andean Community (Bolivia, Colombia, Ecuador, Peru) and the economic dialogue began in 1996, paving the upcoming signature of the agreement in 2003. The EC also created formal links with MERCOSUR in 1992 through technical assistance, becoming the first priority of the high-fragmented region for the EC. At the macro regional level, the EC held the first high-profile summit with all the Latin American and Caribbean countries in a demonstration of EC's will to strengthen cooperation with the continent. This trend has to be viewed in the light of US policy in LA and its proposal for a FTA of the Americas (Hazel Smith, 1998).

The EC's will and difficulties are behind the current EC policy strategy document for the cooperation with LA entitled "Stronger partnership between the EU and LA" (COM(2005)636 final), with the objective of giving a new impetus to the partnership. This strategy was intended to reaffirm its interest in and support for the region, particularly with regards to human rights, democracy and multilateralism. Fundamental to this strategy is the EC objective of reinforcing its involvement in several areas, including the fight against social inequality and the promotion of the principles of sustainable development.

The strategy recommends here an approach whereby each Latin American actor is an interlocutor as well as a partner. Particular focus is placed on cooperation with sub-regions such as Mercosur, the Andean Community and Central America. Relations with Latin American countries are organized according to a distinction between the different countries in terms not just of their gross domestic product (GDP) but also of the role they play on the international stage (e.g. Brazil, Mexico). The text states that relations with each country should be tailored according to their particular circumstances. The EU policy priorities towards Latin America were updated in 2009 by the adopted Communication "EU-Latin America: Global players in Partnership".

The shallow involvement of the EC in LA, compared to Africa and Asia, is also reflected in aid volumes, which, contrary to those of Asia, have decreased significantly during the 2000s (see section 2.3 Overview of aid architecture). The DCI also is the financial instrument that covers the LA region, with a budget allocation of €2.7 billion for the period 2007-2013. The EU, the second largest trading partner, will remain in the shadow of the US-LA reciprocal interests and now the increasing presence of China in the continent.

Mediterranean and Eastern Balkans. The preservation of security with its vicinity has been one of the major concerns and priorities of the EUDP, especially since the adoption of the ENP, although the EU had this concern since the set up of the Council for Mutual Economic Assistance (CMAE) in early 1980s with former communist countries. The ENP was launched in 2003 under the strategic policy document "Wider Europe – Neighborhood: a New Framework for Relation with our Eastern and Southern Neighbors" (COM(2003)104 final), with the objective of promoting good relations between the enlarged EU and its neighboring countries for security matters and economic integration benefits. It has further been enriched with regional and multilateral cooperation initiatives the Eastern Partnership (launched in Prague in May 2009), the Union for the Mediterranean (the Euro-Mediterranean Partnership, formerly known as the Barcelona Process, re-launched in Paris in July 2008), and the Black Sea Synergy (launched in Kiev in February 2008).

The ENP envisages enhanced preferential trade relations and increased financial and technical assistance, offering neighbouring countries the prospect of increased access to EU markets. The policy is targeted at deepening trade liberalization and regional integration. With regard to trade in goods, the ultimate goal is the gradual elimination of non-tariff barriers. Legislative approximation is envisaged in the area of free trade in services. Likewise, it aims to improve the investment climate, set up independent competition authorities and modernize and improve the transparency of the tax system. For agricultural products, convergence on sanitary and phytosanitary controls will be implemented to enhance exports to the EU.

Furthermore, the policy aims to enhance dialogue and cooperation on the social dimension. Issues related to the movement of workers will also continue to be addressed within the framework of the various agreements. The functioning of public institutions must be improved in order to deal with challenges in the field of justice and home affairs, such as migration pressure, human trafficking and terrorism.

Another key aspect of the ENP is "connecting the neighbourhood" by improving the transport infrastructure. Other areas at which action will be targeted under the ENP include the environment, information society and research and innovation. In additional to the physical infrastructure, cultural, educational and social links should be fostered. It is explicitly evident that ENP priorities, rather than putting poverty eradication at centre stage, are developing infrastructure connections, environment, justice and home affairs and trade, regulatory convergence and socio-economic development, which become instrumental for the above.

The fact that the ENP is one of the key priorities of the EC development cooperation is the high levels of ODA that are assigned to eligible countries in the East and Mediterranean. In this case, however, the DCI is replaced by the ENPI, which concentrated the 20.3% of the external assistance budget of the EC in 2010, accounting for €1.49 billion, the second largest financial instrument of the EC budget after the DCI (see table 4, Annex 2 "**E**C Regional and Thematic Development Instruments in 2010).

<u>Thematic policies</u>

According to the ECD, the EUDP aims to strengthen the approach to mainstreaming as "some issues require more than just specific measures and policies; they also require a mainstreaming approach because they touch on general principles applicable to all initiatives and demand a multisectoral response" (ECD, 2005). In order to address this approach, the EU allocates part of its EU external relations budget to some thematic policies to the mainstream of its outlined cross-cutting issues. These policies are the following:

EU's policies for the promotion of human rights, good governance and democracy. The 1957 Treaty of Rome stipulates that Community policy in the sphere of development cooperation "shall contribute to the general objective of developing and consolidating democracy and the rule of law, and to that of respecting human rights and fundamental freedoms" (Article 177(2)). This mandate was supplemented by Article 11(1) of the 1992 Maastricht Treaty, which identifies developing and consolidating "democracy and the rule of law, and respect for human rights and fundamental freedoms" as an overall objective of the Union's CFSP.

The governing policy lays on the EU Guidelines on Human Rights. Since 1998, the EU Council adopted six EU Guidelines which provide orientation on particular human rights issues to the various EU actors, MS missions and EC delegations in third countries. These include: Guidelines for EU policy towards third countries on the death penalty (1998); EU Guidelines on human rights dialogues (2001); Guidelines to EU policy towards third countries on torture and other cruel, inhuman or degrading treatment or punishment (2001); EU Guidelines on children and armed conflict (2003); EU Guidelines on human rights defenders (2004); and EU Guidelines on promoting compliance with International Humanitarian Law (2005).

The EC implementation of human rights, good governance and democracy in its development policies is two-fold: through the strategy of mainstreaming and through specific measures targeting the advancement of human rights and democracy in partner countries. In 2006 the EC deployed a new policy tool for the enhancement of good governance, known as the Governance Initiative, which is intended as an incentive for governments in developing countries to establish policy programs to foster good governance.

The financial instruments for implementing these policies are the respective thematic programs of the DCI (Non-State Actors, Food Security, Investing in People, Environment, Asylum & Migration, restructuring sugar production) and the specific European Instrument for Democracy and Human Rights (EIDHR), established to provide focused support toward the advancement of human rights and democracy in partner countries (see table 4, Annex 2).

EU's external policies for Health. Aligned with the ECD support for the MDGs, Article 5 establishes that "prime attention shall be given on the supply of primary education and health". EC policies for the support of health services in developing countries are comprehensively outlined in the Consensus: "The MDGs cannot be attained without progress in achieving the goal of universal sexual and reproductive health and rights [...]. To confront the devastating impact of HIV/AIDS, TB and malaria in developing countries, a roadmap for joint EU actions on the European Program for Action will be developed (the European Program for Action to Confront HIV/AIDS, Malaria and Tuberculosis, COM(2005) 179, discussed below). The EC will support the full implementation of strategies to promote sexual and reproductive health and rights and will link the fight against HIV/AIDS with support for reproductive and sexual health and rights. The EC will also address the exceptional human resource crisis of health providers, fair financing for health and strengthening health systems in order to promote better health outcomes, making medicines more affordable for the poor."

Since 2002 the EC is fostering its policy framework to guide investment in health, HIV/AIDS and population for the achievement of the MDGs, comprised of a Commission Communication and a Council Resolution on "Health and Poverty" (COM(2002)129). The Communication outlines critical elements to improve the effectiveness of development assistance in the area of health: increased ownership, good governance and responsibility at national level in developing countries: this objective is pursued via the national poverty reduction strategies; establishing coordinated and pro-poor policies: services and resources should be targeting the diseases closely linked to poverty and/or the poorer geographic areas. The expansion of adequate social protection also has an important role to play; ensuring a healthy environment: environmental problems, such as poor water quality, contribute to health problems and it is thus essential to improve control and management of these problems; encouraging investment in global public goods: it is important to encourage, in particular, investment in research and development in the health sector; increasing public-private partnerships: this type of partnership is considered to play an important role; one important example is the Global Fund to fight HIV/AIDS, Tuberculosis and Malaria.

In order to make the policy framework operational, the European Commission adopted a "European Program for Action to Confront HIV/AIDS, Malaria and Tuberculosis through External Action" in April 2005. This document provides a Program for EU (i.e. EC and Member States') actions, both at country and global level. The EC's human and social development priorities are set out in the strategy paper for the Investing in People thematic program, part of the DCI (see table 4, Annex 2). It states that at least 50% of the total budget available for this program will be allocated to the pillar of 'Good health for all."

Policies for Education. The EC subscribed to the international community's focus on basic education and gender equality within the context of the MDGs. This is reflected in the two documents adopted in 2002 that define the EC policy in the field of education and training in developing countries: the Commission Communication "Education and training in the context of the fight against poverty in developing countries" (COM(2002) 116) and the Council Resolution on "Education and poverty" (Resolution EC 8958/02). This framework sets out the following priorities with regard to education in the fight against poverty: basic education, in particular primary education, and teacher training; work-related training; higher education, in particular at regional level.

The EC stresses that implementation of this policies requires substantial investment on the part of the developing countries and the EU. EC funding in the area of education and training will come via two main instruments: macroeconomic and budgetary support and the implementation of a sectoral approach. The Commission also highlights the importance of ensuring effective cooperation and coordination among all donors. It also considers it to be crucial that the people of the developing country, especially the poorest and most vulnerable groups, have ownership of the activities and strategies in this field. The DCI also covers the financial instrument through his thematic program Investing in People.

Policies for the promotion of gender equity. The gender policy of the EC has the primary objective of mainstreaming gender equality through all development policies and programs. The legal base for the EC's external assistance policies on gender equity is the 1998 Regulation "on the integration of gender issues in development co-operation" (Regulation (EC) No. 2836/98). The 2001 Program of Action for the mainstreaming of gender equality in EC development cooperation set out the general policy framework. In April 2004, the EP and the Council approved a new Regulation (EC No. 806/2004) "on the promotion of gender equality in development cooperation"**.** It strengthened the EC approach by implementing specific measures in favour of women in developing countries and established a strong link with the MDGs.

On March 2007, the EC proposed a new European strategy to promote gender equality in development cooperation entitled "Gender Equality and Women's Empowerment in Development Cooperation" (COM(2007)0100). The strategy suggests concrete actions in five key areas for the promotion of gender equality: governance, employment, education, health and domestic violence. The document contains guidelines on how to improve the integration of gender equality into development policy and the different budget lines available to promote it.

The 2010 "Staff Working Document EU Plan of Action on Gender Equality and Women's Empowerment in Development" implements the above 2007 Communication and Council Conclusions. It is an operational document that seeks to accelerate the achievement of the MDGs, especially MDG 3 and MDG 5[131]. The EU, therefore, pursues a twin-track approach: it takes measures specifically designed to tackle gender inequalities and more widely, it aims to incorporate gender issues into all aspects of development policy ("mainstreaming").

131 Gender Equality and Maternal Health.

The implementation of such policies is quite ambiguous, as the EC has to deal mainly with national development strategies, which most often have other assumptions on how to address gender issues due to cultural differences. Aid is financed by linking the disbursement of variable tranches from the budget support to improvements observed in gender equality indicators. The EU will support the development and use of these indicators and the strengthening of the underlying basic statistics. Additionally, gender responsiveness will be integrated into the preparation of the budgets of the partner countries at national and local levels. This entails re-prioritization of expenditure, re-orientation of programs within sectors to achieve gender equality and monitoring of government revenue and expenditure.

This operational strategy is complex to be carried out, as the indicators are most often based on outputs and not results (outcome and impacts). The national poverty reduction strategies must analyze the gender equality situation of a country to understand all its implications for growth and poverty, but this is normally done through the lens of other socio-cultural and economic implications[132]. The DCI is also the financial instrument in charge of financing gender policies through the thematic budget line Investing in People. Detailed operational guidance can be found in the Toolkit on Mainstreaming Gender Equality in Europeaid. The EC also established a Gender Help Desk, consisting of three gender specialists who are available to provide a tailor-made response to support EC staff in their efforts to implement gender mainstreaming comprehensively into development policies. Monitoring tools, both at the program and project level targets gender aspects as a criteria for monitoring and evaluation, showing the strong commitment of the EC on the mainstreaming of gender policies.

Policy for the promotion of environment protection. The EU has been playing an influential role in advocating for joint action to secure environment protection at international level. Above all, since climate change and environmental degradation through loss of biodiversity have been upgraded as major subjects to deal at the UN, within the UN Framework for Convention on Climate Change (UNFCCC) set up in 1992, the EC is strongly committed to mainstreaming environmental conservation measures to development cooperation. The ECD states that the Community will support the efforts undertaken by partner countries to incorporate environmental considerations into development, and help increase their capacity to implement multilateral environmental agreements. It also underlines that particular attention will be given to initiatives ensuring the sustainable management and preservation of natural resources, including as a source of income, and as a means to safeguard and develop jobs, rural livelihoods and environmental goods and services.

[132] An interesting example is the case of the fight against Female Genital Mutilation (FGM), in which is not a matter of health, but also has gender and economic aspects. According to a local NGO specialized in gender equality in Tanzania, Women Wake Up, while most of the focus of donor agencies and Western NGOs has been on avoiding the ritual of circumcision targeting women, local evidence show the importance to involve men in the process of community sensitisation, as they discriminate non-mutilated women as candidates for a potential marriage, thus leaving women out of the social and economic circles of their own society (interview with Women Wake Up, Dodoma, Tanzania, November 2009).

With regard to the continuing problem of biodiversity loss and its visible negative impact on the progress toward the main development goals, the Council of Ministers acknowledged the need to act more vigorously in this area by adopting the "Communication Halting the Loss of Biodiversity by 2010 and beyond" (COM(2006) 216 final) in early 2007, building on the earlier strategy concerning this matter entitled "Biodiversity Action Plan for Economic and Development Cooperation" (2001). This EU policy document contains a detailed action plan concerning how to achieve this goal within the EU and also contains an action plan for how the EC and MS can assist developing countries in their efforts to halt the loss of biodiversity in their own countries.

The EC is responsible for including the mainstreaming of biodiversity issues in its Country and Regional Strategy Papers (CSPs and RSPs). Furthermore, a series of tools are at its disposition to ensure that trade agreements, investments and development cooperation programs do not negatively impact on the environment, including biodiversity. These tools include Strategic Environmental Assessments (SEA), Sustainable Impact Assessments (SIA), and a comprehensive environmental analysis including recommendations on how to address environmental challenges in the cooperation program (Country Environmental Profiles).

In addition, funds to support developing countries in their efforts to halt the loss of biodiversity are reserved in the specific program "Environment and Sustainable Management of Natural Resources, including Energy " (ENRTP), which is part of thematic programs of the DCI. It was deployed in the Commission Communication "External Action: Thematic Program for Environment and Sustainable Management of Natural Resources including Energy" (COM(2006) 20 final). Replicating the Gender Helpdesk, the EC established an Environment Helpdesk**,** which is a service to raise awareness and build capacities to integrate the environmental dimension in EC development cooperation and into partner countries' sector policies and programs.

Policies on Security. Linkages between security concerns by means to foster development are quite a recent policy innovation of the structured development policy framework of the EU[133]. Since the adoption of the European Security Strategy in 2003, brought by events mentioned before, the EU is committed to foster a secure environment in the context of ever-increasing globalization. While security concerns have always laid at the core of EU foreign policy objectives, the explicit intertwined relation with development has not been developed operationally since 2007.

For these reasons and because of the EU's role as a global actor, the EC services and the Council Secretariat General elaborated a Food for thought paper to strengthen EU policy coherence. On this basis the General Affairs Council in November 2007 adopted the Council Conclusions inviting MS, the EC and the GSC to take the work on security and development forward under the guidance of future Presidencies, including the framework of Policy Coherence for Development (PCD). As a result of these debates, the

[133] Apart from the IfS, the EU has other peace and security financial instruments: the CFSP, supervised by the Council, and the Africa Peace Facility, an instrument inside the EDF managed by the Commission.

EC launched a new financial instrument for development cooperation, the Instrument for Stability (IfS).

This instrument aims to contribute to a comprehensive prevention approach to state fragility, conflict, natural disasters and other types of crises. It is intended to provide an adequate response to instability and crises and to longer term challenges with a stability or security aspect. The overall objectives of the IfS are: to respond to a situation of urgency, crisis or emerging crisis, a situation posing a threat to democracy, law and order, the protection of human rights and fundamental freedoms or to the security and safety of individuals, or a situation threatening to escalate into armed conflict or to severely destabilize the third country or countries concerned; in the context of stable conditions, to help build capacity both to address specific global and trans-regional threats with a destabilizing effect and to ensure preparedness to address pre- and post-crisis situations. The IfS's total budget for the period 2007-2013 is € 2.1 billion.

<u>Budget Allocations: the financial instruments of the EU development cooperation</u>

The EUDP implementation begins with the budget allocation of EU's development policies through the so-called financial instruments. Thus, EU development aid is distributed through multi-annual strategies and programs that are jointly prepared by the technical managerial bodies of the EC's Development Cooperation, the EEAS and EuropeAid. Before analyzing how EC development aid is managed, it is worth viewing an overhaul of the main financial instruments that the EUDP has in place in order to allow budget allocations that will later be channeled to partner countries.

The financial instruments obviously follow the same approach of the policies, which are classified by geographic and thematic areas. Geographical programs are the preferred instrument for cooperation. Based on a dialogue with the partner countries, the Commission draws up strategy papers based on countries and regions' needs and performance. These strategy papers set out the priority areas and financial allocations and serve as the basis for the programming of development aid. An action program is then adopted each year to define the specific objectives, fields of intervention, expected results and amount of funding. These geographic financial instruments encompass four instruments that are managed under the budget of the EU: the DCI, the ENPI, the IPA and the ICI. Amongst the four, only the DCI and the ENPI compute as development cooperation instruments, as we have already seen. Outside the EU budget, however, remains the largest EU regional development cooperation instrument, the EDF, which is set apart by voluntary contributions of MS. Nonetheless, it is an instrument also managed by EuropeAid and the EEAS.

In parallel, there are six thematic instruments that complement the regional ones: the EIDHR, the IfS, the INSC, the FFI, the IfHA, and Macro-financial assistance. Except the latter, they all count as ODA and, except the IfHA, which is managed by ECHO[134], the others are managed by EuropeAid jointly with the EEAS. See Figure 1 of Annex 2 "EU budget external action instruments and programs" for an overview of the geographic and thematic instruments of the EUDP under the EU budget. Whereas geographic

[134] ECHO is an autonomous Humanitarian Aid Department of the EC.

instruments focus mostly on intra-government development cooperation, non-state actors are the principal beneficiaries of thematic programs.

The budget allocations through the instruments is an interesting indicator of the real priorities of the EUDP, as it concerns the value efforts that the EC is willing to do in line with the priorities of the development policy statements. Table 4 of Annex 2 "EC Regional and Thematic Development Instruments in 2010" offers an overview of the development instruments and its financial disbursements for 2010. Regional instruments concentrate roughly 79% of the regional financial resources[135], reflecting the preference of these instruments as accordingly reflected in the policy statements. The EDF is, by far, the largest financial contribution to the ACP, although it has been reduced its share in favour of other regions, especially Asia and Eastern Europe and the Mediterranean, EU's neighbors. EU's priorities, according to budget allocations, are ACP, the EU Neighbors, and other regions to a lesser extent (Asia and Latin America). By thematic areas, the DCI's preferred budget lines are Food Security (FS), Non-State Actors (NSA) and Environment by far, surpassing Investing in People and Migration & Asylum substantially. EIDHR, IfS and FFI also, after FS and NSA are the other preferred thematic instruments. The main innovation, as already mentioned at the policy level, is the introduction of the IfS within EUDP, a strong signal to reinforce the linkages between development and security.

We still see the importance of the EDF within the overall development aid of the EU, with 30% of EC's aid. In fact, there is a long-standing debate that discusses the convenience of the budgetisation of this fund within the EU budget, at the same level and treat of rest of the financial instruments. This debate has resurfaced as part of the discussions on the new multi-financial framework of EU's development cooperation. With the elimination of references to the EDF from Cotonou Partnership Agreement and the EU treaties, it seems that there are currently more chances for EDF budgetisation, as now the Council could make the decision unilaterally.

While the EC and the EP have advocated the budgetisation of the EDF, MS diverge. The same goes for development NGOs, and the ACP has repeatedly expressed her opposition (Gavas et al., 2011). The EP argues that EDF budgetisation would mean more budget control by giving the EP an overseeing role over its management and use. The EC defends that this would result in simplified procedures and increased aid efficiency, with an overall reduction of transaction costs. Both affirm that the process would reinforce the principles of simplification, rationalization, coherence and transparency, and that aid could be delivered more rapidly (Faria and Koulaimah-Gabriel, 1998).

However, there are some contrary positions commonly stated by MS. For some, such as UK, Germany and Spain, budgetisation would carry out an extra cost for them, as its development funding is based on a percentage of GNI rather than voluntary contributions (Gavas et al. 2011), an others because they are afraid to lose its direct influence over the ACP (France). Nevertheless, the main risk commonly identified by a wide range of stakeholders is that EDF budgetisation would entail the absence of a clear

[135] As average annual funding for the period 2007-2013.

commitment from the MS to increase the overall budget to EDF-ACP countries, and that development cooperation could be reduced, at large.

Assessment of EUDP

Such as Jörg Faust (2011) from the Bonn Development Institute points out, "development policy has great aspirations. Core aims include contributing to reducing poverty, promoting democracy and safeguarding peace. Evaluation is about checking whether such aims are met. Assessment of policy results basically serves three purposes: learning in the sense of understanding what causes what effects, which is useful to everyone interested in improving development projects, control in the sense of giving account to parliaments, taxpayers and the public in general, and finally legitimacy, because emphasis on impact and transparency boost any institution's credibility".

With this spirit I will proceed to assess the current EUDP. Without discussion, the 2000s have brought the EU to enter a completely new stage. In terms of relevance, the EU has substantially enhanced its importance as a donor, both in terms of economic (ODA disbursements) and political terms (strengthening political influence with partner countries and at the international arena). It has also embraced a policy approach toward greater coherence, complementarity and coordination (CCC), although the good intentions do not translate into effective results in the ground, as we have seen in the case of Africa.

In the same line, EU's development policy has embraced the poverty-oriented discourse as the cornerstone of her guiding policy, the ECD. It has become more poverty-oriented and more coherent, but at the same time it has incorporated new concerns reflecting its own interests, most notably in the areas of trade, security and migration. Although the piece of the cake of the EU budget for external relations (Heading 4, the EU as a global actor) has decreased in percentage, development cooperation has increased its role in EU's foreign policy with more resources especially for the DCI, EDF and security issues (see table 3, Annex 2 "Comparative analysis of EU External Action Budget between 2001-2011"). Empirical evidence coming from the negotiations of the 2002-2007 and 2008-2013 CSPs and of the EPAs shows that the EU is very preoccupied with improving its development image and pursuing a coherent external policy, rather than addressing the MDGs and increasing ownership (Carbone, 2009). In the case of the EPAs, DG Trade, which has acted as the leading actor in the negotiations, has emphasized trade liberalization to the detriment of the development aspect of trade. Unsurprisingly, various African leaders have publicly complained that their views had not been taken into consideration and the EU had attempted to impose its economic development models on what should have been its 'partners' (Carbone, 2009).

The widely discussed dualistic incentive approach, in which "hidden" preeminence of strategic national interests overcome altruistic concerns for poverty reduction, is undermining EUDP's quality of design by ballasting transparency in its objectives and goals. I have argued how this flaw constraints the effectiveness and impact of EC aid. By positioning only poverty reduction as the primary and overarching objective of the EUDP while there are other powerful overall objectives behind, the EU hampers the coherence of its development policies as it fails to include economic and security objectives. Poverty reduction is, in the end, a local effect, and a development policy with a global outreach should conceive poverty reduction as an IPG (or GPG) instead (see Chapter 1, section 1.2). Such approach would contribute to upgrade the weight of the EU development cooperation in comparison to other areas of the EU foreign policy, beyond its current status of subordination. Such as the European Think-Tanks Group conclude in "the EU's Multi-Annual Financial Framework post 2013" (Gavas et. Al, 2011), this shift of focus "(…) would allow EU development policy to pursue a systematic set of objectives and reflect the reorientation of development cooperation towards global structural policy, shifting its focus towards global problem-solving for the benefit of development outcomes; and whether a flexible instrument framework would take into account the complementarities between poverty reduction and mutual interests in a way that allows for decision-making at partner country level and with partner country governments".

The ECD declares that EUDP might "respond to the needs of partner countries" (Part II, section 3). The conceptualization of this statement, though, is made through a one-size-fits-all approach in which the wide-spectrum of EU areas of intervention to developing countries are described at a general level[136]. The inclusion/involvement of the country needs when it comes to prioritization and implementation of policies is left to the principle of ownership, in which primary responsibility and accountability of the development process falls to the partner country government. Sporadically, in some points of the description of the areas of intervention it reflects the need to involve local stakeholders and foster participatory methods. But implementation diverges (Eberlei, 2007). We have seen that most of EU development cooperation financial instruments are inter-governmental, that is, supporting partner governments (almost 80%), while much less than 20% are intended to boost participation of NSA (majority NGOs, and in most poor countries some of them have a strong link with the political ruling party).

Furthermore, in many aid-dependent developing countries there is rampant corruption and lack of aid absorption capacity that hamper enormously the participation of civil society and the private sector in the implementation of pro-poor policies. At the same time, partner governments' development strategies are often highly influenced by donor development approaches, conditionalities and mechanisms (Riddell, 2007). The fact that a poor country has full sovereignty over a national development strategy does not imply that its policies take well care of the needs of the country and its inhabitants. The EUDP, thus, fails in designing policy statements that can overcome such big constraint. Indeed, it even harms the potential of development for such countries, by leveraging a donor-driven approach to development and by often feeding a corrupt system of a development aid political elite.

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[136] 1) Trade and regional integration; 2) the environment and the sustainable management of natural resources; 3) infrastructure, communications and transport; 4) water and energy; 5) rural development, territorial planning, agriculture and food security; 6) governance, democracy, human rights, and support for economic and institutional reforms; 7) conflict prevention and fragile states; 8) human development; 9) democracy, good governance, human rights, the rights of children and indigenous peoples; 10) gender equality, 11) environmental sustainability; 12) HIV/AIDS.

On the other hand, the EUDP has achieved greater success in adopting the international development agenda in its own policy. This is, however, not a result of a unidirectional process of subordination, as previously discussed, but the outcome of a horizontal process of influence between the EU, MS and international organizations. As the same term consensus entails, the EUDP has been able to involve MS[137] and other stakeholders of the development community (NGO's, civil society) to agree with the new focus of this policy, due to the shift to the reinstated poverty focus[138].

The principles whereby development cooperation policies are implemented define the degree of efficiency of the EUDP. In terms of input (referring to the budgetary allocations for specific policy priorities), although the EC is not fulfilling the UN commitment of the 0.7%, it is worthy to highlight that its increase in aid have been among the highest, until becoming the large multilateral donor agency. At the bilateral level, indeed, only the countries that have accomplished the UN target are European. However, there are several structural implications that hinder the efficiency of EUDP. First, the issue of inter-governmentalism slows down the decision-making process and diminishes the degree of flexibility of the EC to adapt to a fast-changing international context. Second, financial instruments are meant to cover a wide range of geographical areas, cross-cutting issues and sectors of intervention. The so-called "everything everywhere" principle is still in motion (EC, 2011[139]). This lay-out undermines further efforts for enhanced harmonization and coordination. The partnership approach, which is contributing to reinforce the political dialogue with the partner country, carries out a proliferation effect with new cooperation agreements and measures to a large extent.

In the same line, the policy coherence for development (PCD) was a major success in an attempt to increase efficiency and effectiveness of the development policy. When this agenda was launched, it was celebrated as a major achievement for the EU, succeeding where other international organisations had failed (Carbone, 2009). However, various reports, including two produced by the EC itself in 2007 and 2009, have shown that despite the increased number of policy mechanisms difficulties encountered at the national level often spill over to the EU level and are sometimes self-reinforcing. As the EU study "Evaluating Coordination, Complementarity and Coherence in EU development policy: a synthesis" (2007) acknowledges, "two general conclusions emerge from these common findings of the three clusters of evaluation findings: The findings indicate that inadequate EU coordination, complementarity and coherence reduces the impact of the EU's development and humanitarian aid efforts and leads to unnecessarily high demands being placed on developing countries human and financial resources. The findings indicate a lack of practical consensus; incomplete efforts and the

137 Not without problems though. The EC faced political opposition from the Northern MS and the UK, who wished to defend the autonomy of their national development policies (including Germany and the Netherlands).

138 According to the Eurobarometer of 2009, 89% of EU citizens acknowledge the importance of EU efforts on development cooperation, although only 24% admit to have some information on this subject.

139 "Increasing the impact of EU Development Policy: an Agenda for Change", Communication from the Commission to the European Parliament, the European Economic and Social Committee and the Committee of the regions (COM(2011)637final).

need for continued broad-based political support if progress is to be made on the application of the 3Cs".

The issue of coherence among development policies has to be analyzed through the lens of the non-development policies (Orbie, 2008). Coherence with other policies, such as agriculture, fisheries, environment, migration and trade, requires intensive horizontal coordination with various DGs and Council formations, beyond the mere activities of information sharing. Despite continuous reforms since the 2000s, compartmentalization of EU external policy is still predominant, making PCD more complicated. The unequal power relations[140] in the Commission are a serious handicap that contradicts the coherence principle in development policies (Bretherton and Vogler, 2006).

The same story again. Good policy intentions do not lead to effective results. The so-called implementation gap bears us in mind the micro-macro paradox of aid. Major findings of Paul Mosley and others (Boone) conclude that it is impossible to establish any significant correlation between aid and growth rate of GNP in developing countries. Empirical evidence showed that higher aid expenditures had had no statistically robust impact on growth or poverty reduction. In contrast, numerous assessment reports from bilateral and multilateral institutions purport that the results of most measures are satisfying. Obviously, such success at the micro-level has not gone hand in hand with desired societal change overall (Faust, 2011). Hence there is talk of a micro-macro paradox. It has to be noted that this is not only an EC based problem, but common to the donor industry overall. This paradox has also been attributed to inadequate assessment practices (Faust, 2011).

The main bulk of discussion about EC development impact is concentrated in its aid effectiveness debate. Despite the outstanding progress achieved by raising these issues to the international agenda at highest level (PD, AAA) and including them in the development policy of the EU (ECD, PCD, EC Code on division of labour), five years of implementation have showed limited progress[141]. The same classical "global" problems of aid fragmentation, proliferation, volatility and country ownership (see chapter 1, section 4.2) continue to hinder development aid effectiveness with intensity (see table 5, Annex 2 "EC Assessment of its Aid impact under the current EUDP, 2011"). According to the EC (2011), "current research[142] shows that since 2005, when the Paris Declaration was adopted, global aid allocation patterns have deteriorated. In general, aid fragmentation has increased in parallel to ODA increases. There is a trend to deliver assistance in smaller parcels. At the same time, donor proliferation has increased: globally, donors are operating in more countries and, within these countries, in more sectors". This overall assessment is not detrimental to some success at the country level, though. This is the case of the EC in Vietnam, Zimbabwe and Zambia, where the EC has

140 In their study, the authors point that DG trade tends to come off best.

141 The OECD's DAC assessed the implementation of these principles and found that, at the global level, donors were successful only in terms of one of 13 relevant indicators. The Brookings Institution, a think tank in Washington, considers this outcome "grim (…) even by the standards of global development, where commitments are regularly professed, but rarely fulfilled".

142 "Trends of In-country Aid Fragmentation and Donor Proliferation: An Analysis of Changes in Aid Allocation Patterns between 2005 and 2009", Report on behalf of the OECD Task Team on Division of Labour and Complementarity, First Draft – 24 March 2011.

concentrated in 4 sectors, close to the target of 3 sectors stated at the code of division of labor.

A major handicap hampering aid effectiveness is the lack of results-oriented monitoring and evaluation systems at policy level. The question of whether policy priorities (and the respective input/output's outcomes) lead to the most favorable results for the poor is usually not raised in EC documents (Eberlei, 2007). Although the EC is increasingly adopting new monitoring and evaluation methods based on results, there is an evident complexity in linking development policies with apparent impacts in poverty reduction, as there are so many other factors intertwined. Likewise, a number of respondents stated that the Green Paper "EU development policy in support of inclusive growth and sustainable development – Increasing the impact of EU development policy" (2010) provided insufficient analysis and evaluation of the impact of current policies. Many of the terms used in the Green Paper needed definition and further clarification, including "high impact", "added value" and "inclusive growth", none of which appear in current EU development policy legislation.

The aforementioned major constraints of EUDP efficiency and effectiveness obviously have a direct implication on the achievement of impacts. Thus, there is a wide-consensus among scholars, policymakers and practitioners that there is no direct evidence that the EUDP is contributing to achieve its overall objective, the reduction of poverty in partner countries (Arts, 2004; Smith, 2008, Eberlei, 2007; Van Reisen, 2007). The real added value of the EUDP is rather found in its political advocacy role of promoting a coordinated global agenda on development, in the promotion of policy coherence and aid coordination among MS and the EC, and among the EC as a global actor with other international global players (Orbie 2008; Carbone, 2010). According to Farrell (2005)[143], "European policy is much less active in addressing the real problems of poverty and instability that are likely to place severe limitations on either achieving economic liberalization or securing broad-based benefits in the long term".

This lack of incongruence of objectives and value-added is preventing the proliferation of apparent positive impacts, and, to a larger extent, it is undermining EU's reputation and legitimacy to Europeans taxpayers (Eurobarometer, 2009), partner countries and other stakeholders. This indirect impact is partially counterbalanced by the increased aid market and industry in the EU, which is involving a vast amount of resources to private consulting firms, national and international NGO's, government staff[144] and related service-structures in partner countries' governments. These stakeholders shape the workforce of aid management and technical cooperation in the aid bureaucracies' process and, most often, retain the know-how of the aid value delivery chain. I will analyze this issue in more detail in the next chapter. This fact, however, it is positively contributing to the sustainability of the EUDP. The European aid industry acts as an important lobbying platform that substantially contributes to give development cooperation a big amount of attention, visibility and resources.

[143] Farrell, "A triumph of realism over idealism".
[144] The EU development personnel accounted for 22889 staff in 2006. See table 6, Annex 2.

2.3 Overview of EC's Aid Architecture

We have seen that the EU (EC and MS alike) is the largest collective donor worldwide, accounting for over half of total ODA provided by the DAC. The EC (as a single donor agency) ODA levels have increased continuously and became the largest EU donor in 2008. As I argued in the introduction of the present work, this section examines the aid architecture of the EC as a donor providing direct support to developing countries. The objective is to concentrate on how the largest and overriding EU donor agency implements and manages its development aid[145]. As a shared competence, the management of development assistance has a high degree of decentralization to the MS. Despite the process of policy standardization by following the common vision of the ECD[146], they all have its own methods of implementation, priorities, and management. For a review of the overall EU ODA figures, see figures 2 to 7, Annex 2.

2.3.1 EC's Development Cooperation. Facts and Figures

As mentioned in the last section, the EC's funding for development cooperation comes from two separate sources: the EDF, representing voluntary contributions from MS; and the Community (i.e., a share of MS VAT, GNI and customs duties). Through the EDF, which accounts for about 30% of EC's development cooperation funding, the EC provides support to 79 ACP developing countries. Through the Community budget, the EC supports developing countries in other regions as well as through the five thematic programs analyzed. The EC also provides risk capital guarantees, interest rates subsidies, and trust fund contributions to the European Investment Bank (EIB).

Currently, the EC is the second largest net ODA provider after the US and the largest multilateral donor agency since 2008, with an amount of USD 13.4bn (DAC, 2009). This represents 11.2% of total global ODA or 19.2% of EU ODA. EC's overall ODA is mostly channeled directly to developing countries, with only less than 8% going through multilateral organizations. Out of the classic EDF and Community procedures, the EC is venturing into a new role as development actor as financial platform for multi-donor contributions outside of its seven-year fixed budget cycle with the EU-Africa Infrastructure Trust Fund and the Neighborhood Investment Facility (Kitt, 2010). However, these amounts are small compared to the size of the other programs (€180mn, roughly). These initiatives can be considered as a European variant of initiatives traditionally falling within the scope of the WB (Orbie and Versluys, 2008).

[145] "The EC is unique among the members of the DAC in that it both provides direct donor support to developing countries and plays a federating role with the other institutions and Member States of the European Union". DAC peer review of the EC (2007).

[146] Under the EDC, MS and the Commission are committed to poverty reduction and the pursuit of the MDGs as the primary objective of EU development cooperation, and to act under the principle of complimentarity. The consensus also clarified the Commission's role in ensuring policy coherence, promoting development best practices, facilitating coordination and harmonization, promoting democracy, human rights, and good governance. The EU's emerging common approach is apparent when looking at the requirements new members have to fulfill. Every state joining the EU is expected to set up a bilateral aid program and to honor existing EU commitments such as those under the Paris Agenda on aid effectiveness

In contrast to the ECD statement[147] that the EC's allocation priority is to support LDCs, the EC rather targets middle-income countries, reflecting the EC increasing concerns in security and neighborhood. This is in line with the fact that the top recipient countries are either neighbors or security anchors, with Turkey ($611mn), Palestina ($601mn) and Afghanistan ($372mn) heading the top three list of ODA recipients in 2009. Middle income countries, with $5292mn even exceed the sum of LDCs and other low income countries together ($4973mn) in 2009. See Figure 8, Annex 2 "EC ODA to developing countries in 2009" for a detailed overview of the EC ODA data. This figure contrasts with MS, which in turn usually prioritise LDCs instead (Kitt, 2010; Bonaglia, 2006; Orbie, 2008).

The regional distribution of ODA agrees with the budget allocation of financial instruments analysed in the section above. Africa, in particular Sub-Saharan Africa- has always been the region benefitting the most of the EC development aid. Despite some ups and downs since the 1990s and a slight decrease overall, the regional preferential treatment in favor of Africa has remained stable and far ahead from others, with $4868mn flowing to Sub-Saharan Africa in 2009. The main novelty from past years is the increased disbursements to Asia, amounting $1769mn in 2009. Europe and America follow next ($2041mn and $1114mn, respectively).

By sector, although the EC is perceived to have a comparative advantage on economic infrastructure (Kitt, 2010), the large supported field is social infrastructure and services to a large extent (roughly 32%). Economic infrastructure only accounts for 15%, and support to production a tiny 6%. Given that, besides, the preferred region of EC's ODA distribution is Sub-Saharan Africa, the sectoral distribution of ODA does not fit with the reality of the majority of Sub-Saharan African countries, which are highly dependent on agriculture. It is the dominant economic sector and, above all, plays an essential role in rural and overall economic development. More than 60% of Africa's active labor force earns a livelihood in the agricultural sector. Moreover, it is the primary source of employment for the poor, and is characterized by high female labour participation. Hence, and advancement of agriculture has the potential to greatly contribute to the achievement of MDGs (OECD, 2007). Stronger agricultural growth can also trigger development in the off-farm sector through production and expenditure linkages associated with higher agricultural income. I will come back to this point in chapter 4, in the analysis of the role that agriculture plays in the development of Tanzania.

Since the beginning of the 2000s, a substantial amount of resources have been allocated to program assistance or unspecified sectors through budget support (including both general and sector support). The amount of BS has enormously increased from €1bn in 2000 to €3.8bn in 2008, and the main bulk was provided to the ACP countries through the EDF, with a total share of 42% in 2008 (14.3% in 2000). The EC is one of the main proponents of BS, as it conceives it as a key instrument for operationalizing "ownership, alignment and the use of country systems", essential elements of the aid effectiveness

[147] The ECD states that "the EU will continue to prioritise support to least developed and low income countries". This statement is qualified, though, by adding that a continuing commitment to the medium-income countries is justified on the ground of their large low income population, inequalities, weak governance, and important role in political, security and trade issues, and as regional anchor.

agenda. However, as I have argued before, the notion of supporting country ownership as it is presently understood does not necessarily carry the support of country needs and, quite often, it is even detrimental of the objectives of poverty reduction and sustainable development (see section "Assessment of EUDP").

Compared to the ODA delivered by total DAC countries, there are no substantial differences. Overall, ODA allocation to developing countries follows the same patterns. The most significant differences are found at the regional distribution. Whereas the EC's priorities are clearly looking at Africa and Europe total DAC countries show a similar share to both Africa and Asia, with a limited budget flowing to European countries. The total DAC sectoral distribution of ODA is also quite similar to the EC, except the EC's preference of BS modality, which inflates the amount of program assistance to developing countries compared to the total of DAC countries (see figure 8 and 9, Annex 2 for a comparative analysis of EC vs total DAC ODA distribution).

2.3.2 The EC as a donor agency: Organizational structure and main functions

The technical management of development cooperation assistance at the EC is characterized by its complexity. Despite several reforms that are pointing at a simplification of procedures, the management structure of the Commission remains complex. Until 2010, development cooperation was managed in addition to the three policy departments involved (development, external relations, enlargement) by the Europe Aid Cooperation Office. Since 2011, though, DG Development has finally merged into EuropeAid (formally known now as the DG Development and Cooperation), as a clear attempt to strengthen a more coordinated implementation and management of development cooperation at the EC. EuropeAid becomes the single interlocutor for EEAS and for all sectoral DGs.

However, humanitarian assistance, which accounts as ODA, is the responsibility of another department, ECHO (DG Humanitarian Aid). Moreover, DG Trade, also deeply involved in development issues, is not conceived under a more horizontal relationship with other related development DGs. In addition, the fact that development cooperation is funded from two distinct instruments, the EDF and the EC Budget, each with its own rules and procedures adds to this complexity. Despite continuous efforts from the EC and the EP, the Council of Ministers has always rejected the idea of EDF's budgetisation, for the reasons mentioned above.

Despite the complexity issue, that hampers the desired policy coherence of the EC and therefore its aid effectiveness, EuropeAid is in charge of designing EUDP and delivering development aid via both project and program assistance. This is done through the regional and thematic financial instruments of the EC's development cooperation, analysed in section 2.3.

EuropeAid is responsible for formulating development policies and translating them into practical actions, and for developing new ways of delivering aid. EuropeAid also issues guidelines and makes evaluations of EC's programme implementation. In addition, it is responsible for the proper management of funds and must use clear and transparent tendering and contracting procedures. EuropeAid works closely with MS development agencies, UN Agencies, and international financing institutions, such as the

World Bank. It also maintains a dialogue with NGOs, consultancies and other non-state actors both in the EU and in the beneficiary countries. The agency operates for policy design and policy implementation based on the ECD and drawing from the EU Green Paper for development policy for the future.

EuropeAid is chaired by Director-General Fokion Fotiadis, and operates under the guidance of Commissioner Andris Piebalgs. It comprises 10 directorates and five units directly attached to the Director General. Four of the directorates are geographical, two oversee the quality of operations and the thematic operations, one is responsible for organisational issues, and three ensure policy-making based on the EDC.

The Directorates performs a wide array of functions: planning for the implementation of activities by country and by region, and pass on guidelines and instructions to delegations for project identification and appraisal; methodological coherence and quality assurance, in collaboration with the directorate for operations quality support; management of procedures culminating in a financing decision; support to delegations that manage devolved programmes, or direct management for operations that cannot be devolved; thematic development policy-making and ACP-related issues.

Four geographical Directorates cover Europe, the Southern Mediterranean, the Middle East and the Neighbourhood Policy, Latin America, Sub-Saharan Africa, the Caribbean and the Pacific and Asia and Central Asia. These Directorates are responsible for managing the entire project cycle, from identification to final evaluation. Work is carried out by EuropeAid from its headquarters in Brussels or, for devolved operations, via the EU Delegations in coordination with the EEAS.

Directorate E oversees the quality of cooperation programmes and aims to improve their effectiveness and impact. It is responsible for: coordinating assessments on sectoral and thematic approaches and instruments for their implementation; developing and distributing methodological, sectoral and thematic guidelines for the preparation and implementation of programmes in the various EU aid sectors; providing support, when requested, to delegations and geographical directorates in relation to the preparation, implementation, monitoring and evaluation of programmes.

Directorate F is responsible for thematic operations overseeing all horizontal programmes (on Non State Actors, human rights, election support, protection of the environment, food security, gender, health, migration and asylum, nuclear safety and on stability) that are not linked to a particular geographical area.

Finally, Directorate G provides the human, financial and technical resources needed by the DG to perform its mission. Directorates H to J are the policy-making pillars of the newly established DG. See Figure 10, Annex 2 for the organizational structure of the brand new EuropeAid.

2.4 EC's Aid Delivery Methods. Shaping the EC DC Model

As we have seen, EuropeAid's core responsibilities are the formulation of EC's development cooperation policies and their implementation. Having widely reviewed the EUDP, the aim of this section is to analyse the means whereby the EC translates their development policies into practical action in developing countries. These means are the so-called Aid Delivery Methods (ADD). In words of the EC[148], they are designed to deliver development aid "in an efficient and effective way if it is to benefit those who are most in need". The ultimate goal of this analysis is to check whether EC's aid is effectively reaching the neediest and in which ways is taking into account the real needs of the poorest.

EuropeAid follows three approaches to aid delivery: the stand-alone project approach, the program/sector-based approach and the macro/global approach. These operative approaches are complemented by three financing modalities: the use of EC procurement and grant award procedures, the use of a common pool of funding, and the use of budget support.

The Commission promotes the program/sector approach to work with partner countries, other donors and stakeholders. The program approach gives partner governments greater ownership of development policy and financing compared to the project approach. The expected result is greater coherence between the allocation of internal and external resources, spending and expected results.

Where the conditions are right, the Commission is committed to providing budget support as a means to strengthening country ownership, financing national development strategies (including poverty reduction strategies) and promoting sound and transparent public finances. Budget support involves the direct transfer of funds to a partner country's budget where they can be managed using national systems. Those receiving aid in this way must display sound macro-economic policies, and take steps to improve public financial management. This method of aid delivery has become increasingly important in recent years and the preferred financing modality by the EC.

2.4.1 Stand-alone Project Approach vs. Program/Sector based Approach (PBA)

The EC has been increasingly giving more room for supporting PBA than financing stand-alone projects in developing countries. This pattern fits with the overall tendency initiated in the 1990s toward the generalized emergence of BS modalities as part of the new aid paradigm. Likewise, the EC has been an active proponent for the benefits of BS in enhancing aid effectiveness principles. Despite the predominance of the PBA over the project approach, both modalities coexist in a complementary framework.

Thus, the project approach is used to support initiatives outside the public sector, such as through civil society and the private sectors. Projects are also implemented where conditions do not permit the adoption of a sector approach or a budget support. The PBA[149], on the other hand, is a concept widely used among partner countries and donors at the public sector level. PBA is defined in the DAC guidelines as a way of engaging in development cooperation based on the principle of coordinated support for a locally owned program of development. It should involve leadership by the host country, a single comprehensive program and budget framework, as well as a formalised process

[148] EuropeAid Online (2011).

[149] A sector approach is a PBA at the level of an entire sector. The PBA is a loose and flexible concept covering different types of programs including those at sub-sectoral level or in new areas where classical sector terminology and features do not apply.

of donor coordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement. Another important feature are efforts to increase the use of local systems for program design and implementation, financial management, monitoring and evaluation.

The shift towards an aid paradigm based on the preference of PBA obeys primarily to the intention of the donor community to foster the principles of country ownership and alignment, thereby giving more responsibility of the development process to the partner government. There are several differences that characterize the development model under a PBA paradigm. As I just mentioned, in a project approach paradigm donors decide which projects they would implement, whereas in a PBA projects form an integrated part of a sectoral strategy designed by the government of the partner country. Donors have passed through a stage where they implement their projects to a scenario in which the partner government implements its strategy (including projects).

In a project approach, donors exchange information to avoid duplications in their interventions, in the attempt to coordinate actions and block overlapping. In a PBA, the partner government leads donor coordination. In that process, donor procedures to aid coordination translate into an increasingly management of development aid according to national procedures for public management of the partner government.

Another important difference in the new aid paradigm is that, while in project approach aid finances mainly capital goods, in the PBA aid finances both investment and recurrent costs. Donors care for the output of their own projects in a project approach framework, while partner governments and donors focus on the outcomes of the government's strategy with mutual responsibility. They have left an era where donors and government acted parallel in favor of an era of partnership between donors and the recipient governments.

2.4.2 The New Aid Paradigm

In the PBA aid paradigm, aid supports the implementation by the partner government of its development strategy at sector or general level. Thus, it places a great deal of responsibility to developing countries' governments, which are supposed to have the institutional capacity to implement and manage its national development strategy. The key elements that strengthen the use of country mechanisms of partner governments are the following: more leadership and ownership by the host country, more efforts to increase the use of local systems, single comprehensive program and budget framework and the set up of a formalized process for donor coordination and harmonization procedures.

If the partner country wants to receive aid, it has to adapt its processes to the requirements of donors. In particular, it is invited to have a vision, mission and costing plan (the Sector Policy); it requires an operational framework (the Sector Program) and its corresponding support program with financial and technical assistance for the implementation of the Sector Program; and finally it needs to maintain a regular sector policy dialogue with donors.

Therefore, a PBA (or a sector program) has three main axis: the recipient-led coordination process, the sector program (strategy) and its corresponding budget. The cornerstone of this process is the institutional capacity of the recipient government to implement such strategy and manage the budget accordingly. The EC's instrument to contribute to the implementation of a sector program is called the Sector Policy Support Program (SPSP), which can be implemented through three financing modalities: via specific tendering and grant award procedures of the EC, via a common pool of funds and via budget support (the latter being the most common modality). The SPSP, independently of the financing modality adopted, consists in the disbursement of the money against the provision of several conditions discussed in an endorsed policy dialogue. The policy dialogue might address the key issues involved in the design and implementation of the government's policy/strategy and the donors' contribution to the implementation of this policy.

In practice, the EC analyses some assessment areas in order determine the success of an aid program, and subsequent monitor progress during the start and the implementation process of the aid delivery. These areas[150] are based on the policy results chain, which encompass the whole process. First, it assesses the national and sectoral policy, which set priorities, phasing, strategic planning and medium-term financing (policy strategic framework). Second, the EC assesses the operational planning through the approved annual budgets and its medium term expenditure patterns. Third, the budget spending then enters in a key area that is critical for the implementation of the program, the public financial management (PFM). Fourth, in order to be aware of the performance of the PFM systems, the EC assesses its performance monitoring. This is also carried out through an assessment of the institutional capacity of the partner government, the fifth area. Finally, the whole process of the chain is complemented by a regular assessment of the macro-economic framework, which is mainly done through the IMF assessment reports and the sector coordination with other donors, which have their own systems.

The assessment of the entire policy process is extremely complex. The EC's standards of measures are based on its own, and therefore the analysis is made based on a comparative approach vis-à-vis the partner government. It is essential for the EC to ensure whether a policy is in place (or that technical assistance is required to elaborate one) and that this policy and strategy merits support. Thus, it might assess whether the government authors the policy and domestic stakeholders, endorsed by the cabinet and parliament, elaborated with consensus, track record of previous policies and assess potential political consequences.

The performance instruments of the EC are still scarce. The main instrument to assess the PFM capacity of a recipient government is the public expenditure and financial accountability or PEFA, which was a success of donor harmonization as the different donors of a given country use it jointly. Its goals are to strengthen the ability of partner countries and donor agencies to assess the condition of country public expenditure, procurement and financial accountability systems, and develop a practical sequence of reform and capacity-building actions[151]. At a general level, there is a Performance Assessment Framework (PAF) developed by recipient governments. It is a set of regular

[150] See section 2.3 – 2.6 (chapter 5) of the EC Guidelines on Sector Programs.
[151] See World Bank – PEFA Online.

performance measurements aimed at enabling managers and stakeholders to assess progress in achieving a set of outcomes reflecting all key dimensions of the system being monitored. However, all recipient countries do not always develop a PAF.

The critical factor for the success of PBA is the institutional capacity of the recipient government to efficiently and effectively manage the whole policy process. However, this assumption, if applied to LDCs, is a sort of oxymoron. LDCs are widely known for having lack of capacity and inadequate infrastructure that seriously constraints their capacity to manage aid programs successfully. A UN report[152] points out that in many LDCs the existing financial management subsystems are failing to cope with the demands placed on them. Planning systems have typically lost credibility with the failure to achieve targets in earlier plans. Budgets are often poor predictors of financial out-turns and rarely act as an effective resource allocation tool. Accounting systems are being asked to handle government transactions of a scale and complexity not envisaged when the systems were designed, and government accounts are often years in arrears. Auditing, both internal and external, has often been ineffective, even for compliance control, and virtually never for performance enhancement. Financial regulations are typically outmoded, with inadequate delegation or financial powers. Within this environment there are rarely adequate information flows, and such information as exists is often either late or unreliable, or both. Corruption and "leakages" from the system exist to varying extents in many LDCs. Conditions existing in these countries do not form an encouraging background for high-quality public financial management. This is often carried out under difficult conditions, sometimes with quite rudimentary resources. The skills necessary for good financial management are likely to be absent, or at least in very short supply.

Against this backdrop, it is extremely difficult that PBA can have significant impacts in poverty reduction. In the attempt to increase country ownership, the clash between donors' systems and procedures versus recipients' ones can have negative externalities. Lister (2006), in its Synthesis Report, raises questions about the appropriateness of donors pushing recipients hard to adopt policies with such a strong focus on addressing immediate and short-term poverty problems. On a number of other issues, the Report concluded that even PBA reinforce the principle of ownership of development strategies, the emphasis on poverty reduction was overly donor-driven.

PBAs also carry the difficulty of tracing the relationship between the program aid provided and its wider impact (Riddell, 2007). Thus, it is not surprising that the extent of assessments is varied. Jones (2000) argued that overall PBAs have been disappointing. For their part, Foster and Mackintosh-Walker (2001) confirm that many PBAs have directly, and sometimes indirectly, stimulated an expansion of overall sectoral funding, but that the picture is mixed in terms of direct benefits to the poor, with some of the benefits accruing to poor people attributable to other influences beyond the PBAs.

There is little evidence too to suggest that aid provided through PBAs has lowered the cost of providing aid, one of the reasons advocated to foster this modality. General

[152] "Integrated Financial Management in LDCs", UN (1999).

reviews of the different transaction costs involved in implementing PBAs found little to no evidence that these costs are lower (Killick, 2004). A WB study concluded that more donor staff time was involved in monitoring and participating in PBAs, and a study of the Namibian education PBA concluded that the workload of the ministry was higher than before the PBA was implemented (West, 2003).

In some cases, experience indicates that the biggest problem with sector policies is that they are often made as an instrument for fund-raising, rather than as a clear assignment of available resources. "Wish-list policies" abound, and sector authorities are often very, very reluctant to make hard choices in policy documents. There are good reasons for this: by having a wish list you do not need to make choices which important constituencies would not like, and you always have an escape clause: the policy failed, maybe, but that was because you did not get the resources – so it was not the sector's fault.

The poor record in development aid impact has not changed under the new aid paradigm. Impact evaluations continue to be donor-driven. First and foremost, there is a strong deficit of results-oriented impact evaluations (Riddell, 2007; Eberlei, 2007; DFID, 2002). They are mainly based on input-output schemes and conducted under the specificities of each donor. Although there has been a progressive harmonization on criteria, they are not implemented under a counterfactual approach. A Concord[153] Report states that only seven out of 164 impact assessments done by the EC have looked into how the EU policies impact on developing countries. Although the EC has allocated more resources to include evaluation processes to its development aid organizational structure, there is little evidence on how this process is contributing to increase the efficiency and effectiveness of aid.

2.4.3 Budget Support, the preferred EC's Financial Modality

PBAs are financed by the BS modality by a large extent. Indeed, the EC is one of the biggest providers of BS worldwide (and one of the main proponents), being the most preferred financing modality for ACP countries. Therefore, the analysis of EC's BS provides a good hint of how the EC is delivering aid aimed at improve its effectiveness. As mentioned in the first chapter, under this modality donors' financial contributions are transferred to the state budget of the partner government. The government according to its own procedures manages these resources. The EC does not provide a blank check. The partner government must accomplish the eligibility criteria imposed by the EC. This conditional mechanism is based upon three criteria: a well defined (general/sectoral) policy or strategy is in place or in elaboration; a credible and relevant program to improve public financial management is in place or a reform program in implementation; and a macroeconomic policy focused on stability is in place or and adhered to. Thus, the financial modality of BS involves an operational framework, which is the so-called National Development Strategy of Poverty Reduction Strategy Paper, and a regular national policy dialogue between the donor and the partner government.

[153] Concord is the European NGO confederation for relief and development. It published the Report "Spotlight on EU Policy Coherence for Development" (2011).

There are two main types of BS. General Budget Support (GBS), which is the transfer to the national Treasury in support of the national development strategy, macroeconomic and budgetary framework of the partner country, and Sector Budget Support (SBS), which encompasses the transfer to the national Treasury in support of a sector program and spending framework. SBS is the preferred EC's BS modality.

The origins of BS are found in the attempt to improve aid effectiveness. In particular, its advocates argue that BS contributes to strengthen national processes and systems, enhance country ownership, facilitate harmonization, reduce transaction costs, and so improve prospects for better public spending and faster achievement of development goals. The process of transferring the responsibility to manage development aid throughout the partner government's procedures means that more implementation activities move from the donor to the partner government and, therefore, the more effectiveness of aid depends on the partner government's capacities to design policies, strategies and to implement programs.

However, this assumption is over-optimistic. In practice, there is a worrying track record. As mentioned before, the approach is mainly supply-driven. In an attempt to enhance country ownership, conditionality turns out to replace ownership and donors do not ensure that agreed reforms are demand-driven and supported by the government. In general, conditionality should not represent a wish list of donor priorities but focus on a limited number of mutually-agreed key issues or reforms, aligned with the national poverty reduction strategy (EP, 2011). Furthermore, the main policies are geared towards the production of outputs not results. In most cases, especially in LDCs, there are mixed standards of experts' quality and an overreliance on donors' commercial providers through technical assistance[154]. The transfer process is overcharged with parallel program implementation units (outside country structures) that absorb resources and do not develop capacities. This leads to an unsatisfactory tracking of technical assistance performance and the undermining of a cost-efficient value chain that does not deliver good value for money to the direct beneficiaries[155].

Again, reality differs from theory. The EC, aware of these constraints, elaborated two key documents to address technical cooperation[156] from the EC to the partner countries to support its reform process to better adapt its own procedures to meet the conditions imposed for a BS recipient. These documents are "A backbone strategy: reforming technical cooperation and project implementation units" (2008) and "Guidelines on technical cooperation and program implementation units". These documents' aim is to

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[154] The EC and the partner government agrees to set up capacity building programs to improve the partner's government own procedures through technical assistance/cooperation delivered by European consultants contracted by European private consulting firms.

[155] According to the DAC, capacity is indispensible for country ownership and leadership of its policies and programmes. It is central to sustainable national develpment. Work on this topic is most commonly referred to as capacity development, capacity building, or statebuilding. Donors aim to improve capacity building through technical cooperation/assistance programs.

[156] According to the EC (2009), technical cooperation (often also referred to as Technical Assistance) is the provision of know-how in the form of personnel, training and research aimed at augmenting the level of knowledge, skills and productive aptitudes in partner countries. While the primary responsibility for capacity development lies with the developing countries, donors are playing an important supportive role.

improve effectiveness and sustainability based on the provision of quality TC that supports country-led programs, based on demand by the partner and focused on sustainable results, and the provision of support through partner-owned project implementation arrangements, replacing Project Implementation Units.

As a result, the risks taken into account as exceptional turn out to be the normal situation or context in which donor-recipients relationships operate (see table 7, Annex 2 "GBS: potentials and risks"). Reform and development risks, which foresee that the partner country and EC objectives are undermined by key factors such as ownership, macro-stability and PFM quality are predominant in most LDCs. Fiduciary risks are high, and most of the LDCs do not have strong national control mechanisms to effectively monitor the public expenditure of the budget for development purposes, with weak parliamentarian and civil society monitoring systems (EP, 2010). A proof to the exceptional character of this risk is that the EC does not even directly mention fiduciary risks or how these fiduciary risks can best be managed and controlled (EP, 2011). In addition, EC programs in fragile countries might jeopardize the EC's reputation and thereby undermine confidence of EU tax payers in the end, although there is a big gap between EC's tax payers' interest in supporting development purposes and their level of information awareness (Eurobarometer, 2009).

After some monitoring of BS studies conducted (EP, 2010 and 2011; DFID, 2008; IDD, 2006), there are some general problems linked to its implementation. At the instrumental level, BS hardly applies to sectors in which the government has mainly a regulatory function, like the private sector or trade. The best records of impact obtained by BS evaluations precisely recommend the use of BS to social sectors like education and health. BS is difficult to implement in support of multi-sectoral strategies, as in the case of rural development, for the difficulties in holding a true policy dialogue with involved line ministries (it is normally the Ministry of Finance in charge of the dialogue, being other line Ministries reluctant to collaborate in partnership). BS does not naturally favors a participatory approach to decision-making. The weak participatory mechanisms and the time-pressure imported by the donor do not allow it. Furthermore, as mentioned in the section above, BS results are extremely complex to evaluate due to the difficulty to conduct attribution and counterfactual analysis. Instead, evaluations are conducted based on a contribution analysis[157].

On the partner governments' side, they may refuse the intrusive character of the policy dialogue with donors. As a mode of example, the conduction of evaluations of BS at partner country government finds serious difficulties in setting up an agenda with key stakeholders and, once set, interviews are often characterized by the lack of will and trust by the partner counterpart. Government underestimates what BS implies in terms of performance monitoring and policy dialogue with the donors. While Ministries of Finance are generally favourable to BS, for obvious reasons, line ministries are normally

[157] See Mayne, J. (1999) Addressing Attribution Through Contribution Analysis: Using Performance Measures Sensibly. Discussion Paper. Ottawa: Officer of the Auditor General of Canada (page 7), and Iverson A. (2003) Attribution and Aid Evaluation in International Development: Literature Review, IDRC.

more reluctant. Moreover, Ministries of Finance and line ministries lack experience in working together and coordination, which is critical, becomes complex.

On the donors' side, donors do not always have the capacities needed to effectively carry out the policy dialogue with the government. Tanzania, one of the top recipient countries of EC's aid in Africa, does not even have a robust policy dialogue with the EC despite the large amounts of BS disbursed[158]. As previously discussed, whereas capacity development is critical to the success of BS, donors do not (yet) have found an effective approach to supporting capacity development. A major reason could be that donors are under pressure to disburse and thereby overemphasize its focus on the short term, while capacity development is a long-term process.

In line with the impact of PBAs, few studies of BS impact have been undertaken. The main ones have been developed by Lister (2003) and Lawson et al. (2005) and recently by main donors (EC, 2010; DFID, 2008). Against the backdrop of donors eager to show that this form of aid "works", these studies express considerable reluctance to make sweeping generalizations about the merits and impact of BS (Riddell, 2007). The core problem is that BS is extremely complex: it is exceedingly difficult to trace through the effects on poverty and income levels of adding aid to overall budgetary resources.

It seems that the shortcut that the EC thought to better reach the PD on aid effectiveness is a "one-size-fits-all" approach that does not fit well within the partner government's context and reality. BS, far from being a characteristic trait of the EC, is widely used by the rest of the DAC donor community in this process of IAA standardization. The use of BS is a common practice that characterizes the exogenous donor-driven supply of aid, far from the poverty context of multidimensionality tailored to the local level and mainly targeting partner governments instead of final beneficiaries with a one-recipe approach. Donors rather focus on the expenditure side and too little on the income side of the budget.

2.4.4 Project-Approach, still Widely Used

Despite the rapid expansion of PBAs and BS as a major development aid financial modality, traditional project approach is still widely used. While there is obvious competition between project and PBAs approaches, they coexist in all the aid delivery methods portfolios of major donor agencies. One of the firsts studies, conducted by the IMF that empirically tested a comparison between both methods, found that the relative effectiveness of these two forms of aid depends on the size of the aid between the objectives of donors and recipients. In particular, it shows that BS is preferable to project aid when total aid is small relative to the recipient's own resources, while project aid is superior for relatively large programs. In addition, project aid is preferable to BS when the preferences of the donor and those of the recipient government are relatively far apart (Cordella and Dell'Ariccia, 2003). According to these findings, a fragile aid-dependent state with divergent development objectives is more suited for project aid rather than BS.

158 According to interviews with EC Delegation in Tanzania and EC Tanzania Desk Manager (2009).

All in all, what is clear is that project aid is still an important method. In 2006, the EC's delivered 50% of its development aid through project assistance, while this share has diminished to 40% in 2010. EuropeAid is in charge of managing the projects that are aligned to the respective financial instruments. In particular, projects implemented through the DCI, for example, are implemented mostly by NGOs, the private sector and other NSA, in an attempt to counterbalance the majority of aid delivery to the public sector of partner countries. Each thematic area of the financial instruments has its own budget. This budget is allocated following the financing modality of tendering and grants awards procedures of the EC. This implies that once the instruments are assigned with annual action programs, the respective call for tenders and proposals are launched and open for application. Once EuropeAid evaluates and chooses the preferred projects, it signs a contract services or grant contract with the project implementing authority, which is usually an NGO, private company or NSA. The implementing organization commits to deliver the project in terms of technical cooperation or assets (it depends on the objectives of the project) to developing countries and to follow certain project management guidelines by the EC.

These guidelines, designed by the EC, are set up in the terms of reference and application form in the project selection procedures. First and foremost, EuropeAid aims to ensure project management in a way that guarantees convergence with EU and partner country policy objectives (see figure 11, Annex 2). In line with aid effectiveness principles, projects must support country-owned policies, must be sustainable and have realistic objectives. EuropeAid manages projects following the Project Cycle Management (PCM) Guidelines. The agency is responsible for all phases of the project cycle and works with project implementing partners to ensure the achievement of the objectives of the programmes established by the EC respective DGs.

The PCM is the method also employed by the rest of international organisations (UN agencies and non-profit organizations to carry out and manage development projects and programmes). The PCM provides with a consistent approach to all components of the intervention cycle. It aims at ensuring beneficiary-orientation, a comprehensive perspective on interventions (feasibility and sustainability) and effective monitoring and evaluation. It articulates the different phases of a project and, being a cyclical course, allowing to constantly verifying, monitor and eventually reassess the project logic.

The PCM has 5 phases (see figure 12). First is programming. During this phase the main objectives and sector priorities for intervention are identified, and indicative programming and strategy documents drafted. The problem analysis with verification of ideas takes also place at this stage of the project cycle. Second is identification: during this phase a pre-feasibility study is carried out and a preliminary project proposal is drafted and the consistency and relevance of the action proposed is assessed against the policy and strategy frameworks programmed. Third, formulation: in light of the results of the feasibility study to be carried out at this stage, the project proposal is finalised and equipped with a sound activity and financial plan. Fourth, implementation: during this phase the project activities are implemented, the results obtained and the project purpose achieved. Process monitoring and evaluation are planned and executed throughout the project life and/or during specific phases. Fifth and last, evaluation/audit: in this final phase the end-of-project evaluation takes place in order to assess the efficiency, effectiveness, impact, sustainability and relevance of a project in the context of stated objectives. It is usually undertaken as an independent examination with a view to drawing lessons that may guide future decision-making.

According to the EC, a project is a series of activities aimed at bringing about clearly specified objectives within a defined time period and with a defined budget. It should have clearly identified stakeholders, including the primary target group and the final beneficiaries; clearly defined coordination, management and financing arrangements; a monitoring and evaluation system to support performance management; and an appropriate level of financial and economic analysis, which indicates that the project's benefits will exceed its costs.

The Logical Framework Approach (LFA) is the analytical and management tool used by most multilateral and bilateral aid agencies, international NGOs and by many partner governments. It is a core tool used within the PCM. The LFA should be thought of as an 'aid to thinking' which allows information to be analyzed and organized in a structured way. This approach summarizes in the Logical Framework Matrix (LFM), which consists of a matrix with four columns and four (or more) rows, which summons up the key elements of a project plan, namely: the project's hierarchy of objectives (Project Description and expected Outputs); the key external factors critical to the project's success (Assumptions); how the project's achievements will be monitored and evaluated (Indicators and Sources of Verification). For the general structure of the LFM and a brief description of the type of information it should contain see table 8, Annex 2.

There has been a long-standing debate on the analysis of the project approach as the most suitable aid delivery method for development aid agencies. Measuring the impact of official development aid projects is not something new. Twenty-five years ago Robert Cassen attempted to assess comprehensively the impact of official aid in the publication "Does aid work?" (1986). Five-years ago, Roger Riddell made a rigorous and robust analysis of the impact of aid in his widely cited "Does aid really work?" book (2007). Many other studies have been made, an the overall conclusion appears to be that evidence of impact from cross-country studies do not show anything conclusive, either positive or negative, about the relationship between aid an overall economic growth. The debate is still alive. But the assumption of the micro-macro paradox (Mosley, 1987) has rooted along the development aid community sphere.

But this is not the main issue of this section. Looking at the micro level of projects, the aim is to know the underlying causes that make some projects succeed and others fail without questioning whether the project approach is a convenient method for delivering development aid, as it is assumed that it is one prevailing method of aid delivery with its weaknesses and strengths alike. The weaknesses identified for traditional project approach have been the major force that provoked the shift towards PBAs and budgetary support. The EC outlines the following weaknesses to this approach in its PCM Guidelines: inadequate local ownership of projects, with negative implications for sustainability of benefits; the huge number of different development projects, funded by different donors each with their own management and reporting arrangements, has resulted in large (and wasteful) transaction costs for the recipients of development assistance; the establishment of separate management, financing and monitoring/reporting arrangements has often undermined local capacity and accountability, rather than fostering it; and the project approach has encouraged a narrow view of how funds are being used, without adequate appreciation of the 'fungibility' issue. In addition, the project approach has the potential lack of coherence between sector policy and resource allocation and it focuses on outputs rather than on outcome and impacts.

In the same line, the WB states that "aid agencies have a long history of trying to 'cocoon' their projects using free-standing technical assistance, independent project implementation units and foreign experts – rather than trying to improve the institutional environment for service provision…. They have neither improved services in the short run nor led to institutional change in the long run".

The weaknesses of the traditional project approach -the dominant delivery method of early years of the IAA- combined with the long-standing inability of the development aid system to eradicate poverty, contributed to spot for new methods with new approaches. Hence PBAs and BS in particular became and alternative in the road to fulfill the targets of the PD on aid effectiveness. Fifteen years of BS practical evidence also suggest that the new aid paradigm has not become the expected solution to aid effectiveness constraints and, in the end, to poverty reduction.

Thus, project approach is still widely used today and sometimes even the preferred method for some aid agencies, such as USAID, which has a lesser degree of confidence in recipient countries' systems and procedures for the management of US development aid. The main purpose of most ODA-funded development projects is to achieve specific and concrete outputs, with many projects fulfilling some form of gap-filling role: providing resources, skills and systems which the recipient country needs (Riddell, 2007). A project approach is also recognized to be appropriate for financing preparatory activities of capacity building, protecting the partner government from high transaction costs and accommodating legal and constitutional constraints within the partner country.

In 1999, the EC launched the Results-Oriented Monitoring system (ROM). It provides the EC with a wide range of quantitative and qualitative data on the performance of the development projects and programs which receive EC financial support[159]. ROM serves not only as a tool for day-to-day project management by informing stakeholders about the performance of a specific project, but it also contributes to general EuropeAid policy articulation, implementation and review.

In the past few years, ROM has covered all regions and virtually all countries that fall under the Commission's external cooperation activities, annually providing approximately 1600 reports on 1400 ongoing projects and programs. In 2007 an estimated 43% of the overall EC development aid portfolio was monitored through this system. ROM information has primarily been used to support management at individual project/program level whereas its use to draw overall conclusions has only been

[159] ROM was launched in response to the recommendation of the Council of the European Union of May 1999, which aimed at strengthening monitoring, evaluation and transparency of Community development aid.

partially attempted. The ROM contractors' annual reports have responded to EC aggregate reporting needs by converting the performance scores of individual reports into numerical values. These numbers are used for the subsequent calculation of average ROM scores for regions, sectors and themes, followed by a comparison between the (slight) increase or decrease in the quantitative value of the scores. This numerical focus shows some comparative data; however, it does not answer the key question of why some projects are performing very well and others are not.

To this aim, the EC (2009) commissioned the first study[160] aimed to provide a better understanding of the characteristics and explanatory causes behind good or poor performance of EC funded Development Cooperation interventions[161]. The study outlines twelve factors that influence the project performance for either good or bad. Among these factors, six have been resulted as factors for poor performance, although the ability to convert them into positive could translate them into factors for good performance, and the same applies for the good performance factors, that could turn out to be poor if addressed in the opposite direction.

Mentioned poor performance factors are the following. Weak analysis and problem identification in the ex ante phase prior to project formulation leads to projects with crucial flaws. The identification phase with flaws in the design of the project seriously hamper the implementation of the action, despite robust technical project management tools in place such as the PCM and the LFM. These flaws come from a weak analysis of stakeholders, problem and strategy and inappropriate institutional capacity assessment.

Projects with apparent formal, strategic relevance (for EC or partner government) that does not correspond to real relevance for the target groups and final beneficiaries due to their limited involvement in the identification and planning cause low levels of ownership. Attention given to the beneficiaries appears as a major factor behind poor performance when neglected and behind good performance when observed.

Overambitious formulations in terms of a mismatch between allocated resources and planned objectives impede the attainment of results. The overoptimistic behavior of the EC in pledging aid commitments and ambitious objectives constraints the achievement of expected results.

In addition, the fact that the EC does not conduct an in-depth and adequate risk management assessment renders the project highly vulnerable towards foreseeable assumptions. The lack of commitment of the partner government from the start of the project appears to be the most sensitive external factor to an adequate identification of assumptions.

Another factor is the weak results-managed system. Despite strong EC institutional commitment towards follow-up on results, EC aid delivery is still heavily focused on inputs and activities. The primary consequence of this absence is that the results/effects of the EC aid portfolio remain unmeasured. This flaw carries out some negative

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[160] Del Bas and Eguiguren (2009), "Causes underlying Effectiveness and Impact of EC Development Projects. Qualitative study based on ongoing and ex-post ROM reports 2005-2007", EC, EuropeAid.
[161] For the purposes of this study, "performance" is understood as the ability of a project to produce effects, that is their Effectiveness and/or Impact.

implications: an inadequate accountability on EC expenditures in development aid, insufficient fact-based information for making key strategic development decisions, deficient visibility of the EC as one of the main global development actors and limited learning capacity both at project and overall institutional level. Finally, the study finds out weak adaptation capacity and communication among partners, which hamper adjustment to the changing environment as another poor performance factor.

On the side of the factors for good performance, social/human capital appears amongst the most relevant. Project teams that include qualified staff and proactive managers that apply inclusive management approaches is the most significant factor behind well-performing interventions. The study shows to recurrent features that characterize "appropriate project management": inclusive project management, that is, management that proactively and systematically involves beneficiaries and relevant stakeholders during the planning and implementation of activities, on one hand, and adaptive project management to the changing development context with good communication among different stakeholders.

Another relevant factor is the inclusion of the beneficiaries' priorities addressed throughout the project's lifetime in a demand-driven and service provision oriented implementation, ensuring in widespread access and use of services with high levels of ownership. Involving the beneficiaries' as key stakeholders that take part of the project value chain is a critical factor for its success. This factor is closely related to the previous, as proactive project management with good capacity to produce good quality outputs and transfer technical skills to the beneficiaries is often achieved due to continuous interaction with beneficiaries.

Last but not least, the study reveals that the human and social quality of the project management team needs to be complemented by high-qualified institutional capacity of implementing partners, in terms of emphasizing the organizational framework and culture of implementing institutions. This implies that good performance projects partner with organizations with own accumulated knowledge, in-depth practical understanding of the local context and beneficiaries needs, with active networking and institutional relations with other organizations, with high levels of reputation and trust among final beneficiaries and with sufficient administrative capacity. That is, institutions that are well integrated in the local context and which contribute to generate a pro-poor environment by involving and working with beneficiaries.

This study provides qualitative insights that contribute to state a comprehensive analysis of the factors that affect the performance of an intervention. It is worthy to underline that poor performance factors are mainly characterized by utilitarian values that reflect the donor-policy orientation of the EC development cooperation approach. The weak identification phase of the design of the project denotes a strong focus on suiting EC objectives rather than coping with beneficiaries' needs. The EC lacks a consistent mechanism/system that guarantees its involvement in the project. The overoptimistic behavior is also associated with the EC rhetoric of emphasizing ambitious objectives (promises) and underestimating potential risks. The fact that the EC, despite numerous efforts and increasing resources, puts in practice weak results-based evaluation mechanisms (thus hindering its capacity to learn from experience) shows that right incentives are not in place. This absence prevents the adoption of innovative mechanisms and more effective systems.

On the other hand, good performance factors highlight the relevance of aesthetic values for the success of development aid actions. However, many of these factors fall outside the more technical/tangible obligations established by EC contracts and terms of reference. The assessment of selection criteria valuing sound project management staff, highly qualified institutions and inclusive approaches to involve beneficiaries is normally, and paradoxically, not included as contractual requirements. When they occur, it is a result of proactive behavior when there is a sense of "shared objectives" between the EC and the implementing partner. In contrast with this, the authors of the study argue, the EC expends a vast amount of energy in conducting close follow-up of contractual requirements related to activities and inputs, whereas insufficient attention is devoted to key areas such as concrete follow-up of the achievement of results or the creation of goal-based partnerships (as opposed to the more limited donor-implementer contractual relationships).

The outreach of this study, however, despite the evidence-based quantitative and qualitative analysis has raised limited attention and the EC does not explicitly state how it includes this impact information in order to improve the effectiveness of its development aid policies, instruments and delivery methods[162].

The analysis of the underlying factors of project performance does not put the stress of the aid assessment out of the core issue. In the end, aid donors and taxpayers obviously need (should) to know if aid funds for projects aimed at eradicate poverty have been implemented in cost-effective ways and whether these projects have certainly contributed to improve the lives of the neediest. On one hand, there are project successes and failures. However, the answer is that there is remarkably little evidence available which enables us to form judgments at either the sectoral level or economy-wide (Riddell, 2007). These data gaps bring the micro-macro paradox back again. Evaluations on the effects of projects at wider level, alike with PBAs, still fail to provide robust evidence on impact, if any (Cox and Healey, 2000; Mercer et al., 2002; Chapman, 2002; Katila et al., 2003; Cassels and Watson, 2001). It seems we are trapped in the vicious cycle of aid.

2.5 Concluding Remarks. Is there a model for EC Development Cooperation?

The EC development cooperation approach to poverty reduction is rooted in a long-standing tradition of foreign relations with developing countries that initiated with the support to former French African colonies in the 1960s. Despite enormous progress in shaping the "EC - Developing World" relations towards better partnership based on mutual agreements, the EC's uses its soft power in designing and negotiating its development policies and its regional and bilateral agreements. The weight of the traditional donor-driven approach still dominates the EC's behavior in conceiving

[162] Some feedback from the authors points that the study's methodology has been included in the ROM contractors and that Quality Control Groups have incorporated only the conclusions related to the identification phase. Aesthetic values, however, have not been taken into account.

development cooperation as an instrument for achieving its foreign policies' (self-interested) goals. The EC's conviction that economic integration through trade liberalization also works for the rest in the quest to poverty reduction carries out the implicit belief that developing countries, deprived of the required expertise and capacities, should embrace EC recipes to achieve development purposes.

As a result, the EC, in collaboration with her DAC colleagues, has designed a complex development process for managing and delivering development aid (see figure 13, Annex 2 "EC's development cooperation process"). This system is conditioned by the highly institutionalized policy framework, which is constantly evolving. It therefore affects the continuous re-design of development policies and the delivery of aid throughout conditioned methodologies exclusively led by the donor. Aid delivery methods are part of the "one-size-fits-all" approach of the EC to impose her own approach and conditionalities to eligible partner countries. As Lister (2006) extensively argues in its Synthesis Report, the donors' hard push to recipients to adopt policies can even have negative externalities.

Inherent to the donor-driven approach, indeed, there is the paternalistic conceptualization of aid giving as a remaining legacy of the neocolonialism practice of using capitalism, globalization, and cultural forces to control a country. The paternalistic view assumes that the developing country benefits from the cooperation only for the matter of the fact that the aid relationship is based on good intentions. There is a contradiction between the discourse of partnership, which denotes and emphasizes equality and disavows paternalism, and the discourse of development according to which the "partners" are not equal, but instead are situated at a different stage of development and enlightenment (Eriksson, 2005).

This assumption is highly apparent in the EC's rhetoric of her development policies, which have enjoyed substantial improvement toward a poverty-centered dominated discourse. This overambitious rhetoric often claims the benefits of economic integration and trade policies for poverty reduction and states unattainable commitments of new aid pledges. In practice, however, reality differs. LDCs do not catch up the benefits of economic liberalization (Bird, 2009) and the good words of the ECD do not translate into tangible impacts in poverty reduction, especially for Africa. This hypocritical rhetoric raises high expectations to partner countries and other development cooperation stakeholders –taxpayers and final beneficiaries, for example-, but it prevents to include the real interests of such policies, it reduces coherence and, in the end, it hampers the effectiveness of aid and thereby it contributes to enhance the spill over of the so-called donor-fatigue.

Furthermore, the underlying paternalistic principle also influences the weak character of impact assessments and the poor collection of results. Based on the belief that the good intentions of aid giving must always bring good results, evaluations have been residual. They are mostly input-oriented and conducted under the requirements of each donor. The professionalization of evaluations' standards and the managing for results is still far from producing robust impact assessments that can become the evidence required to further better fine-tuned development policies. Right incentives are not in place.

The preoccupying low cost-effectiveness level of this approach can be widely understood through the stakeholder value chain under the current aid model (see figure 14, Annex 2). The taxpayers, who are the primary financial resource of the system (and aid consumers, by extent), are left out of the value chain. Except for the indirect fiscal task of tax collection, which is fiduciary indeed (in most cases, the taxpayers do not even know what part of their tax goes for development aid), taxpayers do not have the feedback of the impact that their money is causing. Thus, taking the assumption that taxpayers, who are willing to give money in form of aid to contribute to poverty reduction in developing countries, are expecting impact information to increase their levels of utility, the current model fails to involve them accordingly.

MS, once they collect taxes, disburse a share to the EU, which in turn allocates part of this share to the EC for development purposes under the EU budget (Heading 4, “the EU as a global actor”). To reach EuropeAid, the unit that manages the budget of EC’s development cooperation, the EC’s accounts for substantial administration and management costs. Afterwards, the EC aid delivery process encompasses the disbursements of ODA to the partner governments and/or to other NSA that entail the outsourcing of TC/TA services. These services are externalized to EC-based private consulting firms that operate under costly consulting fees for transferring the know-how and assets required to partner governments according to EC rules. This part of the chain retains much of the value delivered in terms of transaction costs.

Once in developing countries, the resources transferred to the partner government in most cases requires an additional step forward to arrive to the final destination, the poor or direct beneficiaries. If required, the partner government allocates part of the budget to outsource consulting services to local private firms or local consultants, who transfer the filtered knowledge to the direct beneficiaries. This last part of the chain carries substantial transaction costs in consulting fees and in managing and coordinating aid by the partner government. In the end, the above-mentioned stopovers take the biggest part of the cake and leave little net development resources to the poor (little value for money). This makes the value chain poorly effective to the poor, who are left out of the chain indeed. They do not participate as value co-creators and they even do not work in the evaluations and impact assessments of a process that is aimed at their own development.

While EU taxpayers and the poor are almost excluded under this approach, other stakeholders such as the EC, European private consulting firms, NGOs, and other NSA, partner governments, and some local consultancies and NGOs play an important role in the aid delivery chain, contributing to expand the aid industry and market. While no one doubts of the need to have an expert agency to manage and deliver development aid, there is a growing tendency of proponents that advocate the need to change the current aid business model.

Furthermore, the vertical value chain is operating under a complex bureaucratic process at the political and technical level. It is characterized by the dualistic approach of the sovereignty issue of the development process of the EC (MS vs. EC) and the difficulty of the EUDP to adapt to an ever-changing European and international context, which is permanently under reform. The debate on the budgetisation of the EDF is just one example of the inter-governmentalism issue that undermines the flexibility of the EC to embrace state-of-the-art policy making and implementation methods.

The aforementioned characteristics[163] of the EC development cooperation approach are not, obviously, exclusive of the EC. They can be found as major traits of the IAA, as I argued in the first chapter. The EC has not a distinctive model in delivering aid to partner countries, except minor technical issues such as the preference of BS modalities. Instead, it follows the international standard rules dictated by the DAC and ratified by MS. The real value added of the EC is found in the influential role that it plays in the international development agenda as the main promoter of a coherent and coordinated global agenda as the future of the IAA is evolving towards the reorientation of development cooperation towards global structural policy, under the umbrella of a global partnership for development.

This future scenario, however, will only turn out to be more effective if it is able to get rid of the paternalistic donor-driven approach. The current aid system should abandon the exogenous-utilitarian model of aid delivery and embrace a new model characterized by the endogenous inclusion of the country-poor needs at the implementation level with the adoption of aesthetic values at the development theory and practice. The next chapters are intended to offer empirical evidence of the implications that the EUDP and the EC's development cooperation approach are having Tanzania, one of the poorest countries in Sub-Saharan Africa.

[163] Summing up, the EC approach is characterized by being: donor-driven, one-size-fits-all, self-interested, hypocritical, paternalistic, input-oriented, rigid, exogenous and standard.

CHAPTER 3:

"THE EUROPEAN COMMISSION AND DONOR PERFORMANCE IN TANZANIA"

Abstract

"Tanzania is one of the donor darlings in Africa. This country is often held as an example of good aid coordination and ownership between the donor community and the recipient government. Large amounts of aid flows have contributed to generate an environment of macroeconomic stability and long-sustained economic growth. However, poverty rates have only fallen slightly, much lesser than expected and corruption is rampant. The EC, along with her development partners, does not prioritize the needs of the poor majority, which mostly live and work in the rural sector. The Government, instead of approaching to the local intended beneficiaries of its development programs, has fallen to the promising rewards of adopting the leading donor-driven approach of its development partners and its policy recipes. Therefore, the gap between the donors-recipient and the poor is even bigger. The myth of genuine ownership is just an utopia."

3.1 Introduction

A particular case in Africa is the United Republic of Tanzania. As mentioned by the EU in its Country Strategy Paper (EC, 2007), 'Tanzania is one of the few countries in Africa, which has enjoyed peaceful political development. Stable political leadership has kept the country out of numerous conflicts, which have been afflicting a number of neighboring countries. Since 1995, Tanzania has benefited from high annual GDP growth, averaging almost 6 percent since 2000. However, despite the government's efforts to address poverty, Tanzania's income levels continue to be amongst the lowest in Africa. Today, half of all Tanzanians live below the poverty line and approximately one-third live in abject poverty. Infant and maternal mortality rates remain amongst the highest in the world, literacy rates are low and more than one third of all children under five are malnourished. Nonetheless, the country has made progress towards achieving some of the Millennium Development Goal targets, in particular primary education, water and infant health. However, much more needs to be done if all targets are to be met".

Since Tanzania joined the Yaoundé Treaty with the signature of the Arusha Agreement in 1969, it has been one of the top priority countries for the EU in Africa, especially pushed by the close ties between UK and the East-African country as a former colony. Germany and Scandinavian countries have also substantially supported Tanzania with generous development aid flows. Furthermore, the willingness of the Tanzanian government to adopt donors' macro-economic policies and follow its development policies upon its international rules and recommendations under the predominant aid system made her one of the primary recipients of multilateral and bilateral aid in Sub-Saharan Africa. In the 2000s, Tanzania became one of the top priority countries for EU aid, a status shared along with Afghanistan, DR Congo and Mozambique (see figure 3, Annex 3 "EU top priority countries average 2003-2004).

Tanzania is often regarded by the donor community as the flagship of the new partnership model set out in the aid effectiveness agenda by DAC affiliates. They advocate the Tanzanian government as an example of acquired ownership of the international development agenda, accordingly supported by donors who align to the government's "led" priorities and systems. Donors label this case as a benchmark of good governance, which is praised as an example to other developing countries.

In high aid-dependent countries such as Tanzania (13.6% of GNI in 2009 was fuelled by net ODA, according to the DAC and WB), aid is the cornerstone of the political system. The government has provided the infrastructure and resources necessary to manage aid inflows along many governmental institutions. Dependence is not seen a barrier itself to ownership, but it prevents to genuinely exercise ownership as if it was the same government that was paying out for the resources.

The country has received very high volumes of aid compared to other aid-dependent countries. These volumes have translated into higher percentages of aid to gross national income. In particular, Tanzania received around $2.94 billion in net official development assistance in 2009, equivalent to almost $70 per capita, making it one of the largest recipients in Africa. The donors' appetite for Tanzania largely contributes to plump public expenditures, with close to 40% of the 2008/2009 budget being funded by outside donors.

Despite the above, Tanzania still remains as one of the poorest countries in the world, with a GNI per capita of only around $500 in 2009 (Atlas USD). It ranks 148 out of 169 countries on the Human Development Index (UNDP, 2010). Paradoxically, however, real GDP growth has averaged 6.9% since 2001.

In sum, on one hand Tanzania's long-sustained economic growth and political and macro-economic stability makes it an attractive location for donor funding. But on the other, poor records of poverty reduction questions the implementation of pro-poor growth policies. This aid-growth contradiction makes Tanzania a good case to study the main pattern that development assistance follows across most of Sub-Saharan Africa's LDCs, a unique pattern of disappointing results compared to other developing regions: the incapacity of development aid to bring inclusive pro-poor growth and thereby alleviate poverty in Africa (see figures 1 and 2, Annex 3, for a comparison between the level of GDP growth per capita and the share of aid to GNI).

Therefore, this chapter, in the light of the EC development cooperation process, is aimed to provide some answers to the question: how can be possible that Tanzania, despite being one of the largest recipients of ODA, along with long and sustained economic growth for two decades, is just achieving a slow progress on its endeavor to escape out of the poverty trap?

The present chapter is structured in a sequence of four blocks of analysis. The first block provides a review of the current economic, political and social situation of Tanzania with the objective to thoroughly understand its development context. The second section will analyze the Tanzanian approach to development policy and the extent of the partnership with donors. The third block presents an overhaul of the EC development cooperation process in Tanzania, monitored under the EC development approach analyzed in the previous chapter. Finally, the fourth section comprises an analysis of the underlying causes of low aid effectiveness levels in the East-African country, with the objective to identify the critical factors that impede its own development.

3.2 Country Background: Economic, Political and Development Context

Tanzania is an east African nation with a long coastline along the Indian Ocean. The country shares borders with Kenya, Uganda, Rwanda, Burundi, the Democratic Republic of Congo, Zambia, Mozambique and Malawi. It ranks 31st in the world in terms of total area available, with 19% of farmland and 40% of forests, plantations and wetlands. The terrain in this region consists of coastal plains along the east to highlands towards the north and south, with a tropical climate. Tanzania's economy is one of the poorest in the world, based on the UN statistics for 2009. Almost 36% of a total population of 43.7 million lives below the international poverty line (with less than 1$ a day). The population is rapidly growing at a rate of 3%, an estimations point at the increase of the population to 65.4 million in 2025 (UNDP estimates). The main bulk of the population live in rural areas (75%), although increasing urbanization has become a challenging phenomenon for the Tanzanian government.

The social profile of the country is characterized for a high indigenous presence of different ethnicities with its own religious beliefs (35%), while Muslim and Christian religions are also largely represented (35% and 30%, respectively). The lingua franca is Swahili, and English also enjoys official status. It achieved independent status from the UK in 1961 and Tanzania owes its name to the unification of former inland Tanganyika and the island of Zanzibar in 1964. Home of some of the most famous wildlife resorts in Africa –Serengeti, Ngorongoro, Lake Victoria- and the highest peak in the continent –Kilimanjaro- Tanzania is also known for being the cradle of human civilization, where first evidence of human life was documented.

3.2.1 Economic Structure and Growth

Tanzania is a fast growing, open economy in East Africa, among the fastest growing economies in the region since 1995. Nominal GDP reached a high $24 bn in 2010, with a real GDP growth of 6.7% and averaging almost 7% in the last 5 years (see figure 5, Annex 3). Despite outstanding economic growth, per capita income is only $523, ranking below the Sub-Sahara African average. It is worth mentioning that despite the global economic crisis GDP growth remained strong. After a slight fall in 2009, growth picked up in 2010 reached 6.7% and it is expected to reach 7.1% in 2011. This growth is attributable to the recovering tourism market, favorable weather conditions, further growth in the mining sector and continued investments in infrastructure.

Agriculture is still considered the backbone of the Tanzanian economy. The sector provides a wide variety of agricultural goods such as coffee, cotton, tea, cashew nuts and tobacco. In addition, it is the main source of employment for roughly two thirds of the population and agricultural products make up over 50% of all exports. However, agriculture only accounts for 28% of GDP and is unlikely to be the driver of future GDP growth. This is a direct result of the fact that agriculture is mainly traditional-based for subsistence and higher agricultural productivity is confined to coastal areas, as only 4% of Tanzania is arable. Future agricultural growth thus relies on technological improvements, rather than further expansion. The sectoral distribution of GDP has not shifted much since 2000, which denotes the structural character of a low-productivity based agricultural economy (see figure 9, Annex 3).

In order to add additional value to its agricultural exports, the government actively promoted the development of a manufacturing sector. Consequently, manufacturing gained a more prominent role and now produces and exports processed agricultural products and light consumer goods. In recent years, services surpassed agriculture as the largest sector and the services sector now accounts for 48% of GDP. Especially tourism is considered a growth industry. Another more recent development is the expansion of the mining sector. Aided by government investments and the involvement of South African miners, Tanzania recently became the third largest gold producer in Africa.

Looking at economic sub-activities (see figure 7, Annex 3), Agriculture, Livestock and Fishing were moderately growing below the country's average, around 4% in 2007. On the other hand, major increases have been observed in Communications (20.1%), Electricity and gas (10.9%), Mining and quarrying (10.7%), Financial intermediation (10.2%), Trade and repairs (9.8%), Construction (9.7%), Manufacturing (8.7%), Services for economic activities (8.1%) and Real estate and business services (7%).

Despite the fact that the large majority of the population works in Agriculture, this sector is not driving economic growth, as it is mainly traditional. This is one of the main handicaps that hamper economic growth to be inclusive in Tanzania. On the opposite, much less poor-inclusive sectors such as Mining, Communications, Financial intermediation or Construction have recorded the largest growth increases.

In addition, this long-term growth is constrained by a number of structural issues, which are intertwined. For one, a high and persistent corruption rate disrupts the economy and drives up the costs of doing business (the corruption perception index is one of the highest, 116 out of 168). Furthermore, with the majority of the population living in absolute and relative poverty, human capital is scarcely available. This makes it harder to raise productivity in the long run. Another problem is the lack of infrastructure, especially in the western and southern parts of the country.

Tanzania continues to report a deficit on the trade balance. Nonetheless, the trade balance remains high at 11.6% of GDP in 2010. The deficit reflects strong domestic demand for foreign consumption goods. It largely imports more (36% of GDP) than what it exports (25%), and foreign direct investment only accounts for 2.8% of the GDP. In addition, Tanzania's construction and mining sectors mostly employ imported capital goods and machinery.

As mentioned above, Tanzania mostly exports agricultural goods (coffee, cotton, tea, tobacco, walnuts, cloves, fish, orchard products), gold and diamonds, sisal, and tourism services. Its imports consist of consumer goods (paper, food, medicines, plastics, clothes, rubber), machinery (transport, construction and other equipment) and petroleum. In the recent past, India and China surpassed EU countries as Tanzania's most prominent trade partners. In fact, around 21% of all exports go to India and China, while it receives 30% of all imports from these countries. Nevertheless, the EU still remains the main trading partner for Tanzania.

Tanzania's financial sector is relatively undeveloped and has few links with global financial markets. Consequently, it was shielded from most of the global turmoil. The government is currently working to improve financial services and is reforming banks to better service the private sector.

The services sector generally reports a surplus, which is the result of a large inflow of tourism receipts. In addition, Tanzania provides transport services. The transfer balance generally reports a surplus, which reflects the large influx of donor aid.

Unfortunately, deficits on the trade and income balances outweigh the surpluses on the services and transfer balances (see figure 8, Annex 3 for a complete review of economic indicators). This leaves Tanzania with a large deficit on the current account of around 8.8% of GDP in 2010. Especially considering that a fall in donor aid, or a sudden fall in exports due to (for instance) adverse weather conditions, could easily push up the deficit to unsustainable levels. Nonetheless, the economy takes some comfort in the fact that Tanzania's economy survived a period of decreased global demand. In addition, foreign exchange reserves cover 5.2 months of imports.

External debt levels increased in recent years due to high public spending and increased borrowing for infrastructural development. Consequently, almost all medium to long-term debt is held by the public sector. Around 71% of external debt is concessional. The remaining 15% in short term debt is mostly held by the private sector. With foreign exchange reserves covering 143% of total debt services due (2010), we do not foresee great problems in this area. In addition, foreign exchange reserves are expected to increase in 2011, on the back of a recovering tourism market and increased export revenues.

3.2.2 Economic Policy

For the medium term, Tanzania's economic policy focuses on four priority areas. These include education, health, agriculture and infrastructure. But although the government appears motivated to improve its performance in all these areas, it struggles to implement the necessary reforms. For instance, although public spending on agriculture increased by 7% in 2010, the government seems reluctant to implement much-needed land reforms that could help raise productivity in the sector. In addition, the government rarely employs its entire aid budget and often lacks the institutional capacity to implement social programs. I will come back to this issue in section 3.5.

In 2008, the government adopted a policy of counter-cyclical spending. This allowed it to increase public spending in the wake of the global crisis. Consequently, the budget deficit increased from 0% of GDP in 2008 to 6.4% of GDP in 2010. Aside from an increase in public spending, the deficit was also the result of a decrease in public revenues. Especially low tax receipts, as well as a fall in donor aid put pressure on the public budget. The fall in donor aid was a result of the high prevalence of corruption in Tanzania. Especially the country's recent fall in the Corruption Perception Index caused donors to rethink the country's aid budget. Nonetheless, aid flows still provide around 40% of the public budget, while tax revenues account for only 16% of total revenue (2009). This shows the high dependence of Tanzanian budget on development assistance.

In the medium run, however, Tanzania hopes to reduce its dependency on donor aid by broadening its tax base and improving tax collection. Especially the fact that one of Tanzania's main growth industries (the mining sector) goes largely untaxed, suggests that there is room for improvement. However, it seems doubtful that these improvements will materialize in the short run, since they require some major tax reforms. Despite the fact that Tanzania was one of the first countries to receive debt relief under the Highly Indebted Poor Countries (HIPC) initiative, its public debt level still stands at 33% of GDP (WB, 2010).

There are multiple reasons for this outcome. First, around 20% of all public debt is held domestically. Unfortunately, domestic debt was not taken into account when calculating the amount of (external) debt to be forgiven. Secondly, the large budget deficits detailed above continue to force the government to attract new debt. Consequently, it is expected public debt to reach 34% of GDP by 2011. But, as around 80% of public debt is lent on concessional terms, maturities are long and interest costs are low. However, interest costs could go up in the nearby future as the government plans to issue a sovereign bond. As interest rates on bonds are higher than those on concessional loans, this will add to borrowing costs. However, as Tanzania firstly needs to obtain a rating by an international rating agency, it is not expected a bond issue before 2012.

Monetary policy focuses on two main goals: halting inflation and increasing bank lending to the private sector. Traditionally, Tanzania's banks mainly service the public sector and extend little credit to the private sector. In an attempt to encourage lending to the private sector, the government is in the process of setting up a credit reference bureau. The bureau's main function will be to help lenders obtain a more realistic perception of borrowing risks. For instance, the tracking of borrowing activity and borrowers' past performance, will enable banks to make more calculated decisions. This should help reduce the high lending rates. Moreover, during the last two years, low food prices allowed the Bank of Tanzania (BOT) to increase money supply growth. This too helped boost private lending, which rose by 38% between 2008 and 2010.

However, the recent increase in food prices (and thereby inflation) forced the BOT to halt money supply growth. Whether this will help lower inflation remains to be seen. Food items make up most of the inflation basket and Tanzania has little control over food prices. This is still only a fragment of the double-digit inflation rates recorded in previous years. Moreover, favorable weather conditions and thus an increase in the food supply could help reverse the recent upward trend.

Last years, the Tanzanian shilling suffered from shocks in export demand. Nonetheless, timely interventions by the BOT helped reduced volatility. In 2011, lower inflation and increased exports have strengthened the currency.

3.2.3 Political Situation

In contrast to many of its neighbors, Tanzania is known for its political and social stability. Although it has had some internal disputes, these were never large enough to destabilize the economy at large. Some of these minor issues include tensions related to Tanzania's constitutional composition. The United Republic of Tanzania is a union between two states: Tanzania and the semi-autonomous island Zanzibar. Whereas decisions on foreign policy and monetary policy are formulated on a central level, each state is free to formulate its own domestic policy. This includes economic and social policy. The president is elected every five years and governs the entire union.

To ensure that the interests of both states are represented within the government, the vicepresident can never come from the same state as the president. Currently, president Jakaya Kikwete is from the mainland, whereas vice-president Mizango Pinda is from Zanzibar. Ever since Tanzania became a multi-party democracy in 1992, the largest opposition party Civic United Front (CUF) has been challenging the ruling party, Chama Cha Mapinduzi (CCM). The CUF so far failed to win a majority in an election and as a result, CCM controls both Zanzibar and the mainland, and it is accused of having acquired so much power and control over economic activities with close ties with the private sector and sound corruption scandals. On multiple occasions, CUF's failure to gain ground in Zanzibar has caused brief outbreaks of violence. The latest outbreak was after the election in 2005, when the CUF accused the CCM of rigging the election results. Nonetheless, the presidential elections in 2010 went by without any noteworthy disruptions.

In the medium term one could expect some political changes as the CCM loses popularity. The recent presidential elections saw a decline in turnout which dropped to 40% of the population. Moreover, support for the ruling president dropped from over 80% in 2005, to just over 60% in 2010. But the most pressing challenge for the CCM will be to overcome its own internal power struggle. If it fails to do so, it may very well lose ground to the CUF.

With president Kikwete serving his final term it is hoped that his focus will be on implementing reforms, rather than pleasing voters. Especially because the country's lack of health services, its underdeveloped education system, as well as persistent corruption are in dire need of attention. However, although the government indeed promised to address these issues, it is feared that infighting within the CCM will direct attention away from these problem areas.

Stability at home allows Tanzania to mediate conflicts in neighboring countries. It especially played a significant role as a peace-broker in both Burundi and Rwanda. In addition, Tanzania actively contributes to regional integration and is currently in the process of creating a monetary union between countries belonging to the East African Community (Kenya, Rwanda, Uganda, Burundi and Tanzania).

3.2.4 Poverty, Inequality and Pro-poor Growth

Tanzania's PRSP (so-called MKUKUTA in Swahili) defines poverty by including "income" and "non-income" human development attributes, in which income poverty is described to be largely a rural phenomenon, a factor of substance agriculture where the poor are concentrated and non-income poverty is a function of access to livelihood enhancing factors including education, survival of infants, nutrition, clean and safe drinking water, social well-being and vulnerability to diseases.

<u>Income Poverty</u>

Income poverty in Tanzania is still high despite government efforts and large amounts of donors' development assistance. Data from the Household Budget Survey 2000/2001 and 2007 (HBS) show a limited decline in income poverty levels over the period in all areas (see table 1, Annex 3). Over this period, the proportion of the population in absolute poverty[164] declined slightly from 35.7% to 33.6%, and the incidence of food poverty fell from 18.7% to 16.6%. Of note, the fall in poverty over the period from 1991/92 to 2000/01 was larger; basic needs and food poverty levels both declined by approximately 3%, and in Dar es salaam basic needs poverty declined by over 11%.

Poverty rates remain much highest in rural areas: 37.6% of rural households live below the basic needs poverty line, compared with 24% of households in other urban areas and 16.4% in Dar es salaam. Given the large proportion of Tanzanian households that rely on farming for their livelihoods and the high rate of rural poverty, the overwhelmingly majority (74%) of poor Tanzanians are primarily dependent on

[164] This type refers to the lack of resources, which has reached a level where the people involved no longer live in a way suitable for human beings. This degree of poverty is extremely low and is defined by the WB to include people living on less than $1 a day measured in terms of purchasing parity power (PPP).

agriculture. In sixteen years, income-poverty in rural areas has only reduced 3%, a minimal decrease from 40.8% in 1991/92 to 37.6% in 2007. The larger decrease in urban areas is overall led by the development of Dar es Salaam. With such low reductions in poverty, Tanzania is undeniably off track in achieving both MKUKUTA and MGD poverty reduction targets. Figure 10 - Annex 3 shows the trend for poverty in rural and urban areas (excluding Dar es Salaam) against MKUKUTA targets.

In the same line, income inequality has changed little since 2000/01, as indicated by the Gini coefficient, which is a standard measure of inequality[165] (table 2, Annex 3). Inequality is slightly higher in urban areas than in rural areas. A slight fall in the Gini coefficient was noted in Dar es Salaam (0.36 to 0.34) and other urban areas (0.36 to 0.35) from 2000/01 to 2007, although inequality worsened in Dar es Salaam over the period of 1991/92 to 2007 as a whole. Taking a measure of relative inequality (Negre, 2010), long-term economic growth have indeed been less inclusive of the poor, thus increasing inequality compared to non-poor.

Analysis of changes in national expenditure between 2000 and 2007 shows that household consumption grew less rapidly than other elements of GDP, such that its share in GDP has declined from 77% in 2000 to 73% in 2007 (at constant 2001 prices) (see table 3, Annex 3). On the other hand, the share of government consumption increased rapidly from 12% to about 18% of total GDP, investment expenditures rose from 16% to about 24%, and net exports from -5% to -15%. The analysis shows that the economic growth pattern of Tanzania is public-led and, in practice, anti-poor[166]. It fails to boost private consumption and to reduce poverty levels, especially in poor rural areas.

Non-Income Poverty

There are several indicators that measure the level of non-income poverty in a given country. The UN commonly classifies them as part of the MDGs (see figure 11, Annex 3) in Education, Health, HIV/AIDS, Gender and Environment.

The HIV/AIDS pandemic is one of the main problems for non-income poverty in Tanzania. The rate has increased steadily in the 1990s and it stands at about 7% of the adult population, implying that about one million Tanzanians are HIV positive.[167] Combined with the rapid population growth, the high HIV/AIDS prevalence will continue to exert pressure on basic social services. According to the MDG Progress Report, 'Tanzania considers HIV/AIDS to be the single greatest threat to the country's

[165] The Gini coefficient is a measure of inequality of income or wealth and ranges on a scale from 0 to 1. A low Gini coefficient indicates a more equal distribution, with 0 corresponding to perfect equality, while higher Gini coefficients indicate more unequal distribution, with 1 corresponding to perfect inequality.

[166] This term is used here as an opposite to the commonly used pro-poor growth in the development rhetoric of policy discourses.

[167] United Republic of Tanzania National Strategy for Growth and Reduction of Poverty (NSGRP), June 2005.

security and socio-economic development, as well as to its citizen's individual survival and well-being'.[168]

While many human and social development indicators have shown a decline in the 1990s, some progress has been made in the second part of the 2000s. Education is the sector achieving sound progress. In the 1990s, for example, the primary net enrolment ratio only slightly improved from 52% to 57%. In the period after the introduction of the Primary Education Development Plan (PEDP), enrolment increased substantially and by 2004 it reached 91%.[169] In the same period the number of pupils per classroom decreased from 82 in 2002 to 73 in 2004. Unfortunately enrolments outpaced the hiring and training of new teachers and between 2002-04 the pupil-teacher ratio increased from 54 to 59.[170] Despite the availability education free of school fees, parents still have to meet some of the costs of primary education through community financing. For about a third of the poorest families, it remains impossible to send their children to school.

After stagnating in the late 1980s and early 1990s, health indicators have declined from the mid 1990s onwards and improved somewhat from 2005. Child and infant mortality are now lower than the average for Sub-Saharan Africa. The under-five mortality increased from the mid-1990s to up to 162 deaths per 1000 children in 2002; by 2004 it had declined to 112. The number of children dying before their first birthday also increased from the mid-1990s and declined from 95 to 68 between 2002-04[171]. The recent decline in infant and child mortality is likely to be related to improved malaria control. Child malnutrition remained unchanged in the 1990s but went down from 44% in 1999 to 38% in 2004 – still a very high level.

In spite of these improvements, improving health remains an enormous challenge. Many poor people, in particular women and children, die without ever accessing a health facility. According to the National Strategy for Growth and Reduction of Poverty (NSGRP) 2005, eight out of ten children die at home and six of them without any contact with formal health services. Almost 90% of all child deaths are due to preventable causes. Key obstacles in the provision and access to health services include 'long distances to health facilities, inadequate and unaffordable transport systems, poor quality of care, weak exemption and waver system to the sick who ware unable to access health care at a fee, shortage of skilled providers and poor governance and accountability mechanisms.'[172]

Maternal mortality has not improved; it has increased from 529 deaths per 100 thousand live births to 578 between the early 1990s and 2004[173]. The percentage of the population with access to water did increase, from 32% in 1990 to 58% in 2003, but this

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[168] United Republic of Tanzania: International/Millennium Declaration Development Goals Progress Report.

[169] Tanzania Poverty and Human Development Report 2005. It should be noted that the number of children actually attending school is lower, with little gender differential, although boys tend to be in school at an older age than girls.

[170] Tanzania Poverty and Human Development Report 2005.

[171] Tanzania Poverty and Human Development Report 2005.

[172] NGRSP, June 2005.

[173] Tanzania Poverty and Human Development Report 2005. Figures for Tanzania mainland.

is mainly due to improved infrastructure in urban areas (73% in urban areas and 53% in rural areas).

Although the level of poverty has decreased and health and education have improved somewhat, there still remain substantial urban-rural, regional and socio-economic differences. Rural areas are by far more vulnerable than urban hubs both in terms of income and non-income poverty. By extension, given the large population concentrated in these areas, poverty in Tanzania is mainly a matter of rural development. This phenomenon, however, must not be conceived as an isolated set of factors that hamper rural development per se, but as a part of an overall trend interconnected with the irreversible process of urbanization that Tanzania is also experiencing as part of a global trend. Indeed, the fact that poverty is more intensively affecting rural populations is rendering a wave of rapid urbanization to big urban areas such as Dar es Salaam, with the detrimental consequences in worsened social services and overall decrease of living standards[174].

3.2.5 Rural Development in Tanzania. The Challenge

Constraints and Potentials

Evidence showing the strong rural focus of poverty in Tanzania is overwhelming. Poverty is predominantly a rural phenomenon: more than 80% of Tanzania's poor live in rural areas, and the sale of food and cash crops is still the most important source of cash income for rural households (NBS, 2009). Thereby, it is critical to have a profound understanding of the rural situation of Tanzania, as rural poverty remains the most pressuring and critical economic problem (Aikaeli, 2010). Before proceeding to study the government's approach to development, it is important to briefly review the main constraints that rural development face and whether the government is showing strong political will and effective implementing capacity to tackle this phenomenon.

Agriculture in Tanzania is traditional, as mentioned above, mainly characterized for subsistence purposes, low-productivity, based on a smallholder production system. The challenge, such as the OECD argues in its "Business for Development" report (2008), is moving from subsistence to profit. The same report outlines widely known factors that impede Tanzania to become a major food-exporting country: dependence on rainfall, poor transport and marketing infrastructures, as well as low access to technology, lead to persistent food security problems.

In the same line, MKUKUTA (2005) outlines that constraints in the agricultural sector include limited capital and access to financial services; inadequate agricultural technical support services; underdeveloped irrigation potential; erosion of natural resource base

[174] Since the 1990s, several authors have raised the need to study the urbanization process under the poverty framework. According to Lerise and Kyessi (2003), the rapid urbanisation trends in many Tanzanian towns have been linked with a wide spread poverty. Basic needs poverty incidences in urban Tanzania has decreased from one out three in 1992 to one out of five in the year 2001. However household expenditure has substantially decreased over the same period. A study conducted in 2002 revealed that the poor in Dar es Salaam were paying about 48% of their monthly incomes for transport costs to reach the various livelihood areas in the city (Kombe *et al.*, 2002).

and environmental degradation; poor rural infrastructure hindering effective rural-urban linkages and low productivity of land, labour and production inputs. Further constraints include depressed prices for primary commodities in global markets, weak producers' organizations and gender relations. Unfortunately, diversification into non-farm activities has not been very successful due to their small scale.

Despite the aforementioned structural obstacles, Tanzania's rural sector has also potentials that could lead the reform process from a traditional to a modern sector. The main food crops in Tanzania are maize, rice, wheat, sorghum/millet, cassava and beans. Tanzania could be a major food-exporting country, but so far Tanzania's agricultural potential is largely underdeveloped. Only 11% of the total land area suitable for agriculture (about 44 million hectares) is under cultivation, mostly by smallholder farmers. The planted area has been stable for several years, indicating that land expansion has ceased to be a major source of agricultural growth. Furthermore out of 29.4 million hectares (31% of the total land area) with irrigation potential, only 227490 hectares (less than 1%) are currently under irrigation. The usage of modern agricultural inputs is very low; only 15% of all farmers use fertilizers (Temu, 2006; URT[175], 2006; World Bank, 2005). Unsurprisingly, food crop productivity has been very low.

Much of the sector's recent growth has been due to production diversification at the farm level (horizontal diversification). Traditional food crops (maize, rice, sorghum and millet) now occupy only 50 % of total planted areas, while non-traditional export crops such as oilseeds, pulses, vegetables, roots and tubers have increased their shares (URT, 2006*a*). To sustain and expand production diversification at the farm level, yields of food crops need to increase at the same time to meet rising domestic and regional demand. However, food crops are still mainly produced for subsistence and the incentives to produce them for the market are not in place. According to the 2006 Agricultural Sector Review, existing taxation erodes the incentives to produce food crops in general and to produce for the market in particular. Furthermore, Tanzania faces the problem of inefficient food markets within the country. The OECD Report revealed that regions with a surplus prefer to export their produce to neighbouring countries because of the poor state of transport infrastructure within Tanzania, undeveloped market information systems regarding prices and needs of other regions, and unpredictable government interventions for certain food crops such as maize (URT, 2006; URT, 2007).

On the other hand, traditional exports are on decline. They accounted for only 20% of total merchandise exported in 2006, down from over 55% in 1995/96. Traditional export crops in Tanzania are coffee, cotton, tea, cashews, tobacco and, on a much smaller scale, cloves and sisal. Production of traditional export crops is also dominated by smallholder farmers, except for tea and sisal where larger estates are common (URT, 2007). Tanzania's most important non-traditional agricultural exports are fish and fish products which earned half as much as all traditional agricultural exports ($138.6 million) in 2006. Nile perch from Lake Victoria constitute about 80% of Tanzania's total fish exports. The sea-fishing potential of Tanzania is still largely unexploited, but

[175] Refers to United Republic of Tanzania (URT).

production is constrained by a shortage of modern fishing equipment. Furthermore, the fish industry faces the challenge of having to comply with quality and sanitary standards imposed by importing countries (URT, 2007*a*).

Tanzania has the third largest cattle herd in Africa, after Ethiopia and Sudan. While the livestock sub-sector contributes almost 6% to GDP, its share in total exports is very small (less than 1%). Despite high growth in egg and milk production, Tanzania continues to import most of its dairy products as production has not kept pace with rising domestic demand. Per capita consumption of major livestock products such as meat, milk and eggs doubled between 2000 and 2005 (EIU, 2007; URT, 2006*a*; URT, 2007*b*). This untapped agricultural potential, along with the fact that Tanzania is open to the sea and could serve the surrounding markets of landlocked countries, provide strong arguments that could contribute to stronger rural development.

In addition to the untapped rural potential of Tanzania, a recent study published by Tanzanian Research on Poverty Alleviation (Aikaeli, 2010) has found that improvements in four variables had a significant positive impact on the incomes of rural households: the level of education of the household head, size of household labour force, acreage of land use and existence and ownership of non-farm rural enterprises. At the community level, the study also found that greater use of telecommunications, which enables increased access to market information, and improvements in road infrastructure have noticeable positive effects on rural incomes. With respect to climatic factors, which are largely beyond community control, sufficient rainfall raised rural income, while the incidence of drought and flood impaired income generation.

<u>The Government's Response</u>

Tanzania's medium-term development strategy is outlined in the so-called MKUKUTA. The strategy, adopted in 2005, puts the reduction of poverty and the attainment of the MDGs at the centre of the national development agenda. It is organised around three clusters: the first about "Growth of the economy and reduction in income poverty"; the second is about "Improvement of quality of life and social well-being" and the third one is about "Governance and accountability". Cluster 1 specifically targets the development of the rural sector as one of the main priorities. More specifically, the target for the agricultural sector was to increase growth from 5% to 10% by 2010, but this target has not been achieved at all (the agricultural growth rate has been around 4% in 2010).

The measures envisaged under Cluster 1 with respect to the agricultural sector are two-fold: first, to promote the production of food crops to improve food availability and accessibility; second, to facilitate investments to modernise small, medium and large-scale agriculture. Efforts will also be made to strengthen the links between agriculture and industry and to encourage agro-processing. At the same time, the GoT wants to increase employment in other growth sectors such as tourism and mining. Therefore Cluster 1 also puts a strong emphasis on improving the business and investment climate, and infrastructure in general (URT, 2005).

Despite the good intentions and a rising tendency, government expenditures on agriculture are still low. The 2000s were also preceded by an era in which the strong priorities on government expenditures were put on social sectors (following the global trend of the time, see Chapter 1), thereby limiting the investment in the agricultural sector. The disbursements for the agricultural sector averaged only 2.5% of total government expenditures during 2001-2004 (URT, 2006*a*).

However, with the introduction of MKUKUTA the share of agriculture in the total government budget has increased considerably: the share was 6.1% in 2007. Despite these positive developments, the 2006 Agricultural Sector Review considered GoT expenditure on agriculture still too low and called for an increase of the expenditure share to 10-15% of the total government budget (Temu, 2006). This level of expenditure would be more in line with the Comprehensive Africa Agriculture Development Programme (CAADP) goal of spending 10% of the budget on agriculture. GoT has pledged to meet the CAADP goal by 2015. It is also true that so far the sector development budget has been largely financed by donors (about 80%).

In 2001 the GoT produced the Rural Development Strategy (RDS) and the Agricultural Sector Development Strategy (ASDS). Both strategies served as input to the MKUKUTA and envisage that the rural (predominantly agricultural) sector of the economy should become an engine of growth, which in turn should lead to a substantial reduction in (rural) poverty. While the RDS covers the entire rural sector, including agriculture, non-farm economic activities, social services, and economic and social infrastructure, the ASDS covers crop and livestock production and related agribusiness activities in more detail. Despite the functional and geographical overlap between RDS and ASDS, and the obvious interconnections of the two strategies, two separate implementation frameworks have been maintained, raising concerns over problems of duplication and coordination of efforts at the local level.

The accent of these strategies is put to support a private-led agricultural sector and the decentralization of the decision-making with the private sector playing a crucial part in service delivery. However, as the OECD Report argues, "the private sector in Tanzania is still in its infancy and in urgent need of capacity building. Donors and GoT should reflect on how to address this need effectively, and the stalling of development of the new PSD strategy is a serious setback in this respect".

The first priority of the GoT was to invest in irrigation schemes with the aim to enhance water accessibility for agricultural activities in Tanzania mainland. A Participatory Irrigation Development Program funded by donors was set up with the objective to increase crop productivity sustainably through expansion and improvement of small-scale irrigation schemes that had been installed and managed by farmers. The program covered 12 crop-producing districts in the central plateau regions (IFAD, 2007*a*).

At the implementation level, two main conclusions emerge from the program evaluation, according to the OECD Report. The first is the failure of the GoT in targeting the poor and making them participate in their own development. The evaluation found that there is a trade-off between ownership and targeting the poor. In order to promote ownership, beneficiaries were required to contribute labor, local materials or some funds. However this requirement made it difficult for the poor to participate. Women were particularly disadvantaged, since they were already overburdened with household work. As a consequence, the 50% target of beneficiaries living below the poverty line was met in only two out of seven schemes visited by the evaluation mission. Despite the fact that the irrigation focus was chosen to make an impact on rural poverty, the problem of how to target and involve the poor effectively is not even on the agenda of the ASDP (Greely, 2007).

The other flaw is that financial sustainability remains a challenge. District program coordination units financed under the program were phased out and their responsibilities were taken over by the line departments at the district level, which did not allocated any specific resources for the operation and maintenance of the program's schemes. Funds from the national ASDP are expected to fill the financing gap, but these have not yet materialised. If recently constructed irrigation schemes already (or again) face the challenge of being maintained under the ASDP, then the sustainability of even newly constructed schemes will be insecure as well.

It appears critical that the successful sustainability of these projects will require the active involvement of the final beneficiaries in these schemes. However, the approach of the government has proofed disappointing. Instead of boosting the rural smallholders to participate, they even enlarge the gap between governmental rural development initiatives and the support of small-scale entrepreneurs according to their socio-economic and cultural patterns. If the requirement to involve them is not fulfilled and the government decides to implement the schemes anyway, there is the risk to exclude the poor indeed (Wolter, 2008).

All in all, MKUKUTA has provided the positioning of the rural sector development at the centre of the political agenda. However, the low past GoT spending on the agricultural sector has been low, which translates into an obvious lack of short-term results as a result of recent agricultural investments. With the introduction of MKUKUTA, expenditures have increased, although from a very low level. So far the GoT is still a long way from achieving the CAADP goal of 10% and the development budget is largely donor-financed. GoT's financial commitment to agricultural development has yet to become a reality.

Furthermore, the first reviews of the ASDP (OECD, 2008) revealed that "capacity to implement the program is lacking at all levels. A lot of capacity building and a change of mindset in Local Government Authorities (LGAs) are needed to make farmer empowerment and private sector involvement a reality. Furthermore, rural and agricultural development efforts should be better coordinated as both draw on the same limited capacities at the local level".

The next chapter will thoroughly discuss the value-factors that are behind the implementation gap, the central point of the present research in the attempt to provide some evidence-based arguments on the reasons why the GoT fails to involve the poor and how could do it better.

3.3 The Tanzanian Approach for Development. Owned or Borrowed?

The objective of this section is to have a stark understanding of the development approach that the GoT is pursuing in terms of policy priorities and its authenticity. The aim, thereby, is to check whether in a donor darling aid recipient country such as Tanzania ownership is objectively transferred to national-based development policies and, in addition, whether these policies are inclusive of the poor.

To this respect, the section will briefly review the impact of former development policies implemented after the colonial period, followed by a review of the current development approach. Afterwards, the section will complement the GoT development efforts with the analysis of the alignment and influence of the high external aid dependency in the country and the extent of the partnership between the GoT and its donors.

3.3.1 Legacies of the Past. The impact of Ujamaa and Villagisation

Before the political independence in 1961, Tanganyika's (Tanzania's name before its union with Zanzibar in 1964) economy was under its colonial masters, first under Germany (1885-1918) and later under Great Britain (1918-1961). Almost a century of colonial occupation not only served both empires to install military occupation and deprivation of freedoms and social welfare to local populations, but also made a profound impact on the economic development and change in the colonized countries (Ngowi, 2009). The general economic motives of colonization were acquisition of raw materials for economic development in the colonial countries. Colonies, including Tanganyika, became suppliers of raw materials like minerals and agricultural commodities and buyers of processed manufactured goods. The economic structure that was established by the colonial powers has had many and far-reaching implications almost fifty years after the independence of many African countries. These structures left national economies extremely vulnerable to price swings, making economic planning difficult. Rodney (1972), in his widely known book "How Europe Underdeveloped Africa", argues that these colonial policies are directly responsible for many Africa's modern problems of today.

After independence, Julius Nyerere took over the presidency of the country in 1965, at the dawn of an era in which the country's main preoccupation was to get rid of the abuses of colonialism. At the same time, the Bretton Woods institutions' recipes of neoliberal policies and structural adjustment dominated global development approaches. The new president, skeptic with international organizations' neoliberal programs, based his vision for Tanzania on the socialist model of China with indigenous characteristics. The cornerstone of his philosophy, as an attempt to integrate traditional African values with the demands of post-colonial setting, was Ujamaa[176]. This policy aimed at establishing national unity (at a time when the country accounted for two hundred different tribes) through a series of collective agricultural ventures and the relocation of public officials and the population around the country[177]. This process is known as villagization.

According to Ibhawoh and Dibua (2003), Nyerere's challenge was how to extend traditional values to the modern postcolonial setting. It was in meeting this challenge that Nyerere postulated Ujamaa as his version of African Socialism as an answer. In a context where Western-style capitalism was seen as incompatible with the aspirations of the newly independent African states, a more desirable alternative was socialism. In his own categorical words, "no underdeveloped country can afford to be anything but

[176] Ujamaa stands for "community" in Swahili.
[177] EIU country profile, 2008.

socialist" (Nyerere, 1961).

His strategy came out of the Arusha Declaration in 1967, based on two pillars. The first action to implement Ujamaa was the nationalization of the commanding heights of the Tanzanian economy, which comprised all banks and industrial enterprises including large-scale agricultural processing industries, part of the trade sector and sisal industries. The second pillar was the implementation of the villagization scheme, aimed at boosting and ensuring rural development as the substitute for international finance capital (Ibhawoh and Dibua, 2003).

The Ujamaa strategy, despite legitimate intentions and aspirations, failed miserably to achieve economic development. Some scholars argue that a plausible explanation is the fact that the policy was rather too ambitious and optimistic about what could be done within a short span (Frank, 1979; Amin, 1990). However, it has also been observed the failure of Ujamaa to adequately involve the rural farmers in the implementation process and the inadequate appreciation of the Tanzanian reality. They did not embrace the villagization scheme because its manner of implementation was out of tune with the social and cultural realities of the rural economy (Ibhawoh and Dibua, 2003). According to Scott (1999), "the modern planned village in Tanzania was essentially a point-by-point negation of existing rural practice, which included shifted cultivation and pastoralism; polycropping; living well off the main roads; kinship and lineage authority; small scattered settlements with houses built higgledy-piggledy; and production that was dispersed and opaque to the state".

Two decades of Ujamaa neither helped to launch Tanzania into economic prosperity nor ensure its economic self-reliance. The remaining issue is, however, what broad interpretations can be made on the influence and legacy of Ujamaa as a development strategy. Ibhawoh and Dibua position the quest for this answer toward two schools of thought. The first argues that Ujamaa policies were unmitigated failures and that under Nyerere, Tanzania's economic progress was distorted and resources wasted, giving rise to a marginalized rural sector and a corrupt and inefficient bureaucracy (Nursey-Bray, 1980). The second school, while conceding that the economic achievements of Ujamaa were quite modest, point to significant successes in social welfare (health and education), a movement towards greater social equality in income distribution, the maintenance of political stability and the achievement of a substantial degree of harmony (Legum and Mmari, 1995; Pratt, 1999; Ishemo, 2000).

In spite of the failure of Nyerere's policies, many Westerners did(do) not understand why he died as a national hero. The short explanation is that Tanzanians have not doubt that for over forty years they had in their midst a leader of unquestionable integrity, who, whatever his policy errors, was profoundly committed to their welfare (Pratt, 1999).

Two main lessons can be drawn of Nyerere's philosophy and Ujamaa experiment. First, the implementation gap is also the main challenge at the meso level[178], no matter which

[178] Here the "meso" level is conceived as the country level of analysis, in the middle way between the "macro" or global/regional level analyzed in chapters 1 and 2 and the micro or local level that will be analyzed in chapter 4.

side of the political strand dominates the policy setting. Nyerere's was certain in placing rural development as the main priority of his strategy (an issue that has came back to the policy agenda twenty years later), as he was also willing to base this strategy on traditional values of Tanzanian people, reflecting an endogenous theoretical orientation of his policies. Some scholars underline the relevance of this aspect of Ujamaa. Stoger-Eisin (2000) noted that "for Africa's future the indigenous elements in Nyerere's thought are, nevertheless, of great potential significance". Ibhawoh and Dibua (2003) also affirm that Nyerere's attempted to find a third way (called the African way) "which neither denies the appeal of universals nor rejects local exigencies, but builds on local inventiveness".

Later, the frustration of the neoliberal approach and structural adjustment era also brought the international donor community to acknowledge the need to better tackle "fundamental structural bottlenecks of African economies" (UNECA, 1989) and commit towards community centered and populist policies of development in Africa (WB, 1989 and 1994). However, Africa's own inventiveness in the sense of finding new uses and new meanings for local resources and imported goods and practices remains the least tried approach to economic advance (Cooper, 1997). The "good teachings" of the past legacy of Nyerere seems to have gone unnoticed by the following GoT and the donor community, who largely focused on avoiding his sound failures regarding economic development.

3.3.2 Tanzania's National Development Vision and Strategy

<u>Development Vision 2025</u>

In the mid-1980s, right after the Nyerere's era came to an end, Tanzania was beset by the economic failures of socialist Ujama and its villagization scheme along with the burden of high external debt. Despite the disappointing results of the Washington Consensus' economic development measures of structural adjustment in Africa, the Bretton Woods institutions and the donor community in general reacted very quickly to provide support and guidance to the post-Nyerere's GoT.

Against this backdrop, the new government[179] had realised that the past development policies and strategies were not adequately responding to changing market and technological conditions in the regional and world economy and were also not adapting to changes in the domestic socio-economic conditions. The GoT was well aware that the country needed to overcome major impediments to development such as the "donor-dependence syndrome and defeatist development mindset; a weak economy and low capacity for economic development; failures in governance and organization for development; and ineffective implementation syndrome" (Tanzania National Vision, 1999).

The first response, beginning mid-1986, was that the Government adopted some

[179] Julius Nyerere was replaced by Ali Hassan Mwinyi, member of the same ruling party CCM, who performed his functions from 1985 to 1995. In 1995, Benjamin Mkapa, from the ubiquitous CCM took over and lasted under 2005, when the current president Jakaya Kikwete was elected by the wide majority of the voters (80%).

Western-led socio-economic reforms but with little impetus to bring apparent changes. Some years later the same Government became aware that these socio-economic reforms were not adequately informed by a national long-term development philosophy and direction. As a consequence, the idea of formulating a national vision emerged. The decision to undertake this vision was largely recognised by the importance of re-kindling the hopes and expectations of the people as well as their patriotism and nationalistic aspirations thus reinforcing the need for a national vision (GoT, 1995).

The National Vision 2025 was then formulated by the Government in 1999. It spells out Tanzania's long-term development vision. It outlines five main attributes that Tanzania is expected to have attained by the year 2025, namely (i) a high quality livelihood; (ii) peace, stability and national unity; (iii) good governance; (iv) a well educated and learning society imbued with an ambition to develop; and (v) a competitive economy capable of producing sustainable growth and shared benefits. It envisages Tanzania's graduation from a LDC into a middle-income country, having eliminated abject poverty and maintaining a high economic growth rate of at least 8% annum.

The Vision 2025 furthermore identifies basic pillars for its successful implementation, including the need for a competitive development mindset as well as a culture of self-reliance in Tanzanian society. It includes implementation guidelines, relating among others to the importance of undertaking reviews and reforms of existing laws and institutional structures as well as of people's participation in preparing and implementing plans for their own development. Various strategies have subsequently been formulated in line with the National Vision 2025. In addition to the National Vision 2025, the Revolutionary Government of Zanzibar formulated a Zanzibar Vision 2020, which is Zanzibar's long-term plan for eradicating absolute poverty and attaining overall sustainable human development. Zanzibar Vision 2020 envisages that, by the year 2020, Zanzibar will have eradicated abject poverty, developed a strong, diversified and competitive economy; it will have maintained peace, political stability, good governance and national unity.

National Strategy for Growth and Reduction of Poverty: MKUKUTA

At the same time as it was preparing the National Vision 2025, the GoT developed a National Poverty Eradication Strategy (NPES) as a long-term strategy for poverty reduction. It is linked to the National Vision and provides a guiding framework for coordinating and supervising the formulation, implementation and evaluation of policies and strategies for poverty eradication in order to reduce absolute poverty by the year 2025. The NPES identifies areas of strategic interventions, relating to the creation of an enabling environment for poverty eradication. Objectives identified in the National Vision and the NPES are largely compatible and continue to inform the policies of the Fifth Phase Government of President Kikwete, who won the 2010 elections and launched his second term mandate.

Emanating from the NPES, Tanzania's first medium-term Poverty Reduction Strategy

(PRS) was outlined in the Poverty Reduction Strategy Paper,[180] which was drawn up in 2000 in the context of the enhanced HIPC Initiative, covering an implementation period of three years from 2000/01 to 2002/03. Guided by Tanzania's National Vision 2025 and the NPES, the PRS elaborated objectives and interventions for poverty reduction in seven priority sectors, namely (i) basic education, (ii) primary health, (iii) water, (iv) rural roads, (v) judiciary, (vi) agriculture research and extension, and (vii) HIV/AIDS. Zanzibar formulated its own Zanzibar Poverty Reduction Plan (ZPRP) for the implementation of the Zanzibar Vision 2020. The Plan had a three-year span, from 2002 to 2005, and focused on reducing income poverty, improving human capabilities, survival and social well-being, and containing extreme vulnerability through selected priority areas of health, water, agriculture, infrastructure, especially rural roads, HIV/AIDS and good governance.

Following a comprehensive review of the first PRS and the publication of a third PRS Progress Report in January 2004, the GoT formulated the National Strategy for Growth and Reduction of Poverty (NSGRP), the so-called MKUKUTA, as Tanzania's second-generation PRS in order to continue moving toward the achievement of the objectives of the National Vision 2025 and the MDGs. The MKUKUTA was approved by the Cabinet in February 2005 for implementation over five years (2005/06–09/10), starting in July 2005. Unlike the first PRS, it adopts an outcome based rather than a priority sector oriented approach, focusing on three broad clusters (see table 4, Annex 3): (i) growth and reduction of income poverty; (ii) improvement of quality of life and social well-being, and (iii) governance and accountability. The successor of the ZPRP, the Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP), or MKUZA in Swahili, also adopts an outcome-based approach around three clusters: (i) growth and reduction of income poverty; (ii) social services and well being; and (iii) good governance and national unity. It emphasizes cross-sector collaboration and inter-sector linkages and synergies. The MKUZA will be implemented for four years, from 2006/07 to 2009/10, to coincide with the implementation cycle of the MKUKUTA. In 2010, the strategy was rextended for a 5-year plan under following the same MKUKUTA structure, also known by MKUKUTA II.

To fast track progress toward achieving the National Vision 2025, in 2005 the Government completed a Tanzania Mini-Tiger Plan 2020, which fed into the MKUKUTA. The Mini-Tiger Plan aims at fostering competitiveness of Tanzanian products on the global markets and promoting exports, including through the creation of Special Economic Zones. The Government also prepared a range of sector policies and strategies for, among others, agriculture, education, health, water, roads and HIV/AIDS, to guide implementation of the first PRS. These sector policies and strategies underpin the implementation of the MKUKUTA.

According to the 2006 Status Report for the NSGRP (MKUKUTA), "Progress towards the goals for growth, social well-being and governance in Tanzania", clear progress is indicated in all three major clusters, however further action is still needed. In addition,

[180] The Government completed the PRS in October 2000 and PRS Progress Reports in August 2001, March 2003 and April 2004.

linkages between clusters are crucial as both clusters and goals are mutually reinforcing. In the overall assessment of cluster I, the rate of growth needs to be increased and a more prioritised and strategic approach is needed in order to generate the broad-based growth, with special focus on agriculture. In cluster II the overall assessment for education and health are generally positive. Nevertheless, periodic reporting still remains problematic through the information system and as a consequence making the assessment of health indicators limited. A similar situation is seen in relation to the assessment of goals for increased access to sanitation and safe water. As access to safe water plays an essential role in improving health and thereby productivity, this needs to be prioritised. The overall assessment of cluster III shows modest improvements and the effort needs to be sustained and intensified in order to create better results. The data collection process was furthermore very challenging for cluster three and stronger links between the local government monitoring and evaluation system and national level monitoring need to be established.

3.3.3 The role of External Assistance in Tanzania's own Development

Reformulating the GoT-donor relationship

Tanzania welcomed the new millennium with its own development vision and a brand-new poverty reduction strategy. I have just reviewed above its priorities, objectives and content structure. Although these developments are widely acclaimed to be a major success in the reinforcement of the ownership principle of development priorities by the Sub-Saharan African nation, they were designed under the close glance (and work) of the donor community.

The early mid-1990s saw the turning point. At that time, corruption was rising and slippage in revenue collection was serious. As a result, GoT-donor relations were restrained and they both needed to set up in motion the process of building a new relationship (Lynge, 2009). Thereby, in the attempt to resolve the situation a team of experts was agreed by all sides, led by Prof. Helleiner. The outcome outlining the principles of the new donor-recipient aid relationship is popularly known as the Helleiner Report[181]. It was a catalyst for change, and it currently stands as a marker for the shift in the GoT-donors relations. As a result, the recently appointed new president Mkapa reflected the Helleiner Report joint agreement with the desire to rebuild bridges, and get reforms back on track[182].

In 1997 the GoT and its partners jointly adapted the report's recommendations, which consisted of an "Agreed Notes" list of 18 actions to be taken. However, an independent review of the implementation of the 18 actions in 1999 noted that important problems still remained. The problems included: inadequate government capacity; management and disbursement of resources outside the government system undermining accountability and transparency; heavy dependence on consultants/TA in executing projects (which is very costly); separate/parallel donor systems/procedures on

181 Helleiner, G, Killick, T, Ndulu, B (1995). "Report of the Group of Independent Advisors on development co-operation: Issues Between Tanzania and Its Aid Donors".

182 See Making Partnerships Work on the Ground (1999). "Making Partnerships Work on the Ground" (Stockholm, Sweden: Ministry of Foreign Affairs).

procurement, staff recruitment, accounting, reporting, etc; fragmented and uncoordinated project support, which reduced effectiveness and efficiency[183].

The Helleiner Report provided inputs and served as the guideline to develop the Tanzania National Vision 2025 and the poverty reduction strategy (NPES). Later on, the first Tanzania Assistance Strategy (TAS) was designed based on the national vision and the NPES. TAS was the first government initiative aimed at restoring local ownership and leadership and furthermore promoting partnership in planning and implementing development programs. Its focus was on transparency, good governance, capacity building, accountability and aid effectiveness, the major recommendations of the Helleiner Report.

The TAS was publicly acclaimed by both the GoT and donors to have been formulated through a participatory approach coordinated by the Ministry of Finance. The Ministry set up a TAS Secretariat in order to provide technical support to the TAS Working Group, whose main task was to oversee the formulation process. The Working Group consisted of different stakeholders such as Government senior officials, donor institutions, NGOs, private sector, academic and research organizations. The resulting TAS provided a five-year national framework for the articulation of basic elements for promoting local ownership and leadership and building partnerships; priority actions; policy framework and national development agenda.

After four years, though, TAS was replaced by a new initiative, the Joint Assistance Strategy for Tanzania (JAST). This move was due to the need to embrace a more comprehensive strategy in line with the international commitments and principles of the Monterrey Consensus on Financing for Development (2002), the Rome Declaration on Aid Harmonisation (2003), the Marrakech Memorandum Managing for Results (2004) and the Paris Declaration on Aid Effectiveness (2005).

The main objective of the JAST is to contribute to an efficient and effective implementation of Tanzania's National Strategy for Growth and Reduction of Poverty (NSGRP), the fulfilment of the MDGs and other national policies and strategies, where the two key elements are harmonisation between development partners and alignment with government structures. The JAST aims at integrating all external resources into the government budget, using GBS as the preferred method of aid modalities. In line with the outcome-oriented MKUKUTA, the JAST is meant to bring together all bilateral and multilateral development partners (donors) under a single strategic framework that guides their development assistance[184].

The objectives of the JAST are to contribute to sustainable development and poverty reduction in line with other national strategies. Furthermore, it aims at building an effective development partnership, as mentioned above, with reference to national and international commitments to aid effectiveness by focusing on: ensuring mutual accountability of the GoT and development partners; strengthening accountability of the GoT to the citizens of Tanzania; harmonising government and development partner processes; strengthening national ownership and government leadership of the

[183] See Tanzanian Assistance Strategy, 10/26/00 Consultation draft 1.
[184] See "The Joint Assistance Strategy for Tanzania", November 2006, URT.

development process and aligning development partner support to government priorities, systems, structures and procedures (JAST, 2006). Furthermore, the JAST introduces different levels of division of labour (i.e. "lead", "active" and "delegating" partners). "Lead partners" are appointed to lead and coordinate other partners' work within a specific sector or thematic area. "Active partners" represent the views and concerns of partners that are outside a specific sector or thematic area in dialogue with the government. Development partners in JAST are harmonising their activities, requirements, missions, reviews etc. and are aligning them to match government strategies, processes and systems both within and across sectors and thematic areas (JAST, 2006).

Since the 2000s, GoT-donors' efforts in improving their aid relationships in a new national development framework (see figure 12, Annex 3) have substantially contributed to stabilize the donor-recipient performance according to agreed national development goals, with its obvious contribution to macro-economic stability and growth. However, as we have already seen, this acclaimed success is not contributing to poverty eradication as expected. I will come back to this issue in section 3.5.

<u>Official Development Assistance to Tanzania</u>

Tanzania is one of the major recipients of ODA and also one of the countries were the assistance has been less effective. As a result of the Helleiner Report and the renewed GoT-donors partnership, aid amounts to Tanzania experienced a substantial increase. Thus, in 1995 net ODA to Tanzania fell to $869 million, while in 2000 it increased to $1063 million, coping the ranking of the Sub-Saharan African recipients. But the most significant increase came in 2006 right after the donor-government alignment in the brand-new JAST, which has revealed a major success for increasing ODA flows to Tanzania. The label of "donor darling" is more than deserved. From that time on, net ODA flows have enormously increased to reach the $2936 million in 2009. See figure 14 of Annex 3 for the evolution of net ODA disbursements to Tanzania from 1990 to 2009. Tanzania have ever since been at the top of the recipients list of net ODA flows to Africa, as it is shown in table 5 of Annex 3 ("Top Sub-Saharan African net ODA recipients in 1990, 1995, 2000, 2005 and 2009").

In figure 14, Annex 3 ("net ODA disbursements to Tanzania between 2007 and 2009") we can see the net percentage of ODA thay is bilateral, resulting in 65% (2007), 59% (2008) and 48% (2009), in steady decline and therefore increasing importance of ODA from multilateral organizations. Another fact that appears in this figure is the large share of ODA of the gross national income of Tanzania. Due to the current crisis in 2007, when flows accounted for 16.8% ODA of GNI, in just one year this percentage decreased to 11.3% in 2009 and then it slightly recovered to the 13.6%, below from the value of 2007.

The same figure shows the top ten ODA donors to Tanzania (2008-2009). Major donors in order of importance are: the International Development Association (which belongs to the World Bank), the United States, the United Kingdom, the African Development Fund, the European Commission, the International Monetary Fund and their agencies, the Global Fund, Norway, Denmark and Sweden.

Looking at the sectoral distribution of this assistance, figure 14 indicates that largest sectors of investment: health and population (23%); other social sectors (15%), economic infrastructure and services (23%) and program assistance (23%). The rest of the sectors receiving ODA are: education (5%), production (3%), multisector (4%), action on the debt (1%), humanitarian aid (2%) and other unspecified (1%). Note that most of the investment in education is carried out throuhg program assistance, for which it becomes one of the most preferred sectors of ODA investment.

There are three modalities used to provide assistance to Tanzania: General Budget support (GBS), Basket Funds (BFs) and direct project funds. As a direct outcome of the high degree of alignment between the GoT and donors after the elaboration of the JAST, the GBS is the most preferred mode since it is consistent with the government's legal framework and processes. In 2007/8 GBS amounted to USD 673 million compared to USD 277 million in 2002/03 (see table 6, Annex 3).

Despite GBS being the preferred mode and the praised optimal functioning of the JAST, a large proportion of aid assistance to Tanzania continues to be delivered through project modality which in many instances remain off-budget and outside the government system. As a result the donor community is taking more efforts to encourage more donors to shift away from the individual programs and area based projects towards program-based and to GBS, through the JAST framework.

Tanzania continues to be considered by the whole spectrum of the donor community and related think tanks as one of the leading countries that have successfully piloted innovations in reforming the aid structure, starting its effort prior to international initiatives such as the Rome and Paris Declarations. The principles of the Aid Effectiveness agenda have been at the centre of the development dialogue since the mid 1990s in Tanzania with the production of the Helleiner Report in 1995. The Government leadership over aid management is also evidenced by the Government-led formulation process of the JAST as well as the recent efforts to strengthen the Government core processes of planning, budgeting, and monitoring with a view of embedding the donor specific process into the national process in order to enhance mutual accountability and domestic accountability. Donor coordination is also facilitated through the Development Partners Group[185] (DPG). The recent Government's efforts to lead donor coordination and dialogue have been welcomed as a major step forward in supporting the principles of national ownership and government leadership over development management process.

These improvements in harmonization, coordination and ownership are amongst the pillars for increased effectiveness. The GoT and its donors have installed a golden era of development aid that currently represents around the 40% of the Tanzanian overall budget, one of the highest in the developing world. These reforms facilitated the macroeconomic and political conditions of stability that have embraced long-standing economic growth. These famous improvements are even adding more mystery to the fact that the poverty reduction panorama is slightly the same as before the adoption of the recommendations of the Helleiner Report more than fifteen years ago. Why? Section

[185] See www.tzdpg.or.tz for a complete information of the group.

3.3 will analyse the factors underlying this ineffectiveness. But prior to do that, this “enigma” makes worthwhile to grasp the real extent and characteristics of the GoT-donors relationship and the true meaning of the ownership principle.

3.3.4 The Donors-Recipient Relationship: the aid (de)politics of Partnership

The GoT-donors disenchantment during Nyerere’s era that lasted until the mid 1990s was a result of several factors: the popular resistance to structural reforms imposed upon a bereaved populace (Holtom, 2002); the political resistance resulting in slippage and non-implementation (Gordon, 1994) and most damagingly the sluggish economic responses that mirrored the global problems during the 1980s and mid 1990s (Stewart, 1995). Against this backdrop, the donor community was not willing to pour vast amounts of aid to a country that was reluctant to follow upon its recommendations.

In response, the donor community, led by the WB and the OECD, pioneered the establishment of a new “aid regime” in Tanzania aimed at restoring the donors’ cumbersome relationship with the GoT[186]. Both the WB and the GoT had profound reasons for embracing this shift. In the mid 1990s, the WB was faced with harsh prospects of net inflows of resources from Africa. Therefore the WB’s Vice-President for Africa at that time, Kim Jaycox, pushed for a more client focus approach of the bank to become more lending-oriented and thus readdress the balance. In words of Holtom (2002), the WB had the mandate to “get back in business”. On the other hand, the GoT had two big reasons to change the nature of the relations with donors: relief the heavy burden of high external debt[187], which was also an electoral challenge, and the prospects to embrace generous flows of resources to fund the Tanzanian budget (Holtom, 2002; Gould and Ojanen, 2003). It is no secret to say that the GoT and donors had found compelling reasons for embracing together the pursuit of a success story.

With strong incentives for the renewed tandem of players on the table, the WB and the IMF announced in 1999 that Tanzania was eligible for debt relief under the Highly Indebted Poor Countries (HIPC) initiative. In order to qualify for debt cancellation, the GoT was obliged to fulfill a number of conditions. One of these was to prepare a PRSP (Gould and Ojanen, 2003[188]). Thereby, instead of supporting a recipient initiative, the BW institutions made use of its strategic conditionality to influence the “partnership”. In the same line, Holtom’s research widely argues that the PRSP was an imposition of the WB and the donor community behind rather than a country led initiative, “with predictably deleterious effects on ownership. More broadly it appears that the reasons for ownership of the PRSP often stem more from its instrumental value (as a tool for accessing debt relief) rather than any belief in its intrinsic value”.

But the donor influence on ownership does not fall apart here. The strategy of the WB to

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[186] The research study entitled “Tanzania’s PRSP, everyone wants a success story” (D.R Holtom, 2002) provides an in-depth insight and robust evidence of the process of the production of the PRSP at the light of the changing relations between government and donors.

[187] Prior to the HIPC Initiative, Tanzania's external debt stood at around US$7 billion. As a result of the HIPC Initiative, the net present value of Tanzania's external debt is reduced by some 54% and debt service payments will be reduced by an average of 47% over time (PWC, 2011).

[188] Their policy paper “Merging in the circle” provides a robust empirical field-based study of the politics and political consequences of public formulation in Tanzania.

"reinforce" local ownership was to delegate to Tanzanian economists trained in North America[189] and new appointed members of the WB[190], to support the elaboration of the Public Expenditure Review[191] (PER) process led by the WB and coordinate it with the agreement of rest of the donors and the GoT. The WB's lead of the design of the development policy process was overwhelming. Holtom (2002) quotes an interview abstract of a direct witnesses of the process, B.A Shallanda, Assistant Commissioner of the Ministry of Finance. He stated:

"…the first [PFP[192]] they drafted in Washington. They came with it here, and we did revisions together [with the Fund]. With the second one, we did the same. The main difference with the PFP and PRSP is that with PRSP, the whole process is undertaken by the government. But the PFP, I remember one day, I think in 1993… They came with that PFP draft, 'ok, let's do the editing', so they [the Fund] came, page by page, line by line, until we reached a sentence that said 'Tanzania is a major exporter of oil'. They'd brought the draft for Angola!".

The WB and the donor community had the ability to externally drive the elaboration of the PRSP carefully crafted to really become, in the end, a local initiative (Holtom, 2002). This ability has been proofed through a strikingly self-congratularory official narrative rhetoric about the PRSP (Gould and Ojanen, 2003). Likewise, Government officials and donor representatives are virtually unanimous about how the new "pro-poor" partnership has empowered local stakeholders (an outcome of the consultative process of policy formulation). The same document stated that "PRSP has been prepared through a process of consultation, detailed in Annex I and summarized in Box 2. The Zonal Workshops[193], which included a large number of representatives for the poor at the village level, were key in this process, and yielded results paralleling those of earlier participatory poverty assessments (PPA) by the World Bank ("Voices of the Poor" in the 1995 report) and the UNDP in Shinyanga (1997). In contrast to this view, Gould and Ojanen (2003) provide robust empirical evidence that "the social and ideological foundations of the PRSP are narrow, representing the views of a small, homogeneous iron triangle of transnational professionals based in key government ministries and donor agencies in Dar es Salaam. It concluded that "the content and process of the PRSP thus reflects a depoliticized mode of technocratic governance".

In the same line, Holtom's research underlines the same conclusion. Concretely, he argues that " more broadly it is worth noting that the breadth of civil society, invited to participate, remains severely circumscribed to NGOs (themselves depending upon the vagaries of donor funding). Participation of elected representatives (Parliament) was

[189] In the 1970s, a generation of economists departed from Tanzania to complete their PhDs in North America, at a time when the country's relations with BW institutions and donors were cordial.
[190] The new aid regime was implemented by WB's country director Jim Adams and Prof. Ndulu.
[191] The PER laid the foundations for the subsequent success of the PRSP.
[192] Policy Framework Paper, the document that sets out the economic policies that the government agrees to adopt as part of its agreement with the IMF.
[193] The study "Merging in the circle" (2003) found that these Zonal Workshops for rural citizens were thrown together in an ad-hoc fashion for a haphazard assembly. The wish-lists of village representatives were recorded in the policy paper, but the underlying causes of these needs were not analyzed in the formulation of the policy.

tokenistic at best, while that of trade unions, and other traditional civil society's bodies practically non-existent. Hardly the strongest base for building a broad-based consensus".

The donors' orchestrated new aid regime in Tanzania facilitated a flourishing aid industry sheltered by the self-assigned success in adopting a national PRSP and the enhanced contribution to the aid effectiveness principles of local ownership, harmonization and alignment[194]. The GoT had enough arguments to partner with the donor community and agree to their conditionalities. Both have won with this success story.

The analysis of the foundational story of the PRSP in Tanzania fully fits within the definition of the cartel of good intentions coined by former WB Economist William Easterly in 2002: "the tragedy of foreign aid is not that it didn't work; it was never really tried. A group of well-meaning national and international bureaucracies dispensed foreign aid under conditions in which bureaucracy does not work well. The hostile environment under which such aid agencies functioned induced them to organize a cartel that increased inefficiency and reduced effective supply of development services, frustrating the good intentions and dedication of development professionals. The cartel of good intentions allows rich country politicians to feel that they are doing all in their power to help the world's poor, supports rich nations' foreign policy goals, preserves a panoply of large national and international institutions, and provides resources to poor country politicians with which to buy political support; in short, foreign aid works for everyone except for those whom it was intended to help". Next sections 3.4 and 3.5 are precisely aimed at analyzing the issue of aid effectiveness in Tanzania under the framework of one of the largest donors, the EC.

3.4 The EC Development Cooperation Process in Tanzania

We have seen in the previous chapter that Africa has always been the lodestar continent from a European foreign relations perspective. Colonial history and geographic proximity ensured that Europe did not lose sight of its southern neighborhood even when the Cold War ended and the former superpowers lost their strategic interest in African political affairs. Yet, the EU was slow to forge common policies towards the continent as a whole.

With the raise of China as a powerful economic pole among the most important economic and political players, energy resources policies and the nature of resource-scarce trends worldwide, Africa is tempted to be the cornerstone of the international politics of the wealthiest countries. They must ensure energy security as a guarantee for further economic growth, along with the search for new international markets with trade and investment partners that could be new players with whom to cooperate.

Since the first EU-African summit in Cairo laid the groundwork for a comprehensive relationship between the Union and Africa south of the Sahara, Africa has gained further significance in international relations and in European policy discourses for at least

[194] The EC even affirms that "Tanzania is a global leader in aid effectiveness and donor harmonization Delegation of the EU to Tanzania, Online, 2011.

three reasons (Overhaus, 2008). Firstly, since September 11, 2001, state failure became a prime international concern. Africa happens to be the place where fragile statehood and its related problems occur most frequently. Second, rising market prices for oil and other commodities have raised geopolitical interest in and economic greediness towards Africa. Today, state-owned firms and multinationals from all over the world, not least China and India, compete for scarce resources on the continent. Thirdly, transnational challenges such as migration and environmental concerns have moved upwards on the EU's policy agendas. Today it is acknowledged that Africa is an important partner when it comes to dealing with global problems.

Therefore, at the dawn of the 21st century the new geopolitics present challenges and opportunities for all players. Nowhere is this truer than in Africa which is entering a new era. Africa is emerging, more democratic, more vibrant, and positioning herself better to benefit from the opportunities of globalisation.

The birth of the African Union (AU), the reinforced role of Africa's Regional Economic Communities (RECs), the African blueprints for economic development (NEPAD – New Partnership for Africa's Development) and for democratic governance (the African Peer Review Mechanism) together with the Strategic Plan of the African Union (2004-2007) marked a fundamental break in the way Africa looks at itself and how it engages with its external partners. Africa is now determined to assert its international status and is becoming active on major global issues like food security, energy and climate change and changing economic environments.

The EU and China are both long-standing partners of African countries[195]. The EU and China are respectively the first and the third commercial partners of, and investors in, Africa. They have in recent years responded to Africa's transformation with major strategy reviews. Needless to say, interest on Africa represents a new paradigm of geopolitics.

Siegfried Schieder takes a closer look at the trade and aid dimensions of EU-Africa relations. He argues that this relationship is characterized by a deplorable asymmetry of power and influence; speaking of "partnership" therefore is in fact a misnomer. The reason for this asymmetry, according to Schieder, is that the relationship has in the past been restricted to trade and development cooperation, where Europe is the donor and Africa the recipient. In terms of trade flows, Africa is much more dependent on the EU than vice versa. The author also sees the strengthening of political conditionality of European aid and the EU's pushing of ACP countries into EPAs as other indicators of asymmetries being reinforced, rather than leveled. As a way to attenuate the asymmetries, Schieder proposes to shift the focus of EU-African cooperation towards other areas beyond trade and aid, namely peace, security and global issues such as environmental and climate protection. In these areas, the relationship would be more balanced as Europe has an interest to win African support for "effective multilateralism" on a global scale.

[195] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. "The EU, Africa and China: Towards trilateral dialogue and cooperation" COM(2008)654 final.

Against the pervasive problem of poverty in Africa as the backdrop, this section aims to have a thorough understanding of the extent and impact of the development assistance through the lens of one of the largest donors in Tanzania, which, for aforementioned reasons, has become the darling of the donor community.

3.4.1 The Framework of the EC's Development Process to Tanzania.

As mentioned in chapter 2, the legal framework of EU – Tanzania relations is provided by the Cotonou Agreement signed in 2000 to promote and expedite the economic cultural and social development of ACP states, with a view to contributing to peace and security and to promoting a stable and democratic political environment.

The agreement provides a framework for cooperation between the two sides and sets the principal common objectives in terms of promotion of trade and investment, sustainable development, economic, social, financial, civil, scientific, technological and cultural cooperation, legal approximation and support to consolidate democracy and to develop their economies.

Within the framework of the Cotonou Agreement, Tanzania and the EU signed the National Indicative Programme (NIP) for Tanzania which provides general orientations of the cooperation for the period 2008 – 2013.

The political framework of EU – Tanzania relations is also enclosed in the Cotonou Agreement. A strategic framework for the cooperation with Tanzania under the 10th European Development Fund (EDF) is presented in the Country Strategy Paper for Tanzania (2008-2013). In addition, the Joint Africa – EU Strategy provides an overarching long-term framework for Africa - EU relations, while its first action plan specifies concrete proposals for 2008-2010, structured along eight Africa - EU strategic partnerships towards peace and security; democratic governance and human rights; trade, regional integration and infrastructure; MDGs; energy; climate change; migration, mobility and employment; science, information society and space.

Political dialogue takes place under the umbrella of Article 8 of the Cotonou Agreement and it focuses on specific political issues of mutual concern or of general significance such as the arms trade, excessive military expenditure, drugs and organised crime, or ethnic or religious or racial discrimination.

At institutional level, the main interlocutor for the implementation of the EU's Country Strategy paper for Tanzania is the National Authorizing Officer (NAO). The NAO is the Permanent Secretary in the Ministry of Finance and Economic Affairs in Tanzania[196]. The roles and responsibilities of the NAO as per Article 35 of the Cotonou Agreement, include coordination, programming, regular monitoring and reviewing of the implementation of activities under EU cooperation with Tanzania. After the signing of the Lisbon Treaty, the EU Delegation in Tanzania became responsible for managing the EU Presidency and hence it has the competence to coordinate the political dialogue between the EU and the Tanzania's government.

[196] Currently, Ramadhan Kijjah is the permanent Secretary and the Deputy NAO and the head of NAO office is Eliud Nyauhenga.

At operational level, the NIP is the EC strategy to deliver development aid to Tanzania. This strategy is elaborated according to the donors' JAST, which is committed to transfer ownership and leadership of the development process to the GoT in the attempt to increase aid effectiveness.

Under the JAST, donor align their commitment to the support of Government's development priorities, stated in MKUKUTA, to facilitate domestic accountability by being transparent in the provision of their development assistance by making increasing use of government systems in terms of financing, procurement, accounting, auditing, monitoring and evaluation, as well as by engaging in open dialogue with the Government and other domestic stakeholders. The JAST calls for increased aid predictability through enhanced reporting of three-year MTEF (Medium-Term Expenditure Frameworks) financing commitments. They say this will facilitate improved budget planning. While baskets and projects have a continued place in Tanzania's development, the government has clearly stated its preference for general budget support. Finally, an Action Plan that specifies the concrete activities, targets and time frames for implementing JAST and a monitoring framework with indicators to measure government and donors' performance, complements the JAST.

3.4.2 The EC Strategy: National Indicative Program (2008-2013)

The framework of relations between the EC and Tanzania is driven by the general objective of the EC's external policy (Article 177 of the Treaty Establishing the European Community). The Treaty and the Cotonou Agreement provide the legal basis for EC cooperation with ACP countries, and the European Consensus on Development sets the general policy framework at EU level. The primary and overarching objective of EU development policy is the eradication of poverty in the context of sustainable development, in line with the international agenda, and with particular attention for the MDGs. Human rights and good governance are recognized as other important objectives.

Evaluation and review processes are essential to ensuring coherence in implementation of the Joint Programming Document (JPD) and the EDF. Monitoring of results and evaluations of impact of individual activities (programmes, projects, sectors) under this JPD are undertaken in line with the Technical and Administrative Provisions that are attached to each individual Financial Agreement prepared to implement this JPD.

The EDF is the financial instrument used to channel EU funds to Tanzania. As mentioned in chapter 2, this instrument is set out of the EU budget and thereby it allows a large degree of leeway to MS and lesser control to the EU Parliament. For the period between 2008 and 2013 the EDF Financial Envelope allocates a total amount of €555 million for Tanzania. The aid delivery is carried out throughout the financial modalities of budget support and the implementation of projects. BS is by far the largest preferred EC financial modality in Tanzania, with a total of 80% of the funding disbursed through GBS (55%) and SBS (25%). The remaining 20% is allocated to the implementation of projects, mainly to support the projects of NSA (see the allocations of the 10th EDF in table 7, Annex 3).

The EDF funds are allocated to the following focal areas. First, €305 million for macroeconomic support, whose high share is justified on the basis of Tanzania's good track record under the Poverty Reduction Budget Support framework, which was in 2006 supported by fourteen donors with almost €500 million. The decision to scale up budget support is furthermore based on the government's commitment to performance oriented monitoring and to further strengthening its Public Financial Management Program. EC budget support is delivered in the form of three-year programmes. If a disbursement is not made, the non-disbursed amount is decommitted, credited to the NIP, and may be reprogrammed either for GBS or for one of the other cooperation programmes of the NIP. Such decision can be taken within the context of the mid-term of final review of the CSP.

Second, Infrastructure, Communication and Transport receive an amount of €139 million, a sector in which the EC has been actively involved since its support to Tanzania's transport infrastructure, which is seen of crucial instrumental importance for reaching the growth objectives of MKUKUTA's cluster 1. However, in formulating a continued support to the transport sector, the following conditions have been taken into consideration: (i) the GoT has developed a comprehensive transport sector policy and a corresponding Transport Sector Investment Programme (TSIP), which is planned to be implemented in two phases of 5 years each from FY 2007/8 to 2016/17; (ii) in a Government-led process of dialogue with the transport sector donors, prioritization principles helping to find a workable compromise between policy targets and available funding are being identified and agreed. In this prioritisation process particular attention will be given to the need to increase funding of maintenance of transport infrastructure in general and road maintenance in particular; (iii) periodic performance monitoring is being carried out by the respective agencies and authorities in the sector. Results are discussed as part of the above mentioned dialogue. In addition annual sector reviews are planned, involving Government, Development Partners and sector stakeholders, both public and private; (iv) institutional reform has well advanced in most sub-sectors of the transport sector. A new Roads Act is in is very last drafting stage and is expected to be presented to Parliament during the first half of 2007. New legislation is being finalised for an increased independence of TANROADS. Mechanisms are in place for a periodic verification of the effectiveness of the institutional reforms; (v) the annual transport sector reviews will provide the opportunity for an enhanced involvement of non-state stakeholders in the management of the transport sector. This should encourage greater focus on cross-cutting issues, including safety, gender and environment; (vi) government measures aimed at increased transparency and accountability affect the transport sector as well as any other sector. The effectiveness of these policies is closely monitored and reported upon to the relevant joint government/Development Partner groups.

The third largest focal area of support is for trade and regional integration €55.5 million. The identification of this focal sector recognizes the crucial importance of sustainable private sector-led growth for the achievement of both MKUKUTA and the MDGs. The specific objective of this sector concentrates on key commodities which offer an opportunity for pro-poor trade, increase quality, facilitation of market access to smallholders, meeting sanitary and phyto-sanitary standards, institutional support and complementarity with regional programming, with environmental sustainability as a crosscutting issue.

Finally, there are €55.5 million to support non-focal areas of collaboration. These encompass the support to NSA to improve democratic governance and growth (€23 million); support to the Office of the NAO (5million); technical cooperation facility (€5 million); support to governance reform programs including Zanzibar (€11 million); measure to support energy and climate research (€8 million); and contingencies and claims (€3.5 million).

3.4.3 Analysis of the EC ODA Structure to Tanzania

Sectoral Distribution of the Assistance

EC development aid to Tanzania totaled $138.4 million in 2009. Table 8 and Figure 15 of Annex 3 provide a detailed outlook of the sectoral figures. The ODA allocation by sector concentrated enormously in the provision of program assistance through GBS mainly, with a disbursement of $70.3 million (51%). The increase of GBS is remarkable compared to 2007, when it amounted "only" $19.1 million. The EC commitment on BS reflects her preference as the main financial modality to strengthen aid effectiveness as reflected in the ECD, as well as the GoT-donors commitment of country ownership. The purpose of this program assistance is intended to "enable macro-economic environment for sustained economic growth" (NIP, 2008-2013).

The second largest sector for sector ODA allocation in 2009 was social infrastructure and services, with $41.9 million (30.3%). The main allocation went for building water supply and sanitation facilities ($22.2 million), education ($13.8 million), government and civil society ($3 million) and health ($1.2 million).

The third largest supported sector was humanitarian aid, with a total of $11.2 million (8.1%). At the bottom of the list, there is the economic infrastructure sector with the major support to the transport and construction of roads with $8.4 million (6.1%) and the production sector with $6.3 million (4.6%), with a minor allocation of $3.9 million to agriculture, forestry and fishing, a substantial decrease compared to 2007 ($9.2 million).

The analysis of the sectoral distribution across the second half of the 2000s decade also confirms the sectoral patterns of allocation of the EC towards the predominance of program assistance, social services and infrastructure and a minor role left for economic infrastructure and production sectors.

Alignment with GoT Priorities and Country needs

The EC country strategy was designed to be aligned to the GoT's Poverty Reduction Strategy, in terms of both objectives and priority sectors/areas. The bulk of EC support has therefore been oriented towards needs and challenges identified through the MKUKUTA process. In terms of sectors / areas, *de facto* priorities are overall aligned. EC priorities were formerly focused on economic growth and social development. In 2001, the country strategy introduced poverty reduction as a new overarching goal appended to a basically unchanged logic. A main flaw of the EC strategy is that overall objective of poverty reduction has not been clarified enough ("Evaluation of the EC Support to Tanzania, Volume I", 2006).

In the EC strategy, EC funds have been mainly oriented towards "conducive economic environment", "growth of activities where the poor engage" and "equitable access to basic services". However, in the factual allocation of funds, the weight of the two last categories ("improving basic services" and "reducing vulnerability") is much lighter. The low level of priority given to the issues of poverty reduction at local level and equity is a reflect of the misalignment of policy goals into budget allocations. Furthermore, the EC strategy does not capture the concept of poverty in Tanzania, which is predominantly rural-based, as I have argued in this chapter. The low level of investment in production sectors, especially in agriculture, forestry and fishing confirms this statement. In the same line, the EC's evaluation includes a negative assessment of the fact that the approach to poverty reduction remained implicit. The EC is therefore unable to explain and justify why a low or very low priority is given to the issues of equity and vulnerability.

Thus, allocations as well as actual disbursements show a prioritisation that raises doubts about EC aid's poverty focus in Tanzania. The large involvement of the EC in the transport sector is a striking example not only in Tanzania but also to the rest of African ACP countries that contribute to provide an understanding for EC's prioritization rationale. All PRSPs in Africa refer more or less to the necessity of expanding the road network as one important element of development. The EC takes this as justification to keep its strong and long-standing priority in road construction and maintenance (see Cameroon, Ethiopia, Mauritania, Tanzania, Zambia as examples). In the five years after PRSPs came into being in most countries (2001-2005), the EC has spent almost exactly the same amount of aid (around €2.2 billion) in ACP countries on transport as during the previous years 1995-2000 (Eberlei, 2007). The EC's annual report for the year 2001 -the year in which the MDGs were formulated and most of the poorest countries published their first PRSPs– shows that these new developments in the sphere of poverty reduction were not the driving forces behind the EC's priority setting in their CSPs. In light of this evidence, it is not surprising that a recent analysis of the EC's CSP approach found that the EC stands out among other EU donors by its focus on the same sectors across countries, rather than adopting a clearly country-specific approach (CDC, 2005).

<u>The EC Strategy contribution to Aid Coordination and Coherence</u>

The EC's Evaluation Report states that, despite the policy insistency of the ECD to focus on aid coordination, the "EC's approach to strategy-making has been disappointing at this respect. It has not delivered the expected benefits in terms of concentration and predictability, except as regards GBS. In addition, it has increased the transaction costs borne by the Government, actually in a limited proportion, but to an extent that would become excessive if all donors were to launch multiple strategy-making processes at multiple points in time".

In several instances, efforts to mainstream cross-cutting issues have taken place at the right level (environment and budget support, gender and education, gender and roads), and significant successes have been achieved, but the low level of budget allocations show the poor relevance for strategic purposes. While the Report states that "the EC has purposely directed its efforts towards areas where cross-cutting issues were particularly challenging and this has to be praised", in other instances the efforts (sometimes successful) "owe to circumstantial factors, or to routinely applied procedures, and their high priority has not been fully demonstrated".

Political Dialogue

As the EC NIP 2008-2013 points out, the EU had, until recently, primarily been seen as an aid donor and not as an entity for political dialogue. This situation started to change in early 2005, when the then Dutch Presidency, in close association with the Commission and the forthcoming UK Presidency, undertook to present political dialogue as foreseen under article 8 of the Cotonou Agreement as an important instrument to reinforce and deepen the good relations between the EU and Tanzania. The Minister for Foreign Affairs and then Presidential Candidate Mr. Kikwete supported the idea in June 2005.

The process came to a virtual standstill, during the remainder of 2005 and early 2006, because of the General Election. More recently, President Kikwete, on the occasion of Commissioner Luois Michel's visit to Tanzania in June, reiterated his support and instructed his services to start a systematic political dialogue as soon as possible. The Finnish Presidency then launched the preparations for the process with the Minister of Foreign Affairs in July 2006.

Although the EC efforts to start the political dialogue, there is not a clear EC policy towards Tanzania in terms of political conditionality. There is a development approach, and an official document[197] that frames EU-TZA political dialogue as mentioned above; however, GoT is not very convinced about this process while on the other hand it has its own political dialogue with the United Kingdom.

As a mode of example, it is symptomatic and meaningful that the EU never contacts the GoT directly, just the heads of mission. Actually the EC political interests in TZA are focused on sending a mission to observe next election, to fight corruption and to protect the human rights with the albino killing issue[198]. In words of the Tanzanian Desk Manager at the European Commission in Brussels, "there is no formal political dialogue between the EC and the GoT in place[199]".

EC Aid Impact

Overall, according to the EC Evaluation Report, significant progress occurred in areas like macro-economic stability, enrolment in education, health, roads and access to water, precisely the areas that received largest financial support (expect health). The absence of progress has been apparent in two areas, quality of education and corruption.

Given that most of the EC ODA has been delivered as GBS, there is an obvious difficulty in assessing the direct impact of this modality. The report states that GBS has been additional in terms of expenditures in the priority sectors, and therefore in the results

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[197] It refers to the EC-Tanzania Strategy: the National Indicative Program 2008-2013.

[198] See the BBC news "Tanzania fear over albino killing", at http://news.bbc.co.uk/2/hi/africa/7148673.stm

[199] Interview held in Brussels as part of the field research, May 2009.

achieved. As I have argued widely in chapters 1 and 2, the issue of BS is rather complex, due to the high exposure to fiduciary risks in corrupted and weak public management and procurement systems. This is the case in Tanzania, which suffers of high levels of endemic corruption and weak national control mechanisms (Holtom, 2002; Frantz, 2004; Gould and Ojanen, 2003; Lynge, 2009). Furthermore, the EC, without a formal policy dialogue, one of the preconditions to engage into a BS, loses track in influencing the direction of the development policies set up by the GoT. All in all, the analysis of BS is a national issue that requires the overall perspective of the whole donor community that jointly commits part of their funds to the National Treasury of the GoT. One of the main positive aspects of the evaluation is that the EC is recognized for being a catalyst and leading role in the efforts of aligning BS efforts with the GoT. I will analyze this issue further in the next section in the context of the role of BS in the overall aid effectiveness in Tanzania.

As a consequence of this complexity, the evaluation has paid special attention to the impact of EC-supported road investments on poverty reduction and the performance of the education sector. An in-depth field study has identified impressive impacts of road investments in terms of poverty reduction, especially through "equitable access to basic services". Stand-alone road projects are, however, insufficient for achieving such impacts, which stem only from a well-maintained road network, consistently connecting trunk roads, feeder roads and local roads. The support of large infrastructure projects like roads, though, it is not per se a pro-poor investment. A cross-country study[200] has found that the economic growth is still seen by the EC as the engine for development and poverty reduction – despite the fact that reaching the MDGs is not possible through top-level economic growth alone, as long as this growth does not benefit the poor. The priorities of EC aid formulated against this economic background includes the large involvement in supporting the construction of trunk roads that serve as trade routes or the strong support for regional integration through aid. In line with the aforementioned EC's conceptualization, the report has identified "impressive impacts of road investments in terms of poverty reduction, especially through equitable access to basic services".

As regards of education, the other main priority sector of the EC in Tanzania, the evaluation found "impressive quantitative achievements" in enrolment and distance education. However, the quality of education decreased in terms of pupil per teacher ratio and qualified teachers. The education sector in Tanzania is an example of the input-output orientation of external support, which is predominantly focused in ensuring access to basic education to all (Dyer, 2005) but detrimental to the quality of the education once the enrolment rate has increased.

The lack of apparent progress in good governance is discouraging. The evaluation affirms that, despite the small technical amounts directed to the promotion of good governance, BS brings a new opportunity for increasing good governance via policy dialogue, but the performance for reforming of the public finance management is still

[200] "The EU's Footprint in the South. Does the EC development cooperation make a difference for the poor?", CIDSE, 2007.

considered as low, and the political dialogue absent. Less promising are the results of addressing corruption, in which there are even negative results reported in the prevention of the Corruption Bureau and the stagnation of the corruption political dialogue between the GoT and donors. Referring to the support of NSA and Local Government, smooth progress is observed as a result of important delays in the implementation of policies.

The EC's interventions in trade have been limited to date, in terms of its financial allocations and project or program support. The primary intervention has been centered on the provision of technical assistance to strengthen the Government's capacity in Doha negotiations, EPAs and the establishment of a trade policy. The evaluation report also concluded that the EC support to trade and regional integration is driven by a top-down approach following the implementation of regional policies to the country level and that the approach lacks the connection to the political level through a formal dialogue with the GoT[201].

Regarding the financial modalities involved, the EC evaluation report highlights that projects and basket funds are better at involving civil society, and at preventing financial leakages, whereas BS is good at improving predictability, country ownership and promotion of democratic accountability. Projects achieve successful impacts when they are "launched in the framework of an adequate sector policy; designed to ensure sustainability; private sector led or private sector friendly; locally owned; and integrated into markets". However, the report also argues that it is difficult to credibly trace the macro-level impact of individual EC projects, except large infrastructure investments when they have removed key bottlenecks and innovative projects when the promotion of lessons learnt is part of the design.

The Limitations of Impact Information

A commonly claimed principle is the need to improve the sources to collect information of the impact of development policies and strategies to poverty reduction. In the case of the EC, the monitoring and evaluation resources rely mainly in the poverty monitoring system of the GoT, as agreed in the JAST with the rest of the donor community and the same GoT. The only evaluation exercise that the EC undertakes by her own is the aforementioned "Evaluation of the European Commission's Support to the United Republic of Tanzania" (2006), carried out every 5-year period of NIP implementation. In addition, the EC also monitors individual projects implemented in Tanzania as part of the EC Results-Oriented Monitoring system, set up in 1999 as mentioned in chapter 2.

Even in the EC's evaluation, the report affirms that "conclusions related to the EC contribution to policy reforms are generally robust, but the conclusion related to EC contribution to overall socio-economic changes is weaker, mainly because there are few

[201] The GoT is skeptical of the EPAs benefits for its own sake. A document prepared by the South South Commission, availed by former President Mkapa who is its Board Chairman, says EPAs provide the wrong development model for Africa, and will jeopardize African countries' development and regional integration prospects, rather than support them. The document, which this paper been serialising, show instance that until now, rapid tariff cuts in sub Saharan Africa since the 1980s resulted in deindustrialization ("The Citizen", Dar es Salaam, April 6, 2010).

recent data about poverty, and also because available impact information is poor in quantity and in quality, despite the enormous amount of works done in Tanzania".

On the other hand, the indicators of the intervention logic of the EC's Strategy are not SMART, and they reflect and the monitoring of the indicators is activity-oriented rather than results-oriented. This is manifested in ambiguous indicators and generally vague definition of their sources of verification (see table 9, Annex 3 for an overview of the intervention logic and its "objectively verifiable indicators" and the respective "sources of verification" in the macro-economic support of the EC strategy).

In the vast majority of cases, the indicators are referenced to GoT's poverty monitoring system. This system is comprised of Annual Progress Reports (the latest dates from 2009/10), bi-annual Poverty and Human Development Reports (the latest dates from 2009), MDGs Reports (the latest dates from 2010), and analytical reports on surveys and censuses (the latest census was produced in 2002). Despite an apparent progress in the methodology and data processing of poverty data in Tanzania, the same MKUKUTA outlines the major limitations. Foremost, the monitoring system needs to become more oriented towards tracking progress on how inputs and activities are transformed into outcomes and results. The report also notes that there is a strong need to improve coordination and production of routine data, and it finally demands an enhanced utilization of the information elaborated for evidence-based decision-making[202], reflecting that there is the lack of effective mechanisms to ensure that lessons learned from evaluations are fully taken into consideration for the new update of the policy design and implementation of the development strategy at operational level[203].

3.5 Aid Effectiveness in Tanzania

The alignment of donors and the government towards the pursuit of the NPRS implies that the aid effectiveness analysis in Tanzania might be better placed at the level of the joint assistance strategy that donors commit to attain national poverty reduction goals, rather than concentrated in a single donor. The particularity of each donor lays on their respective different approaches to the aid delivery process, but the gradual standardization of the system renders that the donor community, as a whole, encounters the same constraints and challenges to foster the implementation of a joint strategy with the GoT[204].

This section offers an assessment based on the results of a fieldwork research that I conducted in Brussels and Dar es Salaam in 2009 as part of the methodology of the present work (see the introductory chapter, methodology's section). The main objective of this phase of the research is to provide a thorough identification and analysis of the underlying causes of aid effectiveness (or ineffectiveness) at country level. The research

[202] See "MKUKUTA Annual Implementation Report 2009/10", Ministry of Finance and Economic Affairs, page 119.

[203] For example, all donors report that they rely on the PRS when programming aid to Tanzania, but only 13% use the annual PRS progress review to influence annual resource allocations (Harrison and Mulley, 2007).

[204] Some of the analysis of the EC aid impact above can be extrapolated to the donor community in general (i.e. the issue of BS, the limitations for the production of results-based impact information, etc.).

fieldwork was conducted through in-depth semi-structured interviews with a panel of experts comprising bilateral and multilateral donors and the GoT (see table 10 and 11, Annex 3, for the list of the interviewees). The following are the main findings.

3.5.1 The (hidden) effects of the Donor Community

The incisive push towards the adoption of development aid by the donor community to the GoT incentivated the shift of the government towards the adoption of an external aid system that positions aid effectiveness at the core of the development debate. The GoT's struggle to poverty reduction moved from a self-reliance orientation of his political ideology under Nyerere to an other-reliance approach based on a close relationship with donors and the accomplishment of their conditions.

Thereby, the agreement to partner with donors in the newly joint assistance partnership had some implications for Tanzania. Donors started to import more aid amounts, more staff to manage that aid, more investment/involvement in the whole spectrum of sectors and cross-cutting issues considered (see figure 16, Annex 3 for the division of labor matrix), and more haste. Furthermore, every single donor deployed his or her own development approaches to fulfill his or her own interests, agreed a set of conditions and implemented his or her own methodologies for aid delivery.

As such, the issue of aid effectiveness is a donor-created constraint. This "behind the official discourse" donor effects could be the main explanation of such dispersion of aid and donor overcrowd. Although one of the main objectives of the Paris and Accra declaration is to increase the aid effectiveness throughout aid harmonization, this seems an official rhetoric still too far away to be converted into practical implementation. Despite all the above, donors are committed to International Declaration and coordination efforts are being implemented to the JAST. Although Tanzania is praised as an example of donor harmonization, this is mainly due to the relative position of other recipient countries in Africa that are not achieving the same degree of joint cooperation between Development Partners.

Aid dispersion[205] in Tanzania makes the situation very complex. Indeed, the consequence is diminishing and constraining aid effectiveness and efficiency. Government's transaction costs substantially increase in managing the process of aid delivery, the preparation of bureaucratic reports, and to deal with conditionality, ending up in a process in which the GoT lacks the required absorption capacity to make aid flow to the intended beneficiaries.

Furthermore, whereas aid effectiveness (you have an objective and you become effective if the objective is met) is at everybody's lips, aid efficiency is still a taboo (you meet the objective but besides you have to get the maximum output for the inputs or resources being used). This is correlated to the low baseline of quality monitoring and evaluation systems based on the measurement of outcomes and results.

As an illustrative example, Tanzania received an average of two-three foreign aid missions daily in 2005 and, moreover, GoT "efforts" to increase aid effectiveness did not

[205] Aid dispersion is met when too many donors are acting in a single country and in multiple sectors.

help: there where 77 indicators to measure development aid performance in the Annual Review and the GoT reduced them into just 10, which affected so much the realistic analysis of the current situation.

3.5.2 The GoT-donor Partnership: Feeding the System

As I have largely argued above, the donor community predominantly leads the donor-recipient relationship in Tanzania. Officially, donors support the national development strategy of the GoT, but in practice the GoT adopts the recommendation of the donor community to set up a NPRS in line with the donors' approach under the framework of the international aid system. The incentives for both donors and the GoT are widely aware. The appealing receipts of large amounts of aid flows to the GoT is creating a pervasive externality that inflates the corruption practices of a weak system with very limited national control mechanisms over budgetary expenditure.

Corruption in Tanzania is rampant. The main party, Chama Cha Mapinduzi (CCM), is ruling the country since the independence in 1975. The power of CCM is huge and its influence wide and strong. CCM controls the whole country from local councils to the central government, it has international presence and a very big infrastructure. Corruption scandals do not reach very often the public level, but there have been quite recently several cases that appeared in the public media, which are in the word of mouth of the vast majority of stakeholders[206].

When tackling the development issue, corruption is a barrier difficult to overcome. Herein, it comes up within the so-called "political will". The main question is: who is trying to make things happen? With no visible leadership, in Tanzania it seems that the political elite does not want to move towards a fair assignment of resources. Besides high-level politicians, the political elite also encompasses the private sector, with important businessmen acting as key decision-makers.

Thus, the private sector is very active and involved among and within the political elite. It is aligned and controlled by the government, thereby making or belonging to the same network. Indeed, the PS is funding the GoT. Despite the wide and strong influence of the PS, it is just run mainly by a minority, which largely benefits of the current system. They are basically engaged in construction and large-scale agricultural activities[207]. Moreover, the same network conforming the PS is also leading the main civil society organizations[208]. The above is a complex situation in which the decision-making is in hands of a ruling elite moved by clientelist procedures, a small and very powerful network consolidated at the top of Tanzania leasing institutions, private organizations and public institutions.

[206] E.g., in 2006 there was an affair involving ministers, member of the Parliament officials, etc. Among other, the prime minister resigned; in 2008, the cabinet of the President ordered a big investigation due to corruption bribes internally managed. This is still an open process with unpredictable consequences, no one really knows what is happening in this matter. However, nobody has been convicted to date.

[207] See East African Community website, www.eac.int.

[208] These finding are in line with the study "Merging in the circle", in which the main conclusion is that the ruling elite comprises the GoT and the private sector, arguing that all these actors merge in the circle of the aid system (Gould and Ojanen, 2003).

The dominance of the public policy arena by a narrow corps of the ruling elite and the transnational development professionals occludes the possibility of deepening democratic oversight of measures for national development and, thereby, improve governance. In this context, public assets allocated for the reduction of poverty are highly susceptible to fungibility and abuse as the local political elite can distribute resources among themselves via weakly regulated mechanisms of direct expenditure and subcontracting. Against this backdrop, the GoT-donors big push toward the adoption of BS financial modalities even aggravates these problems.

3.5.3 Digging into the right direction?

In line with the analysis of the lack of right policy-making for boosting agricultural and rural development mentioned in section 3.2 (Greely, 2007; Wolter, 2008), the research points out the inability of the GoT and donors to create the appropriate set of measures that have the potential to foster the optimization of affluent natural resources such as agriculture, fisheries, gold, oil and other minerals and tourism. The low level of engagement of the majority of rural farmers into the under exploitation of land is the main handicap for Tanzania's homegrown economic development.

Related to the mis-use of the aforementioned natural resources and due to the lack of resources of rural farmers, there is no practical effective approach that can render agriculture's modernization. Individual entrepreneurship is difficult to work due to the lack of resources. The GoT has no clear policy on how to unleash entrepreneurship and there is a mis-management of the resources provided, literally "a waste of money". Considering the fact that the agricultural sector employs about three quarters of the population and produces 45% of Tanzanian GDP, agricultural sectors need urgent modernization. This should be the cornerstone for further economic development.

The inappropriate design and implementation of policies aimed at modernizing the rural sector is aggravated by the fact that the GoT lacks a logical regional planning and focus on the implementation of the NPRS according to the region's needs and context. There is a serious tendency of converting Dar es Salaam in the centerpiece and focus of development issues. Therefore, there is the practical approach in Tanzania that Political Interest (Ip) is inversely proportional to the physical distance of the decision-making points (Political interest = 1/distance3). According to the formula, the most remote areas of this vast country, which are in general the ones more dependent on subsistence agriculture (except the northern areas of Arusha and Mwanza), remain the most vulnerable.

3.5.4 Political Ownership vs. Genuine Ownership

The debate on aid effectiveness of the current aid system revolves around the principle of ownership. In fact, ownership is at the core of the paradigm assessing the missing link between significant development aid inflows from the North and poverty reduction outcomes in the South. Central to this paradigm, is the belief that the way aid is delivered, as well as the origin of the related policy reforms, matter in making aid more effective (Ohno, 2005; World Bank, 2003). Despite this consensus, research shows that actualization of ownership cannot be taken for granted (Schuler and Klasen, 2004).

The PD (2005) states ownership such as "developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption". The AAA (2008), in an attempt to reinforce the need to strengthen this principle adds that "countries have more say over their development processes through wider participation in development policy formulation, stronger leadership on aid coordination and more use of country systems for aid delivery".

The donor community's conceptualization of ownership carries out the assumption that the formal official agreement and adoption of a national poverty reduction strategy by the recipient government reinforces the principle of ownership. However, the analysis of ownership at the global level (chapter 1, the international aid system), at the regional level (chapter 2, the case of the EU development process) and at the country level (chapter 3, the case of Tanzania's development model), provides robust evidence that this understanding of ownership is biased towards a political direction of the endorsement of the development aid rhetoric to the recipient government.

The lack of evidence of the effects of the strengthening of this sort of political ownership is paramount, and sometimes even harmful for the achievement of development purposes. In practice, leadership is deployed by donors, which exercise a large degree of influence over the GoT. It is undeniable that a major step forward of their relationship was the achievement of consensus since the adoption of the Helleiner Report and the drafts of the first NPES. Through this consensus, the GoT and the donors may agree on the same model of development and 'independently' come to the same policy conclusions. However, this process can be done without the GoT's leadership. Thus, the degree of the GoT in developing policies to conform with donor views in order to secure their support is high, effectively delegating overall policy-making responsibility to donors to a large extent. It is also possible that the consensus is not real –that there is no real coordination on policy issues- only a shared rhetoric (Harrison and Mulley, 2007).

Besides the debate on whether the GoT owns the development policies, there is a central aspect underlying the causes for aid effectiveness in Tanzania. The central aspect is the inability of the GoT-donors tandem to empower and involve the poor, the millions of rural farmers that, as direct beneficiaries, might be included as part of the process, not as mere targets for poverty reduction. The failures of agricultural policies often refer to the incapacity of the policies to effectively involve the poor in rural areas (Greely, 2007; Wolter, 2008), as it was the Achilles' heel of Nyerere's rural policies (Ibhawoh and Dibua, 2003) and the challenge of the current government-donor partnership.

There is a gap in the official rhetoric of ownership as it is completely focused on assessing political ownership. In the context of development aid, ownership is defined by many commentators at some point in a continuum of two extreme situations, one where an aid recipient country is in control of its policies and the donor relationship (Ohno 2005) and the other where donors control both aspects. It includes analyses of roles and relations between donor and recipient governments and between recipient governments and their citizens, with respect to capacity to set and take responsibility for a development agenda and sustain support for it (Saxby, 2003). Ohno asserts that true ownership should be based on the strong political will of national leaders to build a self-reliant economy (Ohno, 2005), entailing that the aid recipient country, has the capacity to choose from alternative policies. The WB takes ownership implicitly as adherence to policies which are not, necessarily, home-grown (Molina, 2007). This conceptualisation is weak as it reproduces the power imbalances between donors and recipients and misses the crucial dimension of national political economy that led to past mistakes (Molina, 2007).

The treatment of ownership does not foresee the appropriation and control of the development process over its citizens, as it remains inherently in the concept. This implicit assumption is counterbalanced with the apparent lack of adaptation of development policies according to the needs of the poor. Indeed, the implementation of such policies ignores the successful formula to involve the poor as part of the aid value chain.

While acknowledging the critical role that poor and community empowerment should play in the development of Tanzania, the interviewees assumed that culture might be inherent to the policy-making process and that its implementation should be adapted according to the poor's needs, but had no opinion on how the government is dealing with this factor at the policy level.

3.5.5 Potentials for a Way Forward

The optimal exploitation of the natural resources is commonly agreed as the main source of development potential, led by the modernization of the rural sector and the pro-poor economic development of tourism and mining sectors, with the right mix of accompanying investments in physical and social infrastructures. These infrastructures might be specifically tailored to service and develop a large domestic market, as a pre-requisite to develop modernized market infrastructures that could be used to uncover the potential to serve markets of landlocked neighboring countries.

In order to exploit these potentials the research underlines the need to promote the design of pro-poor policies that can successfully be able to improve human capacity through effective education and training programs, unleashed entrepreneurship - particularly in rural sectors-, the introduction of innovations and technology for the modernization of the agricultural sector, with a focus on the involvement of the poor in these processes.

3.5 Concluding Remarks: Is there a Tanzanian Model of Development?

High and long-sustained economic growth fuelled by increasing large amounts of aid inflows has not allowed Tanzania to reduce poverty according to expectations and targets. The reborn aid relationship between donors and the GoT in the 1990s has branded the case of Tanzania as a success story. While big amounts of ODA have propelled macroeconomic stability and facilitated economic growth, the aid-growth relationship has failed to include the poor.

Pro-poor economic growth is today a fallacy in Tanzania. The GoT and the donor community have underestimated the potential of the rural sector to drive economic development. Sixteen years of 6-7% average of economic growth have only rendered into a mere reduction of the 3% of income-poverty in rural areas (from 40.1% in 2001 to 37.6% in 2007), where the vast majority of poor are making their living (74%).

Encouraging achievements are reported in non-income poverty areas such as education and health, sectors that already took off during the Nyerere's era after colonialism, with reduced infant and child mortality rates, improved access to water and increases in enrolment rates. However, these improvements are driven by urban hubs and based on an input-oriented assessment of its effects, leaving rural areas more substantially vulnerable to social threats.

Therefore, rural poverty remains the most pressuring and critical economic development problem (Aikaeli, 2010). The GoT-donors have demonstrated weak political will and poor implementing capacity to move from a traditional, subsistence-based agriculture to a modern, profit-oriented rural sector. Public expenditures in agriculture have been rather low and agricultural growth has been substantially below the MKUKUTA target of reaching 10% in 2010 (Temu, 2006). Furthermore, the GoT has fostered an incoherent policy approach with overlapping agricultural and rural strategies with a strong reform emphasis placed on an infant private sector that lacks the capacity to take effective leadership and operational lead (OECD, 2008).

The implementation of agricultural and rural policies has been characterized by the inability to target and engage the poor properly (Greely, 2007). In some cases, they even suffer the risk of exclusion due to the will of the government to proceed with the foreseen implementation of the schemes –i.e. irrigation systems- (Wolter, 2008). Moreover, financial sustainability entirely relies on public investments led by donor funding, with risks of unpredictability. Last but not least, local government authorities are currently far away from having the capacity to make farmer empowerment and private sector involvement a reality.

The misaligned efforts of the GoT in modernizing the rural sector have its roots in the legacy of Nyerere's epoch. The former President, in an effort to get rid of the colonial burden, propagated an African socialism based on the exaltation of traditional values for modern post-colonial development (Ibhawoh and Dibua, 2003). However, his strategies of Ujamaa and villagisation failed to bring economic development, accentuating rural marginalization and inefficient bureaucracy (Nursey-Bray, 1980). On the other hand, he was crucial in setting up the pillars of national unity and socio-political harmony, with remarkable achievements in health and education (Pratt, 1999; Ishemo, 2000).

In the mid 1990s, the GoT decided to break up with the past and embraced the resistless incentives of welcoming donors' BW-made recipes for economic development (Holtom, 2002). The GoT lost the opportunity to ascertain for some of the most valuable lessons that the government could learn under his mandate: political will, strong leadership and the intention to build upon an endogenous based development approach (Stoger-Eisin, 2000). Instead, the GoT engaged into a lucrative partnership with the donor community that entailed the adoption of the donor-driven aid system and its inseparable conditionalities.

This wink to the donors pushed the GoT to entirely focus on adopting the bureaucracies needed for the management and coordination of aid and the donors-recipient relationship. The energy poured into the adoption and implementation of liberal reforms was detrimental to the efforts that the GoT needed in order to successfully involve the still socialist mind-like poor in the design of the national development strategy. As a result, the GoT and donor association aggravated the gap between the government and the poor majority.

The donor community, well exemplified in the case of the EC, was far to bring country-specific approaches to poverty reduction and instead they generally applied their own models of economic development based on trade liberalization and regional integration, with an apparent incapacity to effectively target the needs of the poor.

Furthermore, the green traffic light for donors had far-reaching implications. Donors transferred political ownership of the development process to the GoT, and thereby leveraged accountability to the government. Overall assessments of aid effectiveness and impact are tracked down following the GoT-led poverty monitoring system, still with serious limitations. The consensus reached among the GoT and donors towards the steady promotion of BS as the predominant financial modality contributed to harmonisation and alignment, but heavily relied on weak national public management systems and control mechanisms, with high exposure to fiduciary risks.

Thus, good intentions turn out to become harmful attempts of undesired effects, with high risks of inflating a system that suffers from a structural rampant corruption. This system comprises a powerful elite that stems from the ubiquitous ruling CCM allied with highly influential businessmen from a small private sector that largely benefits from the system (Gould and Ojanen, 2003). This pandemic is seriously hampering any attempts to bring good governance and slowing down the paths to political dialogue in corruption and governance issues with donors.

The donor community, highly concerned, it is focusing its efforts in tackling governance and strengthening her control mechanisms through enhanced conditionality, otherwise her whole official rhetoric around the principle of ownership on aid effectiveness is at risk. The conceptualization of ownership is substantially biased towards the political assumption that the national government takes control over the national development policies, even though donors exercise effective leadership on policy-making to a large extent. Donors assume that therefore their poverty reduction's objectives are implicitly aligned with the government's goals and thereby they reflect the country's needs indeed.

Under this mis-conceptualization of ownership (Ohno, 2005), the poor, the real beneficiaries of the system, are in practice left out of the development process at the policy level and the aid effectiveness debate. Although throughout totally different approaches, neither Nyerere nor his successors (with donors' support) have been able to target, motivate, and involve the poor as key participants of the development of their own country. This remains the biggest challenge for further inclusive economic growth and development.

There is no authentic homegrown Tanzanian development model. The government, with the complicity of donors, has not found the way yet to identify and build upon the social, economic and cultural assets of its population. It has, however, identified the constraints and potentials for the development of the country. I will precisely explore the potentialities of the rural poor in the next chapter based on their value system and the role that these values can play in fostering their individual and their communities' empowerment, for their own development. With the first research hypothesis[209] has been assessed and confirmed, the next chapter will attempt to answer the second research hypothesis of the present work: "Has the Tanzania's value system the potential for making GoT-donor aid delivery more effective?"

[209] "The EU (donors) has never taken into account the value system of Tanzania when designing the cooperation development programs through ODA".

CHAPTER 4:

"THE ENDOGENOUS DEVELOPMENT MODEL: AN INNOVATION ENVIRONMENT. THE CASE OF DODOMA"

Abstract

"The small-scale entrepreneurs of Dodoma region, a traditional semi-arid rural area in the inland of Tanzania, struggle to make their living in a context affected by unstable shortage of rainfall, lack of credit, poor market infrastructure and low entrepreneurial skills. Despite the diversity and quantity of formal institutions that work for the development of the area, semi-isolated informal social groups do not maintain systematic relations of cooperation with them. Nevertheless, these communities share a value system that has the potential to absorb new knowledge and technology innovations throughout the activation of motivational values. The proper motivation of local entrepreneurs must follow a lateral communication approach of knowledge transfers within the generation of an innovation environment that fosters a learning economy. The inclusion of the local value system renders relevant implications for economic development theories and development policies, which have rather focused on exogenous variables. Instead, the Endogenous Development Model claims that cultural values are a critical factor for boosting entrepreneurship and unleashing economic development."

4.1 Introduction. The Research Problem

We have seen in chapter 3 that the GoT, instead of moving inwards towards greater integration with the poor, embraced outwards the external donor-driven approach to development economics and therefore poverty reduction. Whereas the tandem GoT-donors have successfully contributed to macroeconomic stability and long-sustained economic growth, development aid has proofed ineffective to eradicate poverty in the country, especially in major rural areas, where poverty is pervasive. The divide (see figure 1, Annex 4) is essentially due to a structural and functional disconnect between informal, indigenous institutions rooted in the region's history and culture and formal institutions mostly transplanted from outside (Dia, 1996). Therefore, the institutional reconciliation between the GoT-donor partnership –formal institutions- and the poor –informal or indigenous institutions- is the key to increase aid effectiveness, and thus, shorten the implementation gap.

According to Dia (1996), formal institutions, not being rooted in local culture, generally fail to command society's loyalty or to trigger local ownership, as we have seen in the case of Tanzania, both of which are important catalysts for sustainability and enforceability. He argues that in such a case, these formal institutions are at odds with societal behavior, expectations, and incentive systems and therefore face a crisis of legitimacy and enforcement. By contrast, indigenous institutions anchored in local culture and values can count on the sound pillars of legitimacy, accountability, and self-enforcement.

Culture was totally absent from mainstream economics during most of the second half of the twentieth century, precisely at a time when the international aid architecture was borne and modern rationalistic development economic theories after WWII shaped the policymaking discourse of chiefly BW institutions, donor agencies, NGOs and think tanks. It has not been since the 1990s that culture has entered economic analysis again. The disappointing results of mainstream economics after half a decade of "one-size-fits-all" foreign aid approaches and unprecedented developments in the world economy triggered an awareness of the relevance of the socio-cultural context in which people make decisions. Of particular interest were the outstanding economic development of the East Asian Miracle, the transition of previously centrally planned economies and the increased attention for the role of religion after 9/11/2011 (De Jong, 2009). These were all events that contributed to refloat the idea that values could be of utmost importance for economic success.

However, although culture is gradually gaining presence in the development discourse, as policymakers acknowledge that the social and cultural norms that people observe influence their attitudes and choices, there is still no consensus on what culture entails, how it matters or on the implications for policy (Moncrieffe, 2004). We have widely seen that the cultural aspect of development is not explicitly addressed in the development rhetoric, and little attention is paid to the endogeneity problem between culture and economic development, as the development rationalist discourse has rather focused on improving country ownership.

However, there is little empirical evidence on how culture should be addressed in designing and implementing development policies. Today, with the shift of new financing modalities of aid delivery, allocating more aid into the national budget of the host government, along with the issue of whether the local government includes the cultural dimension, is given to the fact that due to being the local government who strategizes development for its own people, culture is intrinsically at the core of the ownership principle.

Thus, the analytical framework of this paper pretends contextualize how local cultural values can be translated into key factors suitable to foster development by providing resources to entrepreneurs and thus, contributing to poverty alleviation.

Against this backdrop, this chapter aims at shedding some light on the role of local contexts and socio-cultural values in fostering indigenous decision-making choices that have a greater impact on economic development, with the attempt to reconcile the gap between formal and informal institutions. The chapter is structured as follows: section 4.2 details the theoretical approaches that frame the analytical rationale; section 4.3 describes the fieldwork research conducted in Tanzania and widely explains the findings encountered that underpin the formation of a local value system in Dodoma region; section 4.4 provides an analysis of the value system under the six cultural dimensions of Hofstede and the motivational value theory of Schwartz; this analysis shapes section 4.5, which offers a framework for an endogenous model of local development by approaching formal and informal institutions within an innovative environment; finally, section 4.6 discusses the convenience to restructure the current governance of the aid system by allowing the introduction of endogenous value-based mechanisms between public institutions and the private sector.

4.2 Theoretical Rationale and Analytical Framework

4.2.1 Conceptualizing Culture in Development Economics

Culture as Preferences

The central assumption of the present research is that culture matters for economic development. The cultural approach questions the optimization procedure as this is modeled in neoclassical theory: rational choice and rational expectations. Instead, cultural approaches explicitly or implicitly assume that the limited cognitive ability of humans has to be taken into account when modeling human actions (De Jong, 2009). Using the element of optimizing approach, Maseland (2008) distinguishes three approaches of culture: culture as a deviation of the result, culture as constraints and cultures as preferences.

The first approach treats culture as a rest factor explaining the difference between a theory's predictions and the facts. The considerable and systematic differences between theory and reality are contributed to non-rational factors, such as culture. Many of the contributions to the East Asian economic development success' debate belong to this approach. The two other approaches claim a theoretical framework for incorporating culture in economic analysis (De Jong, 2009).

The culture as constraints approach emphasizes the importance of institutions for the functioning of economies. Institutions are defined by Hodgson (2006) as "systems of established and prevalent social rules that structure social actions (...)". They enable individuals' actions by imposing constraints on each participant's behavior. He argues that institutions work only if they are embedded in shared habits of thought and behavior. North (1990), divides institutions into formal institutions, such as written rules and legislation, and informal institutions: unwritten codes of conduct that underlie and supplement formal rules (see figure 2, Annex 4).

The culture as preferences approach precisely defines culture as the way North describes informal institutions. This approach points out that beliefs and preferences systematically differ between groups of individuals and these differences contribute to explaining differences in performance across groups. Hence, culture is defined as "the systematic variation in preferences or beliefs" (Fernández and Fogli, 2007), "the collective programming of mind, which distinguishes the members of one group or category of people from another (Hofstede, 2001), and a "system of attitudes, values, and knowledge that is widely shared within a society and transmitted from generation to generation" (Inglehart, 1997). Common to these definitions are preferences or values as "broad tendencies to prefer certain states of affairs over others" (Hofstede and Hofstede, 2005).

This research is thus framed under the culture as preferences approach. According to this approach, values and beliefs influence the perception and design of institutions and the objectives of economic actions. In this manner, culture directly and indirectly (through institutions) influences economic behavior and the outcome of economic processes. But an important assumption of this approach is that causality can also run in the other direction: economic performance and the working of institutions can change the dominant perception held by the members of a group.

Development as Freedom

The culture as preferences approach fits well within the capabilities approach of Amartya Sen (2000). Sen argues that the expansion of the range of opportunity and choice renders higher levels of freedom that are conducive of development. He conceptualizes poverty as a complex and multidimensional phenomenon. Although for practical reasons it is often reduced to the income situation of those living below certain income and expenditure benchmarks, poverty arguably encompasses several other features that must be taken into account. Such features could include deprivations such as poor access to clothing, shelter, basic social services –including primary health care, sanitation, education, etc- as well as social deprivations such as political powerlessness, socio-cultural marginalization and exclusion, among others.

This conception of poverty, the capabilities approach basically emphasizes that access to commodities and services matters not as an end in itself, but rather as a means to achieve valuable functionings. The important feature of this view is that it explicitly recognizes the significance of a variety of factors - personal (e.g. being physically handicapped), societal (e.g. belonging to a particular caste or gender), and the like - in shaping the well being of individuals with similar access to 'primary goods.' The essential argument is that any two persons holding the same bundle of primary goods can have very different levels of freedom to pursue their respective conceptions of the good.

Hence, focusing only on primary goods as the determinant of well being amounts to giving priority to the means of freedom over any assessment of the extent of freedom, and this can be a drawback in many contexts. The other significant feature of Sen's approach is that, while viewing poverty as the deprivation of some minimum fulfillment of elementary capabilities, the range of such capabilities is not limited to being well nourished, adequately clothed etc., but also to the ability to participate effectively in the social life of the community of which one is part.

Against this backdrop, Sen (2004) acknowledges that "cultural influences can make a major difference to aspects of human behavior, which can be critical to economic success". Therefore, he implicitly avoids the rationalistic assumption that "all human beings behave in much the same way… relentlessly (maximizing) their self interest". Sen does not regard these as fixed and irredeemable attributes but, instead, confirms that culture, which differs –often significantly- within each country, affects how differing people view and use assets and opportunities and who gets access and how (Moncrieffe, 2004).

The Value System: Conceptualization of the Unit of Analysis

Definitions of culture[210] can be very vast and ambiguous, in the sense of containing almost all aspects of social behavior. Anthropologists tend to use a broad definition of culture. The nineteenth-century British anthropologist Edward Tylor (1871) writes: "culture or civilization, taken in its wide ethnographic sense, is that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society".

Another broad definition can be found in The American Heritage Dictionary of the English Language (2000), where culture is defined as `(a) the totality of socially transmitted behavior patterns, arts, beliefs, institutions, and all other products of human work and thought; (b) these patterns, traits, and products considered as the expression of a particular period, class, community, or population; (c) these patterns, traits, and products considered with respect to a particular category, such as a field subject, or mode of expression (such as religious culture in the Middle Ages, musical culture, oral culture); and (d) the predominating attitudes and behavior that characterize the functioning of a group or organization.

More narrow concepts of culture still vary with respect to the issues explicitly mentioned as culture's elements. According to Geertz (1993) culture 'denotes an historically transmitted pattern of meanings embodied in symbols, a system of inherited conceptions expressed in symbolic forms by means of which men communicate, perpetuate, and develop their knowledge about attitudes towards life'.

A similar definition is penned by Kluckhohn (1951), who writes that 'culture consists in patterned ways of thinking, feeling and reacting, acquired and transmitted mainly symbols, constituting the distinctive achievements of human groups, including their

210 The American anthropologists Kroeber and Kluckhohn published 160 definitions of culture (Bodely, 1994). These definitions can be very broad in the sense of almost containing all aspects of social behavior.

embodiments in artifacts: the essential core of culture consist of traditional ideas and especially their attached values´. He explicitly mentions values, which is central in some other definitions of culture.

However, the aforementioned definitions of Hofstede (2001) and Inglehart (1997) echo a more narrow conceptualization of culture that underline values as essential, they refer to a group and they refer to a trend or pattern, and the cultural elements are humanly devised aspects that are transmitted from generation to generation.

As economists and some anthropologists regard broader definitions of culture as unworkable, only values, the core of culture, are used in economic analysis. These values are regarded as proxies for preferences and are supposed to influence economic institutions and economic outcomes. This view of values as the central aspect of the decision-making process is the view incorporated in the survey indeed.

Thus, instead of speaking of culture, the value system exactly refers to the dynamic (evolutionary aspect of intergenerational transmission) set of behavioral patterns, attitudes and norms (as a trend) that are more (or less) appreciated in a group and in the individual, as they are key aspects in their decision-making process.

The identification and analysis of a value system is not only useful to explain the cultural dynamics of a society but also to the economic development of the society by reinforcing the values in the socio-economic decision-making process and by reversing and redirecting values with a negative socio-economic impact in the group.

4.2.2 Entrepreneurship as the Backbone for Economic Development

Entrepreneurship is considered as the driving force behind changes in the economy as well as business environment. Combined with the fact that it is now virtually undisputed in the entrepreneurship literature that culture bears a profound impact on all facets of entrepreneurship in societies (George and Zahra, 2002), it is widely agreed that culture and entrepreneurship are major driving forces for economic development. The term entrepreneur has evolved over the years to be used to mean an individual (group of individuals) who has the ability to see and evaluate the business opportunity existing in the environment and take advantage of it. An entrepreneur is considered to be a person with ability to take risk of organizing resources into business venture and manage it with the aim of being successful. The question of success here becomes *axis mundi* and the prime goal and vision of every entrepreneur. Entrepreneurship can operationally be defined as the ability or attempt to create and manage a new venture. It is linked with the qualities and activities of entrepreneur i.e. to see an opportunity and being able to benefit from it.

Discourse on entrepreneurship and small business subject can take us long to pursue. However, practitioners share some common understanding when they describe entrepreneurship. For example, Norman and Zimmer (1996) describe entrepreneurship as a result of being disciplined and systematic in the process of applying creativity and innovation to needs and opportunities in the market place. It involves not only applying focused strategies to new ideas and new insights but also creating a product or a service that satisfies customers’ needs or their problems (ibid).

Schumpeter takes a rather traditional view when he describes entrepreneur as a person who identifies a market opportunity and transforms it into a profitable economic value. In his view, entrepreneurship is seen as quality of a person, which includes both attitudes (disposition), takes responsibility for risk outcomes and behaviour i.e. set of action necessary to implement a venture. Other traditions such as those of Morris and Lewis regard entrepreneurship as something that requires both an entrepreneurial event and an entrepreneurship agent.

It is actually Schumpeter's canonical depiction of the entrepreneur as an agent for social and economic change that implies that entrepreneurs are especially sensitive to the social environment (Licht and Siegel, 2006). The linkages between entrepreneurship and values were already discussed by Shapero and Sokol (1982), who stated that "the social and cultural factors that enter into the formation of entrepreneurial events are most felt through the formation of individual value systems. More specifically, in a social system that places a high value on the formation of new ventures, more individuals will choose that path… More diffusely, a social system that places a high value on innovation, risk-taking, and independence is more likely to produce entrepreneurial events that a system with contrasting values".

4.2.3 Agency, Values, Happiness and Human Development

Values such as motivation achievement and self-direction have widely been acclaimed to be driving the entrepreneur's mindset for making economic choices (Licht and Siegel, 2006) and therefore to lead the path towards economic development. Indeed, Weber's theory on the Protestant ethic related to economic development certain societal orientations, which Weber associated with Calvinism and Puritanism in particular. Among other things, these ethics emphasized the role of the individual in this world as a free soul seeking material wealth as evidence for being one of the chosen.

Neoclassical economic development theory has focused on the rational maximization of utility by seeking optimization strategies that maximize economic outputs. However, development economics introduced the concept of human development in the 1990s when poverty was put at the centre of the development debate.

Human development was formally defined in the first Human Development Report as "a process of enlarging people's choices. The most critical of these wide-ranging choices are to live a long and healthy life, to be educated and to have access to resources needed for a decent standard of living. Additional choices include political freedom, guaranteed human rights and personal self-respect" (UNDP, 1990). In later reports and in work outside the UN, the concept has been refined and elaborated. For example, human development as a paradigm included the concept of broadening choices and strengthening capabilities, based on conceptual and analytical work by Amartya Sen, among many others.

The predominant economic development theory is still built upon the neoclassical rationale that higher levels of economic growth bring higher levels of satisfaction, but without questioning that the level of well-being or happiness has a changing nature

(Inglehart et al., 2008). However, recent studies based on robust empirical evidence have tested that the levels of happiness (so-called subjective well-being[211]) can change over time, following an evolutionary pattern of development and social change. It is precisely the subjective appraisal of assigning priorities to values according to individual preferences that renders subjective well-being (SWB). This individual weighing of priorities brings specific decision-making depending on the subjective interpretation of life satisfaction or happiness (SWB).

In addition, the context in which the individual –or agent- makes decisions is socio-economic by nature and, as we have seen, her value system is shaped by the living conditions (context) and culture of the agent, in a bi-directional process of value formation, decision-making, economic and human development. Taking into account happiness research into economic development analysis substantially contributes to understand the formation of SWB (Frey and Stutzer, 2001). This sheds new light on the basic concepts and assumptions in economic theory, as for instance whether people can successfully predict their own future utilities (Loewenstein et al, 2000) or whether individual self-assessments of predicted, instant and remembered utility are consistent (Kahneman et al, 1997).

Furthermore, now we even scientifically know that in several countries since WWII real income has drastically risen but self-reported SWB of the population has not increased or has even fallen slightly. Inglehart et al. (2008) found that economic factors have a strong impact on SWB in low-income countries, but that, at higher levels of development, evolutionary cultural changes occur in which people place increasing emphasis on self-expression values and free choice (see figure 3, Annex 4), leading them to increasingly emphasize strategies that maximize free choice and happiness (Inglehart, 1997; Inglehart and Welzel, 2005). Economic growth, democratization and social liberation stand as conducive factors to happiness mainly through their common tendency to increase human freedom, as human development theory argues (Sen, 2004; Inglehart et al., 2008; Easterlin, 2005).

The increase in human freedom is measured by the degree of opportunities of individuals, whereby they can exercise greater levels of agency. Following a Maslowian logic (Maslow, 1988), agency provides the highest level of satisfaction because it meets the most uniquely human need, indeed the need of highest order in the evolution of life: self-actualization (Veenhoven, 2000; Haller and Hadler, 2004; Baumeister et al, 2009). This logic renders vicious and virtuous versions of the evolutionary model of social change (Welzel and Inglehart, 2010) depending on the contexts in which the agent is found, leading to a human stagnation path or human development path (see figure 4, Annex 4). Whereas economically advanced societies are characterized by permissive existential conditions that offer the average person a longer and more exciting life and manifold opportunities to thrive, low-income societies are embedded in pressing existential conditions that make life shorter and harder and offers people less

[211] Subjective Well-Being is the scientific term in psychology for an individual's evaluation of his or her experienced positive and negative affect, happiness or satisfaction with life. They are separable constructs and the precise terminology will be used whenever empirical research is cited. Otherwise the terms happiness, well-being, and life satisfaction are used interchangeably.

opportunities to thrive (Welzel and Inglehart, 2010).

In low-income countries, cross-country analysis found that the key for expanding agency freedom and therefore following the path to human development is economic development (Reinert, 2007). The emphasis draws on the fact that the source of economic development is knowledge as the basis of all agency (Warsh, 2006). In order to thrive, societies have to generate and deploy knowledge an this requires the mobilization of the cognitive potential of the population on as broad a front as possible (Toffler, 1990; Drucker, 1993; Florida, 2002).

To get cognitive mobilization[212] started, to accelerate it, intellectual freedom and equality of opportunities become prime requirements. Thus, cognitive mobilization favors a type of orientation that emphasizes personal autonomy, equality of opportunities, tolerance, and democratic participation. Hence, cognitive mobilization should give rise to emancipative values that emphasize freedom of expression and equality of opportunities. Inglehart and Welzel (2005) and Welzel (2006, 2007) introduced scales of emancipative values that became known under the label 'self-expression values' because freedom of expression is one of the core components of these values.

Because self-expression values emphasize personal autonomy, people who adopt these values should find the feeling of being agents in shaping their lives more important. And when feelings of agency become more important in people's life, these feelings should obtain greater weight in shaping people's life satisfaction. Finally, realizing one's agency potential brings more satisfaction than other satisfying strategies because actualized agency leads to fulfillment—the most highly rewarded type of satisfaction among self-aware, agentic beings (Welzel and Inglehart, 2010).

Welzel adds that the value change progressing from constraint to choice is a central aspect of Human Development because this value change makes people mentally free, motivating them to develop, unfold, and actualize their inner human potentials. In his model, the weak poles of the two dimensions overlap on a common emphasis on human constraint, whereas the two strong poles overlap on a common emphasis on human choice. In combination, weak secular-rational values and weak self-expression values pursue an ideal in which individuals are restrained by chaining them to survival communities. The commonality of this ideal is to emphasize human constraints. On the other hand, strong secular-rational values and strong self-expression values pursue an ideal in which individuals are free to express themselves by unchaining them from survival communities. The commonality of this ideal is to emphasize human choice (see figure 5, Annex 4).

4.2.4 Framework for Value System Analysis

The subjective, broad and ambiguous nature of culture makes difficult to find a measure to analyse it. With the conceptualization of values as proxies for preferences that are supposed to influence economic choices the unit of analyses is narrowed and concrete.

[212] "Cognitive mobilization" stands for informational resources and intellectual skills that allow agents to make their own decisions (Inglehart, 1990; Dalton, 2006).

This unit, though, is in need for analytical tools that can frame and contextualize the social behavior of agents of a given group or society. As regards of the purpose of analysing the value system of a society at the light of understanding behavioural patterns that influence economic performance of her agents, there are two analytical tools that suit the aim of the present research (see figure 8, Annex 4).

Hofstede's Cultural Dimensions

Hofstede's (1980, 2001) psychological theory and dataset on cultural value dimensions has been the predominant analytical framework for research on socio-cultural dimensions of entrepreneurship (Hayton et al., 2002), in an attempt to provide some understanding of culture, the behavioural patterns of its agents and how it impacts on economic activity.

Hofstede (2001) describes the different cultures in different countries and comes up with what he calls cultural dimensions, which give some explanation as to the behaviour of people in economic activities. In order to explain cultural differences among nations, Hofstede (2001) introduces six dimensions (see figure 6, Annex 4) which he calls a number of phenomena in a society which occur in combination. In his study, systematic differences between nations occurred in particular for questions dealing with values. Values, in this case, are "broad preferences for one state of affairs over others", and they are mostly unconscious (Hofstede, 2001).

These include power distance (PDI), individualism versus collectivism (IDV), masculinity versus femininity (MAS), uncertainty avoidance (UAI), long-term versus short-term orientation (LTO) and indulgence versus restraint (IND). They provide a generalized framework that underlies the more apparent and striking facts of cultural relativity.

Hofstede's describes the cultural dimensions related to basic problems that all societies have to cope, as follows. Power distance is related to the different solutions to the basic problem of human inequality; Uncertainty avoidance is related to the level of stress in a society in the face of an unknown future; Individualism versus collectivism is related to the integration of individuals into primary groups; Masculinity versus feminity is related to the divisions of emotional roles between men and women; Long-term versus short-term orientation is related to the choice of focus for people's efforts: the future or the present; Indulgence versus restraint is related to the degree of enjoying life and having fun (restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms).

As culture is intrinsic of every society, this framework allows to relatively describe the culture of a given society by comparison to other according to a relatively position of their values along the level of assessment of each dimension. The extrapolation of this assessment through the assignment of scores gives room to the typicalisation of cultures according to an object of analysis.

For example, in conditions where the power distance is great and there is high respect for authority, Hofstede's studies concluded that in African and Asian countries, the power distance was high. Such situations are typicalised by over centralisation of authority and deep hierarchies. The result is slow decision making, lack of initiative and low creativity. This is against the tenets of entrepreneurship.

Other wide assumed clichés are that a masculine society tends to agree with the entrepreneurial roles while the feminine society does not, or that in the African Societies there is a higher degree of uncertainty avoidance which is less conducive to entrepreneurship behavior, or that long-term oriented societies tend to support better economic growth.

Schwartz's Value Theory

Whereas the play of the cultural dimensions is conveniently useful for describing a relative (or specific) behavior of a society or group that influence their economic activities, it does not allow an in-depth inter relational analysis of values that are conducive to explore and determine the dynamics of conflict and congruence among them. Against this backdrop, the Value Theory of Schwartz (1992, 2005) adopts a conception of values that specifies six main features that are implicit in the writings of many theorists[213].

First, values are beliefs linked inextricably to affect. When values are activated, they become infused with feeling. People for whom independence is an important value become aroused if their independence is threatened, despair when they are helpless to protect it, and are happy when they can enjoy it.

Second, values refer to desirable goals that motivate action. People for whom social order, justice, and helpfulness are important values are motivated to pursue these goals.

Third, values transcend specific actions and situations. Obedience and honesty, for example, are values that may be relevant at work or in school, in sports, business, and politics, with family, friends, or strangers. This feature distinguishes values from narrower concepts like norms and attitudes that usually refer to specific actions, objects, or situations.

Fourth, values serve as standards or criteria. Values guide the selection or evaluation of actions, policies, people, and events. People decide what is good or bad, justified or illegitimate, worth doing or avoiding, based on possible consequences for their cherished values. But the impact of values in everyday decisions is rarely conscious. Values enter awareness when the actions or judgments one is considering have conflicting implications for different values one cherishes.

Fifth, values are ordered by importance relative to one another. People's values form an ordered system of value priorities that characterize them as individuals. Do they attribute more importance to achievement or justice, to novelty or tradition? This hierarchical feature also distinguishes values from norms and attitudes.

Sixth, the relative importance of multiple values guides action. Any attitude or behavior typically has implications for more than one value. For example, attending church might express and promote tradition, conformity, and security values at the expense of

[213] For example, Allport (1961); Feather (1995); Inglehart (1997); Kohn (1969); Kluckhohn (1951); Morris (1956); Rokeach (1973).

hedonism and stimulation values. The tradeoff among relevant, competing values is what guides attitudes and behaviors (Schwartz, 1992, 1996). Values contribute to action to the extent that they are relevant in the context (hence likely to be activated) and important to the actor.

The above are features of all values. According to Schwartz (1992, 2005), what distinguishes one value from another is the type of goal or motivation that the value expresses. The value theory defines ten broad values according to the motivation that underlies each of them. Presumably, these values encompass the range of motivationally distinct values recognized across cultures. According to the theory, these values are likely to be universal because they are grounded in one or more of three universal requirements of human existence with which they help to cope. These requirements are needs of individuals as biological organisms, requisites of coordinated social interaction, and survival and welfare needs of groups.

Each of the ten basic values can be characterized by describing its central motivational goal: (i) Self-Direction is about independent thought and action, choosing, creating, and exploring. (ii) Stimulation is about excitement, novelty, and challenge in life. (iii) Hedonism is about pleasure and sensuous gratification for oneself. (iv) Achievement is about personal success through demonstrating competence according to social standards. (v) Power is about social status and prestige, control or dominance over people and resources. (vi) Security is about safety, harmony, and stability of society, of relationships, and of self. (vii) Conformity is about restraint of actions, inclinations, and impulses likely to upset or harm others and violate social expectations or norms. (viii) Tradition is about respect, commitment, and acceptance of the customs and ideas that traditional culture or religion provide the self. (iv) Benevolence is about preserving and enhancing the welfare of those with whom one is in requent personal contact (the 'in-group'). Finally, (x) Universalism is about understanding, appreciation, tolerance, and protection for the welfare of all people and for nature.

In addition to identifying ten basic values, the theory explicates the structure of dynamic relations among the values. The value structure derives from the fact that actions in pursuit of any value have consequences that conflict with some values but are congruent with others. Schwartz illustrates this dynamics as a mode of example, arguing that pursuing novelty and change (stimulation values) is likely to undermine preserving time-honored customs (tradition values). In contrast, pursuing tradition values is congruent with pursuing conformity values. Both motivate actions of submission to external expectations.

The circular structure in Figure 7 (Annex 4) portrays the total pattern of relations of conflict and congruity among values postulated by the theory. The circular arrangement of the values represents a motivational continuum. The closer any two values in either direction around the circle, the more similar their underlying motivations. The more distant any two values, the more antagonistic their underlying motivations. The conflicts and congruities among all ten basic values yield an integrated structure of values.

This structure can be summarized with two orthogonal dimensions. Self-enhancement vs. self-transcendence: on this dimension, power and achievement values oppose universalism and benevolence values. Both of the former emphasize pursuit of self-interests, whereas both of the latter involve concern for the welfare and interests of others. Openness to change vs. conservation: on this dimension, self-direction and stimulation values oppose security, conformity and tradition values. Both of the former emphasize independent action, thought and feeling and readiness for new experience, whereas all of the latter emphasize self-restriction, order and resistance to change. Hedonism shares elements of both openness and self-enhancement.

Furthermore, the Value Theory adds an important concept to the structure of values' relations, the sources of value priorities. These sources are shaped by people's life circumstances, to the extent that they provide opportunities or constraints to pursue or express some values more easily than others. For example, wealthy persons can pursue power values more easily, and people who work in the free professions can express self-direction values more easily. Life circumstances also impose constraints against pursuing or expressing values. Having dependent children constrains parents to limit their pursuit of stimulation values by avoiding risky activities. In other words, life circumstances make the pursuit or expression of different values more or less rewarding or costly.

This concept substantially contributes to understand the dynamics of value adaptability according to background variables of the individual and social setting (history, climate, economic status, social interactions, polity, bureaucracy and the like). This adaptation may take the form of upgrading attainable values and downgrading thwarted values, and the reverse occurs with values that concern material well-being and security.

Although this model does not explicitly analyze the interactions among values and background variables, the Value Theory provides a framework for relating the system of ten value-groupings to behavior that enriches analysis, prediction, and explanation of value-behavior relations. In the present research, this framework will be useful to define the main characteristics of agency of the social setting studied, analyze the underlying inter related causes of current economic and human development status of the society and identify potential factors and elements that can contribute further to development.

4.3 Fieldwork Research. Development at Dodoma Region

An exploratory research[214] was conducted in Dodoma region, between months of October and November 2009, and July 2011 as part of the first and second phases of a joint cooperation project undertaken by the Autonomous University of Barcelona and the University of Dodoma. The main purpose of the study was to identify the main development constraints and potentialities of its inhabitants, to analyze the factors that can bring development according to the people's socio-economic and value system, and to provide an endogenous proposal to development as a result of some empirical evidence for policy design and implementation that can be tested, adjusted and replicated later on.

The methodology has taken three core sources of information: quantitative data coming

[214] Dodoma urban was chosen as a research site for this study because it is the district that harbors The University of Dodoma (UDOM). As this project aims at establishing an innovation centre of ideas and opportunities at UDOM, conducting a research in this area was thus imperative.

out from fifty semi-structured interviews of selected villagers in Dodoma; qualitative information out of in-depth interviews with a panel of local experts at the University of Dodoma (UDOM) and focus groups, developmental organizations in Dodoma and major donors based in Dar es Salaam; documentary research concerning data about Tanzania, Dodoma and a mainstreaming of developmental variables.

4.3.1 General Data Sources and Methods

Considering the objectives of the research, various key sources and players' points of view were necessary to obtain an in-depth understanding of the key values, motivation and the structure of Tanzanian society that have significant implications to the socio-economic situation of the people on the ground. Therefore, desktop search of secondary information that would necessitate to a thorough identification of the key economic factors in Tanzania was conducted. Also, in-depth interviews and focus groups with a panel of local experts were carried out with different key players, these included: experts (7 in-depth interviews), villagers in Dodoma district (50 interviews), leaders of the Development Organizations in Dodoma, and International Donors in Tanzania. Apart from that, focus group discussions with the expert members of the project were carried out, while qualitative information was compiled from the National Statistics Reports, Country Reports, and Research and Working Paper (grey materials in general). A summary of the data collection techniques is presented in Figure 9, while specific activities are indicated in Figure 10, both in Annex 4.

An analysis and documentation of the fieldwork results are presented in the following sections, which appear structured in seven blocks; section 4.3.2 provides a general overview of the socio-economic context in the Dodoma region, section 4.3.3 provides qualitative information of the study, while section 4.3.4 is based on the quantitative analysis of the same data. It follows section 4.3.5 with an analysis of the local value system in Dodoma region; section 4.3.6 presents an analysis of the factors that are conducive of development and that are closely related with the local values; section 4.3.7 provides and analysis of relevant formal institutions that are relevant for the development of Dodoma; and finally, section 4.3.8 presents the main findings of the knowledge transfers that resulted from the pilot test of the focus groups on entrepreneurship for development with local trainers and entrepreneurs.

4.3.2 Socio-economic Profile of the Dodoma Region

Dodoma region is a semi-arid area due to low and erratic rainfall that lies inland very close to the centre of Tanzania Mainland. It was this location that attracted the GoT to try and establish its capital in the Dodoma Municipality. During the British Colonial era Dodoma was being developed as a strategic link on the Great North Road, which started off in Nairobi in the neighboring British Colony of Kenya, went on its way to the Rhodesias, which was another important part of the British African Empire. At independence, Dodoma region was part of what was the Central Province; and in 1963, Dodoma region was born.

According to the last official data (Population and Housing Census, 2002), the region has a total of 26 divisions, 145 wards and 465 villages. Total population is experiencing a dramatic increase since 1948 when there were 466.200 inhabitants, more than four times larger today. Despite of this growth, the region always had a lower growth rate than the national average. Among the districts, Dodoma Urban is experiencing the highest growth rate since 2002 (the only district that is projected to increase the growth rate up to 2012.).

Although the migration of rural people into urban centers has increased from 2% in 1948 to 15% in 2003, urbanization is still lower in Dodoma than in other Tanzanian regions. Actually, Dodoma urbanization percentage of 2002, 12.6, is substantially lower than overall Tanzania, 23.1.

Despite Tanzania, like other East African countries, has a relatively low level of urbanization, rapid urbanization is a halted phenomenon with vast consequences for development -rapid expansion of squatters, poor social services, inadequate infrastructure, lack of housing, and increasing urban unemployment (Tanzania Census 2002, Analytical Report)-. This situation is specially accentuated in Dar es Salaam.

Dodoma region is among the five poorest regions in Tanzania Mainland in terms of their contributions to the national economy. About 60% of the region's population is considered to live below the national poverty line (WB, 1994). About 85% of the population in the region is rural; relying on agriculture and livestock keeping activities for subsistence and income. The agricultural sector generates much of the region's GDP while providing labour for over 90% of the workforce.

The region is unfortunate in that it does not have any traditional export crop such as tea, coffee, cotton, cashew nuts or tobacco. Principal crops grown are maize, sorghum, bulrush millet, paddy, beans and oilseeds mainly groundnuts, simsim, sunflower and castor. Livestock keeping is ranked as the second vital economic activity in the region. Dodoma region ranks third in the country in cattle numbers.

Apart from agriculture and livestock as major GDP contributors in the region, natural resources which include forestry, wildlife, beekeeping, fishing and mining is another sector in which people are engaged for their livelihood. This sector's economic contribution to the region's economy is small. The small scale industrial sector on the other hand is more or less confined to urban centres and its share of the regional economy insignificant.

Poor development of these later subsectors/sectors has contributed greatly to the low GDP and the poor quality of life of the majority of the population in the region. In terms of region's GDP, the economic performance of the Dodoma region from 1995 to 2000 reveals some economic growth of around 7%. Its contribution to the national economy is been minimal and declining (3.52% in 1995 and 3.36% in 2000).

Regarding GDP per capita, people in Dodoma region have had considerable improvement in their income (from USD 119 in 1995 to USD 160 in 2000), although it ranks the second worst among all the regions.

4.3.3 Struggle for and Opportunities of Development in Dodoma: A Qualitative Analysis

Introduction

The need for understanding the contextual aspects related to socio-economic status of the villagers in the study area, necessitated the project management team to conduct in-depth interviews with the villagers in the study areas. Specifically, an investigation aimed at understanding their perspectives about development, what they consider to be the priority impediment for development, what fosters development in their area, and the requests to achieving development. Fifty interviews were conducted in three different villages of Dodoma.

Research Setting and Methods

Fieldwork was conducted in Dodoma region between September and October, 2009. Dodoma (population 1.7 million), Tanzania's national capital, comprises of six autonomously governed districts, namely, Dodoma urban, Bahi, Chamwino, mpwapwa, Kongwa and Kondoa. Dodoma Urban (population. 324347) has an area of 2576 sq.km. Although it is identified as urban, the population characteristics and their livelihoods have some features of rural context , the most apparent being dependence on subsistence farming as source of livelihoods, lack of off-farm sources of living, and the nature of other social interactions as discussed by Houston (1988).

Dodoma urban was chosen as a research site for this study because it is the district that harbours the University of Dodoma (UDOM). Of the six districts, Dodoma urban represents a good mix of urban/rural population. While a small segment of the population can be noted as urban, the remaining larger segment of Dodoma urban population is predominantly rural.

Four divisions in Dodoma urban district were listed and two purposefully selected. The criteria for selection were that, at least, 50% of the divisions in Dodoma district had to be involved in the study. They had also to be those in the neighbourhood of the University of Dodoma in order that the proposed project should make an impact upon them. Thus, Dodoma Urban and Kikombo divisions were chosen to be involved in the study. All wards in the selected divisions were listed and, based on time and economic limitations, three wards were randomly selected. These were Msalato, Nzuguni and Mtumba.

Considering the nature and characteristics of the villages in this rural context of Dodoma, as well as their relatedness in terms of people's livelihoods and their economic activities, it wasn't feasible to include all the villages. Therefore, a sample of the villages was enough to provide necessary information that would illuminate the phenomenon of the study. This being the case, one village from each ward was randomly selected, where Msalato village from Msalato ward, Mahomanyika village from Nzuguni ward, and Mtumba village from Mtumba ward were picked. A satellite map below show the Dodoma town and the villages covered during this study.

Data Collection

Before take-off of Phase I research, an interview guide comprising 18 open-ended questions in Kiswahili was pre-tested on a sample of four villagers in Msalato, a village that was later included in the study. Their responses, which were not included in the data analysis, were reviewed and the questions refined in light of the pre-test. Based on the fact that this was groundwork to a larger project, a sample size for the study was determined and in each village 20 respondents were involved, except in Msalato, where we interviewed 10 respondents because of the political atmosphere in the ward at the time of study[215]. Therefore, detailed interviews were then completed with 50 villagers. Of all the villages involved in the study, Msalato has a mixed population characteristics i.e., rural/urban.

Interviewees were asked about their major sources of income; whether they are able to meet their needs considering these sources; their understanding of the conception of 'development' as well as information about the constraints to their development endeavours. The interview guide also included questions regarding the socio-cultural values shaping development perspectives in the area and, specifically, perspectives about the supports for development and availability of potentialities for local development.

All interviews were conducted in Kiswahili by the local team, who are native speakers and well trained in interviewing and skilled in qualitative research methods. The study had ethical clearance from the University of Dodoma (File# UDOM/DRP/DOM/RA/02 of 12 August, 2009). For the purpose of the community accessibility, ethical approval was obtained from the Regional Administrative Secretary (RAS) who informed the District Administrative Secretary (DAS), who subsequently granted formal permit to specific ward authorities. Oral informed consent was obtained from all interviewees. Copies of letters of introduction and research permit were showed to the interviewees to reassure them that the data were being collected for research purposes and that confidentiality would be maintained at all stages of the research. The interviews lasted between 40 and 50 minutes each.

In addition, observations of the key activities described as sources of the villagers' incomes were conducted in all villages (e.g., Msalato Mart, SACCOs at Mtumba, husbandry at Mahomanyika). The interview transcripts, were reviewed and segments and passages that called for a closer analysis were extracted, which were then manually encoded and analyzed for meanings that underlie the discourse of development for this research. This analysis was done verbatim.

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[215] When this study was being conducted, the village leadership was dissolved as new elections for local leaders had to be held in one week or so, thus a ward executive officer was in-charge of all the dynamics in the village. This implied that, his absence in one village inhibited any possibility for community entrance. We managed to interview ten people during the first day of fieldwork through the help of the ward councilor, but two subsequent visits proved failure as we didn't find anyone to take us into the village - a necessary condition following the political atmosphere at that time.

Results

Demographic information on the 50 villagers interviewed for this study is presented in Figure 5. Of the interviewed villagers, 46% were male and 54% were female. Their average age was 39 years. Majority of the people in the selected villages are Gogo, and they are also considered the indigenous of the Dodoma region. In this study, the Gogo comprised of 43% of the study population, while Sukuma (2%), Bena (2%), Hehe (1%), Chaga (1%) and the Rangi (1%) were considered new comers in these villages. However, despite differences in terms of their tribes, their activities and sources of the incomes across these tribes were homogenous.

Major Sources of Income

In Dodoma, farming is the most dependable source of income for the majority. Owing to the nature of the villages where this study was conducted, nearly all respondents (98%) mentioned agriculture as the most important source of their livelihood. Although people in the study area depend much on farming for a living, the nature of farming was described by the majority as *"kilimo cha chakula"* (lit. subsistence farming). It was only in Mtumba where some talked about sunflower cultivation as a commercial crop. It became evident though that the majority had no substitute source of income apart from agriculture. In that case, maize isn't only cultivated for subsistence, but also as a source of all other necessities of life such as clothing and payment for health services.

Traditionally, the Wagogo people in Dodoma engage in animal husbandry, too. Thus, it wasn't an uncommon situation that all respondents noted animal keeping as among the important sources of income for most households. It was observed that animal husbandry practiced in most parts of the research area is traditional, meaning that herds of animals are driven early in the morning to the surrounding bushes for grazing. However, it was interesting that in Mahomanyika village new ways of animal keeping have been adopted. For example, a few women who are organized as a group of entrepreneurs have been provided by the district council a modern breed of goats popularly referred to as "*mbuzi wa maziwa*" (lit. milk goats) and, in the same way, a number of other people have started keeping pigs and chickens for better results. This finding is significant in the sense that it is a signifier of people's readiness to adopt new methods for their development. That means, further, that if properly programmed changes are introduced to such communities, they could instill economic changes into their lives and, thus forgo their traditional practices.

Hardships in life emanating from continued failure of agricultural activities in Dodoma due to shortage of rainfall and perceived shortage of formal employment force some villagers engage in petty business as an off-farm activity. Specifically, they sell vegetables, beer and cooked food. During our research, this situation was more prominent in Msalato village at an open market, which is organized every Saturday in the village.

In Mtumba and Mahomanyika, business activities are carried out by few enterprising individuals who have opened small shops in a form of kiosks, selling different materials to their fellow villagers such as sugar, salt, kerosene, soap, corn flour, etc. These commodities are bought from Dodoma town at a wholesale price with expectation of making some amount of profit when sold at a retail price. Some respondents in Mahomanyika, especially women, described the nature of business they engage in as "*uchuuzi*" (lit. itinerant trading). This business involves buying commodities such as clothes from town, and sell to fellow villagers or nearby villages in terms of cash or credit. The business is sometimes risky, because some of the customers either take too long to pay their debts, or can never resurface to clear their debts.

Another potential source of livelihood in the study area was lime and salt extraction. These activities are mainly carried out in Mahomanyika village. Although most complained about the quality of their products, because of the poor traditional techniques utilized in the production process, it was mentioned as one of the important sources of income, especially for men. In addition, some respondents explained that they had formal employment, such as being guards in schools that are found in the village. In this village, they have Msalato Girls Secondary School, a boarding institution that definitely requires such service. All these activities characterize the nature of people's struggle in earning a living, not only in the areas of study, but in Dodoma region at large.

Possible limitations

Almost all villagers in the study areas gain their livelihoods directly from the land and are, therefore, concerned with one crucial problem – the rains. Their agriculture is entirely dependent on seasonal rains. And in that very vein, Dodoma region is a semi-arid area that receives least rainfall. All respondents (100%) explained that the most threatening natural happening to their livelihoods and, therefore, their basic sources of income is rainfall. In particular, some mentioned "*uhaba wa mvua wa muda mrefu*" (lit. prolonged shortage of rainfall), while others complained of "*ukame*" (meaning draught). It was also clear that the timing of rainfall and other atmospheric (climatic) changes like clouds, rise of temperatures and the direction of winds could formerly be forecasted by the local people in the study area by using their year's long experience of their natural surroundings. But it seemed things were rapidly changing, where climatic conditions were no longer predictable by them. In Mtumba, for example, a respondent pointed out that "*it isn't clear as to when exactly it will seriously start raining*". Such uncertainties have become a characteristic feature of most farmers, a clear indication that the local people have lost sense of climatic conditions, which poses a visible threat in their lives. To deal with the problem of recurrent famine in the area, the local government has recommended that people should grow sorghum and millet, crops that are tolerant to arid conditions. That is yet another 'test' to the local people whose crop for subsistence has been maize for years – a call for their cultural and mental transformation.

Interviewees view the problem of shortage of rainfall/drought as having an interwoven nature of consequences to their incomes. For animal husbandry, for example, shortage of rainfall or drought causes shortage of food for animals, which is additionally associated with an increase in diseases. These linkages are further extended to those engaged in petty business, where people can't afford buying their goods due to being left penniless. Of all concerns, however, for the local people's major endeavour is how to sustain their families. This perspective extends the idea that people in rural areas have limited opportunities for their development. And this is what precisely prompts this research.

Although interviewees were aware that with increased problems related to dependence on what they named as "*kilimo cha kubahatisha"* (lit. uncertain farming), they can live through off-farm activities, lack of capital/sources of credit is the major impediment. Formal sources of credit, such as banks, were noted to have rules that are prohibitive to the rural poor to access their services. The demand of having a collateral or other immovable and legally recognized property, clearly segregate the poor from receiving credits from such institutions. In that case, most people feel insecure not only concerning development, but also on sustaining their living. During interviews it became a common phrase for a person saying "*maisha magumu*" (lit. life is tough).

Weak infrastructural connections to the villages affect greatly the possibility for development. In the study villages interviewees complained that the hardships they face were partly exacerbated by poor roads. In Mahomanyika, for example, interviewed villagers pointed out that even when they get good harvests it is difficult for them to note a difference because they can hardly send their crops to the market. In turn, there are people from town who come to the villages and buy at give-away prices. Another threat linked to poor infrastructure is that of absence of reliable markets for the commodities produced in this context, such as lime and salt.

<u>Ability to meet the necessities of life</u>

In the study area, interviewees were asked about their understanding on their basic needs. Most mention food, fees for children and clothing. Answering a question on whether they are able to meet these needs, some respondents had this to say:

Respondent 1:"*Not really, just for survival because our activities are seasonal, depending on rainfall*",

Respondent 2: "*Just for getting daily food but not for development purpose",*

Respondent 3: *"No, because it is difficult to get some necessities and save at the same time".* These complaints qualify the above discussed limitations to major sources of income. It became evident in the interviews, where all declared that they face hardship in meeting their basic needs. The major reason for the mentioned hardship was lack of diversity in sources of income. A few also mentioned the number of dependants, meaning the household sizes as being another reason for inability to meet the necessary needs of their families.

<u>Local Conception of Development</u>

In all villages involved in the study, there were no major differences in terms of respondents' conception about development. It became clear that improved living condition was the major indicator for development. Such improvements were categorized into levels. The first was that of the *village* level, and the second was the *individual* level. Development at the village level was equated to availability of essential social services like having taped water, passable roads, health services and electricity. At times of interviews, most of these services in the study villages were mentioned as weak or lacking. For example, in Mahomanyika, there was no public transport linking to the township, while shortage of water was common in all the villages. With this conception of development, therefore, their villages are still less developed if we are to qualify these criteria.

At an individual level, some respondents explained development as "*achieving one's goals in life*". Like the descriptions set for the village level, improved living condition at a household level signified individual's development. Key indicators for such achievements included a good housing facility, especially one that is made of bricks and roofed with corrugated iron sheets, ability to feed a family, as well as the ability to pay school fees for children.

In general, interviewees perceive constraints for their development as being beyond what they can do in order to relieve themselves from the underdevelopment trap. For example, they see the question of infrastructure as being beyond their capacity and that only the government is in a better position to intervene meaningfully. Apart from capital and infrastructure, some respondents explained that one of the most telling constraints for development is "*lack of entrepreneurial skills*". A few added that even if people had access to capital, it wouldn't be surprising if some fail to profitably use it due to lack of necessary entrepreneurial skills.

Perceived Supports for Development

There were contextual differences in terms of respondents' perceptions on the supports for development. While religion was conceived as a major support for development in both Msalato and Mahomanyika, in Mtumba interviewees noted the installation of electricity in the village as the major reason for the level of development they have reached. The contribution of religion to development has two different faces: first it was noted that with introduction of the Christian faith in Mahomanyika, for example, it has helped to reduce the myths of sorcery/witchcraft among community members. It was revealed that in the past there were beliefs that if you build a good house or send your children to secondary school you might be bewitched – the beliefs that have lessened after introduction of Christianity in the village. The second contribution of religion to development is through what they called "*Compassion Union*" that is being administered by the Christian Council of Tanzania (CCT) through provision of educational support to children from poor households. This initiative is appreciated in all the villages involved in this study.

In Msalato, the establishment of a mart was mentioned to be one of the triggers of development as people of all levels can now engage in some forms of business activities, although in weekly basis.

Although this study didn't set out to measure people's attitudes towards the local government's contribution to their development, it is worth noting that the respondents do not see any contribution of the local government to their development. This might be because of the indirect nature of how the government works, but also it might be the mismatch between the people's expectations as to what their government should do for their development *vis-a-vis* what exactly it does.

Available Potentialities for Development

In all villages involved in this study there are both formal and informal social groupings, which engage themselves in Income Generating Activities (IGAs). Available formal groupings include the SACCOs intended to provide soft loans to their members. Despite their noted importance to support small scale entrepreneurs, these monetary groupings lack enough capital to facilitate their members. For example, in Msalato village, a respondent said their SACCOs had 900,000/= TZs the amount that was described as *"not enough"* to support the increasing number of members. Other formal groupings include women groups that engage in animal husbandry such as milk goats, pigs and poultry.

The interviews conducted in Mahomanyika revealed that, although there are many groups engaging directly with income generating activities, there were some other groupings organized around environmental resources. For example, there are groups organized in form of cooperative societies dealing with forest conservation and bee-keeping. In such groups, at least, every member has some bee-hives, but at the same time, engages in forest conservation.

The informal groupings in the villages exist in form of self-help groups (SHGs) and as Rotating Savings and Credit Associations (ROSCAs). It also became evident that in all these groups, women are most active than men who are reluctant to join the small groupings because of the perceived meagre profits made by the members of the groups. The groups that had a number of men were those of money renting groups such as the SACCOs.

Most of these groupings have no links with external organizations; they are organized based around their own initiatives. This partly explains the limited nature of the realization of their plans. In a way, most were eager to see that the University of Dodoma should support them in terms of entrepreneurial skills dissemination and help in finding some external agencies that may support their initiatives in one way or another.

Preliminary implications for development

It is clear from the overall findings that the challenges of development to these villages are interwoven, ranging from institutional to the local context. For example, the problem of inaccessibility to credits might thoroughly be understood from the country's monetary systems' perspective, while problems of low money circulations and narrow market could be linked to infrastructural set-up in the context. As an initiative intending to work for development of the local communities in Dodoma, it would be imperative to strengthen the capacity of already existing local initiatives such as the SACCOs. This could be achieved in two ways: first, through direct funding where resources are available, and, second, to link the local initiatives with the external organizations that are willing to work for local development in the context.

It is also evident that although capital is necessary, lack of entrepreneurial skills is another major hindrance towards establishing income generating activities for most villagers in the study area. Thus, it would be feasible to foster information sharing and knowledge flows to establish a centre with experts who would be going to disseminate such important information through training and, hence, nurturing the already existing initiatives.

4.3.4 Struggle for and Opportunities of Development in Dodoma: A quantitative analysis

Introduction

This section presents quantitative information of the data set gathered during the first phase of the project. The purpose was to document the contextual aspects on the need and possibilities for foster entrepreneurial initiatives that can favor the process of local self-development. Specifically, the study geared at gathering the local perspectives on development as a concept, major sources of earning income in the area, what they consider to be the priority impediment for development, what fosters development in their area, and the requests to achieving development. The report is based on the fifty interviews conducted in three different villages of Dodoma. The general methodology and the socio-demographic information of the study sample are presented in the previous section of this report. To generate this quantitative data, a Statistical Package for Social Sciences (SPSS) Version 16.0 was employed for further analysis.

How do villagers earn a living?

A quantitative analysis of the present study indicates that 30% of the population depend solely on farming; 36% on both farming and petty business; 14% on farming and livestock keeping, 10% rely on farming, livestock and petty business; formal employment and farming is a source for 8% of the study population; while 2% depend exclusively on livestock keeping. It is worth noting however that at least all respondents (98%) consider farming as their source of livelihood. This is so because it is common that many people in the study area do supplement farming with other means of earning a living. For example, apart from the 30% who mentioned farming, and 2% who depend exclusively on livestock keeping, the remaining 68% of the population engage in more than one activity, one of which is mentioned to be farming. Sorting each activity alone, it becomes apparent that farming is the most prominent source of income for the majority (44.7) as indicated in the figure 11, Annex 4.

In the study area, farming or commonly described as "*kilimo*" is used inclusively to mean diverse engagement in different crop cultivation, this may vary from cash croping to cultivation for consumption. Example, sunflower and sesame seeds were described as being for cash. Considering the fact that farming is a source of income for the majority of the population, different crops are planted, these include; maize, sunflower, Sorgham, groundnuts, and Sesame seeds respectively. However, maize is prefered in the area because it is the major staple food for the population, and this becomes the reason for them describing the type of their cultivation as being "*kilimo cha chakula*" in Swahili meaning cultivation for consumption.

Traditionally, the Wagogo people are pastoralists. However, with continued desertification of the area, the number of cattle has been diminishing significantly over the past few years. Thus, some people have started earning their living through other means like petty business. Example, some owned small shops in which they sell home-use materials such as food, clothes, salt, soap and others. At the same time a few engage in salt (3%) making.

With "farming for consumption" as described by our respondents, and a few petty activities, it is evident that sources of income to the community are scarce and limited. In fact, hand-to-mouth types of activities as observed can hardly lead to sustainable development neither at community level or to the individual, thus affecting the general country's income.

Major Constraints for Development

In this study, respondents were asked about the major factors they considered a hindrance in terms of their incomes and development in general. Their responses averred that shortage of rainfall (50%) and lack of credit (18.2%) were the main constraints for development. The changing climatic condition in particular, enhances the problem of shortage of food for animals, and also raises the problems of pests and animal diseases (9.1%). In addition, limited off-farm activities curtail the possibilities for the farmers to afford inputs and other necessities of life. This situation increases social and economic vulnerability of the people in the study area because the mentioned sources of income are the only dependable source of their livelihoods. Engagement in business and other entrepreneurial activities are almost impossible because these people have no access to credit because citizens who do not have collateral – a major requirement to receive a credit in Tanzania, remain in a helpless situation.

Apart from drought, lack of capital, and animal diseases, weak infrastructural connections from the villages to the town centre contribute to the absence of market and the lack of entrepreneurial and business skills further limiting the possibilities of the people to engage in off-farm activities. This stresses an interpretation that since the people in this area depend solely on land produce, and the fact that such activities are almost impossible because of the climatic changes, the only option would have been an engagement in off-farm activities. However, this second option is blocked by the fact that sources of credits are inaccessible as explained in this report.

Overall, we find that sex difference is an insignificant determinant when it comes to constraints for development. It would be thought that because of the patriarchal social and economic systems, men would be at an advantaged position, but findings in this study indicate the contrary. Example, consistent with men's (16%) responses on inaccessibility of the credits to initiate off-farm activities, women (16%) viewed that these loans are for rich people especially those with collateral. The general constraints for development in Dodoma are provided in Table 2, Annex 4.

With these constraints aboard, majority (62%) of respondents report of not being able to meet their basic needs, while 22% struggle for survival. Interestingly, some other (16%) respondents were able to meet their basic needs. When this data is compared in terms of household sizes, it is evident that most (62.1%) of the large households especially with members ranging from 5 to 8 people, failed to meet the basic needs compared to families with size ranging from 1 to 4 people (52.9%) who equally faced hardships in catering for their households. In fact, this is put to bear when examining their patterns of expenditures, which majority of the households earn for feeding the households (28%), school fees (27.5%), and clothing (6.9%), while savings receive only 1.9%. When this data is cross-tabulated according to household size, it underscores the fact that food, school fees, clothing and medication respectively forms the major part of expenditure. This implies that the economies of the people in these villages are that of hand-to-mouth with narrow or absence of possibilities to serve – the situation that perpetuates a vicious circle of dependency on the currently unproductive land. Figure 12 in Annex 4 indicates a pattern of expenditure in the study area.

In the study area, the conception of development seemed to be narrowed to the ability to meet basic needs (20.9%), to afford a good house normally made with bricks and roofed with corrugated iron sheets (18.7%), and to have access to social services (15.8%) such as basic health care, electricity, roads and tape water. In addition, 12.2% viewed having income generating activities independent of agriculture was a sign for an individual's development.

Younger people with age between 20 and 35 are more likely to consider possibility of establishing some income generating activities (IGAs) as an indicator for development (45.5%). Increasing age group however, is associated with diminishing probability of viewing income generating activities as source and an indicator of development. Example, only 28.0% of the respondents in age group 36 to 55 okayed IGAs as an indicator for development, while none had this perspective in age group 56 to 70. For the older population (64%), ability to afford basic needs becomes the leading indicator for development. Compared within marital status, the data reveal that the divorced (50%) and the married (42.9%) would all consider engagement in IGAs as an indication for development, while singles (75%) consider the ability to cater for their daily needs and having a good house (63.6%) equals development. Indeed, for a person to be respected in this community property ownership, self-sustenance or ability to maintain a family, and the ability to earn money are very important. These conceptions about respect and development, altogether forms individuals' future aspirations.

<u>Potentialities and Opportunities for Development</u>

In the study area, both formal and informal social groupings emerge as a platform for Income Generating Activities (IGAs) after failure of traditional means – agriculture, in a sense they may also be considered as coping strategies. Of all respondents, 86% indicated that in their community there were social groupings mutually organized for social and economic goals. As indicated in Table 3 of Annex 4, the nature of these groupings vary in terms of their goals and constitution.

Categorizing the responses according to villages, we found that there was high response in Mtumba (95%) compared to Mahomanyika (85%) and Msalato (70%). This variation may be a result of the impact such groupings have to individual members and the community in general. In Mtumba for example, the existence of a functioning SACCOs is evident and pronounced to the majority. Figure of Annex 4 indicates interviewees' responses on availability of social groupings in their villages.

The available groupings are organized on the basis of shared interests (53.4%), neighbourhood (28.8%), and gender (6.8%). This means that the groups have formed an informal social safety network for the villagers. Example, with the Rotating Savings and

Credit Associations (ROSCAs) and the SACCOs, members expect to receive soft loans and probably benefiting from the functioning of these social groupings. Thus, it wasn't surprising that majority (64%) of the respondents belonged to one or more of these social groupings in the area. Although these groups were allegedly pointed to be beneficial by members in a sense that they expect to learn from other members' experiences, to benefit from entrepreneurship trainings, access to loans, and cooperation, there were respondents who were non-members. The data show that 32% of our respondents were not members of any group because they said they didn't see any benefit of becoming members. This draws an interpretation that such resentment among community members is a result of weak support they have in terms of monetary and skills to attract more members. Example, in Msalato village, a respondent said their SACCOs had 900,000/= TZs (equals 693 USD $ in 2010), the amount that was described as *"not enough"* to support the increasing members, and thus making it insignificant in terms of the contribution that these groupings are expected to have in the community. For some non-members, absence of men groups, absence of youth groups and lack of interest were the major reasons for not joining these groups. However, it should be appreciated that the middle aged people of between 35 and 55 (63.6%) most of whom are women, were the most active to joining these groups. Despite the positive aspects of these local groupings in the study area, most have no link with external organization.

The research team had a feeling that if new methods of development could properly be introduced like programmed changes in communities could easily be instilled regardless the existence of traditional practices depending on the perceptions on the advantages of the new changes. This is so because many of the groups organized are based on newly introduced ideas. For example, new ways of animal keeping such as the zero grazing, introducing new breeds of milking goats have increased productivity and new business units. Other groupings have been organized around environmental resources, especially the cooperative engaged in forest conservation and bee-keeping. These options if properly nested would create intensive off-farm sources of living as a result of increased productivity.

Successful personal cases of entrepreneurs act as a word-of-mouth marketing that leverage, inspire and drag other people to become new entrepreneurs. Therefore, fostering motivation and empower villagers is key to create a context and atmosphere of entrepreneurship as a driver for development. It eases the process and paves the way for poverty eradication.

Following local patterns of behaviour and values make people eager to adopt and adapt to new methods of development. Therefore, knowing the local value system and stating the factors for their development is the cornerstone prior the introduction of any mechanism or instrument of development.

The lack of coordination and cooperation among development actors constitute, indeed, a potential for development since the moment they get to know each other and they become to cooperate jointly addressing poverty eradication issues.

4.3.5 Value System in Dodoma Region

Conceptualization and Description of Values

While conducting the survey in Dodoma, getting to know how to get empirical useful data on the value system was a major challenge, given the complexity of the terminology and the limitations of the study. Finally, we decided to extract the information as a complementary combination of different sources (see section of methodology), primarily from direct interviews with the villagers, and secondary from semi-structured in-depth interviews with a panel of experts and development organizations.

Therefore, we obtained information on the value system from two different perspectives or angles. On one hand, villagers have been a source of value identification and, on the other hand, experts and organizations with insightful knowledge provided an explanation to the values and its relationship within the context of the group and in interaction with external factors.

The research has identified both patterns of behavior, attitudes and norms that are more likely to contribute to greater agency and thereby development and, on the other hand, patterns of behavior, attitudes and norms that are less conducive to do so. As an attempt to include the impact of values on agency in both directions, I classified the values in two: active values and dormant values. Herein, active values are conducive patterns of behavior, attitudes and norms towards greater agency; whereas dormant values are not. Both influence the decision-making process and, thus, the development dynamics at the community level.

Active values

Friendliness, hospitality and helpfulness are common attitudes of people when relating to each other. The first tendency is receiving others with open heart and easy accessibility, and there is empathy among people sharing same problems and threats. It is the core value rooted in the nature of women self-help groups.

Cooperation and integration are related to friendliness. People like to be together and they rapidly feel the sense of belonging by sharing in groups. This can partly explain the wide scope of familiar relations and the links between the members. Together with friendliness, this value explains the proliferation of informal groups with common interests (social, economic and environmental).

Openness and responsiveness. People like to listen to others and they are rapid adopters of ideas, activities or practice which people feel that can improve with them. Learning effects derive from this pattern of behavior.

Respect and status are important values to gain recognition and reputation in community. Having a large number of cattle, good housing or money are means to achieve this self-expression recognition. It is a direct motivator to entrepreneurship and economic development.

Optimism is lying at the core of people's aspiration. It is an intrinsic attitude cultivated with people's own fate. They have the pre-conception that things only can improve in their lives, and they strive to do so. Behind this attitude there is a hint of conformism inserted by exogenous circumstances such as environmental, political, historical and socioeconomic issues that shaped their own progress and lifestyle. Accordingly driven, this value can lead to a motivation for socioeconomic development.

National identity and unity. In spite of the accentuated ethnic diversity characterizing Tanzania population, Julius Nyerere, the president of the nation after independence, was able to unify and create a feeling of national identity among all Tanzanians independently of their ethnic origin and culture. The Swahili language was the instrument whereby the whole country shared a common value. This value is very alive today and has a lot of potential to make people strive for the sake of the nation.

Women's role is increasing as an engine for socioeconomic development. Women are highly resilient and open-minded when it comes to cooperate with others in socioeconomic activities. The gains of such cooperation are fully invested in family upkeeps, mainly basic needs and IGA's. This is the nature of women informal groups. These groups make them feel freer of thinking, action and choice.

Youth. The new generation is showing some indications of social change. Generally, there is a behavioral pattern of youngsters' preferences to get involved in non-agro pastoralists activities to earn a living. Young people, concerned of the hardship of the rural lifestyle, want to move to urban areas pursuing a better life. This is to correlate this shift to petty business and trading activities to the urbanization process speed up. This value could be a motivator itself if correctly addressed by seeing it as an opportunity rather than a handicap.

Entrepreneurship. Based on the present survey one can affirm that people in Dodoma region are entrepreneur. However, there is a strong need to contextualize this conceptualization. They are entrepreneur because they do not have another choice. Being self-employed in the informal sector is the only path to survival and progress. Nevertheless, entrepreneurship is developing and evolving in an environment, which is not appropriate or sensitive to support entrepreneurs. We have seen that the lack of resources is a major constraint that undermines the opportunities to entrepreneurship.

Dormant values

Short-term focus. There is a general trend of 'looking at the opportunity today for tomorrow' (int.). As a consequence, there is a widespread sense of long term planning. This long-term shortage affects the way whereby people size and valuate business and economic opportunities that go beyond maximizing today's profit. For an eminent entrepreneur society this is constraining economic development as people lack projecting and visualizing the benefits of investing in new ventures.

However, this phenomenon might not be seen as isolated. It is deeply rooted in a context –life circumstances- of a subsistence economy struggling for survival, where covering basic needs day after day is the main priority. This is one of the consequences of people living in the poverty trap, although not so many scholars regard this behavior when trying to find out solutions to get out of it[216].

The stressful urgency of survival as the main cause of a short-term focus embeds another trait which is shaping people's behavior: *money first*. When most of the NGOs or other organizations try to engage in boosting economic cooperation with the villagers, people ask money first as a precondition to start the cooperation. It is an opportunity today.

As vision and planning are indispensable requisites for the design and implementation of developmental projects, the lack of long-term focus could be, and actually is, a drawback itself. Nonetheless, money first is an *incentive* as well, as it motivates people to collaborate and engage in developmental activities. Henceforth, by seeing it as a motivator, could be part of a strategy to introduce long-term vision and planning as a complement to the short-term people's behavior.

Traditional beliefs and costumes are part of a culture. However, there are some social behaviors and/or attitudes that heavily hamper the own development and progress of a community, ethnicity or group. Gender discrimination is posted as an obstacle for development as it discourage women to freely enjoy equality in their power relations versus men, and pushes them to organize in informal women groups to overcome this constraint. For example, one of the major fights against female mutilation is the discrimination that suffers a non-maimed girl when it comes to enjoy the possibilities to become married and enjoy the acceptance of her own family and community (int.).

The *historical background* can deeply or partly explain the current value system of a society. It would be naïve and unaccountable to neglect or to avoid introducing the historic dimension as influencing values. Despite the limitation of the survey to have a wide historical analysis, it is worth identifying the patterns of behavior and attitudes that are more visibly affected by a historical background (see chapter 3).

This background is found in the colonialist and post colonialist legacy towards the achievement of independence. Particularly, the socialist system of 'Ujamaa' fostered by the former president Julius Nyerere affected the following:

Infant business culture: the private sector was left aside in a collectivist provision of social ruling and lifestyle. The state acted as the supplier of social services and people did not have to develop their own ventures in order to come up with market solutions. Moreover, development agencies of partner countries in the West and multilateral institutions did not focus either in fostering economic development based on the construction of a strong local business sector that could take the development lead. Actually, this is one of the main objectives today (MKUKUTA). The legacies of colonialism, the socialist system after independence and the Western development aid approach have influenced people to become more,

Gregarious: people have developed automatically an attitude of reactivity in adopting activities or measures that can favor their own development. Rather than being

[216] Neither Paul Collier nor Jeffrey Sachs in their respective books 'The Bottom Billion' (2007) and 'The End of Poverty' (2005).

entrepreneur by nature, as we have seen before, people first reaction is to wait for external assistance. Along with the development constraints of resources and the lack of a pro-entrepreneur environment that could motivate and boost people to take the lead, the gregarious attitude have constituted a pattern of behavior that should be compensated when introducing new policies and development strategies for economic development.

Lack of leadership and creativity. In the same line of argument, a gregarious attitude softens the leadership and creativity initiative of the population and encapsulates them, as they were sleepy. A right pro-entrepreneur development strategy should be aimed to unleash these potentialities.

4.3.6 Determinant Factors for Development

According to the Collins English Dictionary (2003), a factor is 'an element or cause that contribute to a result'. The American Heritage Dictionary of the English Language (2009) defines factor as "one that actively contributes to an accomplishment, result, or process".

In economics, factors of production (or productive inputs) are the resources employed to produce goods and services (O'Sullivan and Sheffrin, 2001). They facilitate production but do not become part of the product (as with raw materials) or become significantly transformed by the production process (as with fuel used to power machinery). To 19th century economists, the factors of production were land (natural resources, gifts from nature), labor (the ability to work), and capital goods (human-made tools and equipment). Recent textbooks have added entrepreneurship and "human capital" (labor's education and skills). Even social capital is recently being used claiming that social networks cause an increase on productivity (Putnam 2000).

Exogenous factors are the most acclaimed by development aid agencies to foster economic growth in low-income countries in the attempt to fight poverty. IMF, the WB or other bilateral agencies rather focus on Keynesian approaches that outline macroeconomic factors to economic growth (Goff 2003). In most of the country strategy papers of partner countries, creating and environment by improving the factors of savings and investment, government-financed investment, macroeconomic stability and trade liberalization, and capital mobility and exchange rate policy are themselves the criteria that developing countries must accomplish in order to qualify for the aid disbursements[217].

On the other hand, little literature is left to analyze endogenous factors anchored in local people's value system. Although there is an increasing interest of scholars and policy makers on the role of culture in development (Moncrieffe 2004), approaches are somehow disconnected to socio-economic factors that influence economic development first and human development latter.

[217] The donors' country strategies outline the conditions that a partner country must fit to qualify for aid disbursements. For more information see also 'Budget support, conditionality and poverty', Mosley and Suleiman (2005).

As already outlined, this paper intends to provide a holistic vision of the development issues that affect the progress of a given society (Dodoma region in this case). The interactions and relationships between the value system and factors is crucial in the way that development is determined by the combination of all of them in a synergy pattern of behavior and hence, decision making (see table 4, Annex 4). The value system and factors are framed under a specific social, economic and cultural context, according to life's circumstances. The purpose is not only to identify the values and factors, but also to get to know what they mean locally, and how they interact and coexist in that community. By knowing these dynamics, we will have more clues to design endogenous development policies and strategies.

Several factors have been identified as elements or causes that contribute to the development in Dodoma region. Some of the factors do contribute more than others. The point here is not sizing and weighing the amount of this contribution. Rather, it is analyzing the factors and extracting their potential in order to maximize the contribution further.

<u>Human capital</u>

Education and training: one of the first priorities of development aid agencies is to increase the literacy rate of the developing country's population. School enrolment and literacy rate, number of schools and teachers are some of the main indicators when it comes to measure the improvement and achievement of educational targets. This situation is improving in the whole region.

However, the scope of education is very much ampler. Locals see basic services in education and health as a must[218]. Herein, the debate moves out to the quality of education and the need for adult and vocational training.

There is a strong demand of training in entrepreneurship, leadership and business. People will is there, but there are only isolated and small-scale initiatives that offer a supply. BRAC Tanzania is providing micro loans at the same time that it is training the potential beneficiaries. There is no single loan assigned without the adequate training in managing the loan for a business purpose. SACCOS do provide the loans to members if they have the collateral, but transversally is organizing training events in entrepreneurial activities in most of their village branches. CRDB bank is providing financial training and product information to villagers. A commonality among all of the above is the lack of workforce and resources available. And a dismissed opportunity is the lack of collaboration between these organizations. Thus, much more needs to be done.

Education and training are mainstreamed by development organizations as the entry point to start collaborating. People's appreciation for education eases the first 'getting to know each other' stage of the cooperation. Later, it is easier to introduce and tackle other development issues in the community.

[218] Village and regional government along with NGOs and other developmental organizations are providing these services.

Locals' will: by all means people explicitly stress the goodwill of participating in training activities that concern their own development. Aware of the importance of acquiring the development know-how in collaboration with local or international organizations, there is an open widespread request for the kind of training mentioned above. This willingness, undoubtedly, can potentially motivate all stakeholders. It is a matter of building their capacity accordingly.

Learning effects: people have the ability to benchmark others' success stories of good development performance. When a woman is given a loan and she is making progress with the right investment and effort, people are bound to undertake the same action. Learning effects bring network effects. As much as the community can feel and touch the progress around, more chances to development might happen.

Natural resources

Land titling: Dodoma region has vast amounts of arable land. As a natural resource, this is itself a strong factor that contributes to development. However, this is not fully the case in Dodoma region. Assigning official titles to the landlords should strengthen this factor. This could help farmers qualify for a loan and, as a consequence, they could invest the credit in increasing the land's productivity. We see here how available land and credit are intimately related.

Stock capital

Access to credit: as well as it is a constraint; access to credit could be one of the strongest factors to development if available. The demand is not matched by far, the offer is too concentrated and some of the targets are left out. The problem of the land titling is a handicap that hampers people's access to credit.

The requirements when potential beneficiaries apply for a loan should be addressed with training in entrepreneurship and business skills. The identification of a business opportunity, and the right formulation and writing of a business plan might be supported when people decide to qualify for a loan.

Successful stories such as BRAC's full record in loan repayments[219] or the SACCOS visibility and awareness could show the path towards building a pro-business environment enabling people access the credit. Needless to say, more financial resources should be put on the table.

Information and Communication Technologies (ICT): Dodoma region is not capturing the benefits of ICTs. Abundant power cuts and deficient information infrastructures really constraint the efficient introduction of ICTs. Rural areas lag far behind urban cities where ICTs is mostly concentrated. The urbanization fast development is accelerated by demand-driven ICT services. Cell phones operators and Internet cafes are found in the city centers. Lack and discriminated access to information is a handicap for the rural development of the region, affecting an unequal access to market information, and thus, contributing to widen the technology gap between urban and rural areas. When

[219] BRAC's innovative approach targets entrepreneur women by testing their economic development passion and willingness to join. Later on, these successful first adopters drag the rest.

effectively addressed, bringing ICTs to rural areas could be a potential factor for generating and organizing marketing activities.

Social capital

Women are catalyst for development in its wide scope. They are very resilient, multitasking and entrepreneur[220]. Yet they are in charge of the housework and income generating activities a well, they still find time to organize in groups of self-help or economic activities in an attempt to find out new alternatives to improve their condition. They are also characterized for optimizing the allocation of expenditure covering the family's basic needs of the household such as education, food, clothing and medicines. If some money is left, this is bound to be saved.

Youth: along with women, youth is a driver of social change. They prefer to dedicate their efforts and wants in working on business activities in urban areas rather agricultural. They are more actively entrepreneurs and express more concern with the importance of accessing the credit and the availability of reliable markets.

Consciously or not, youngsters are tired of the hardship of a rural lifestyle and they do not show the same willingness to sacrifice in this agricultural-based economy. Rather, they are the flag of the urbanization process.

Informal Social Groups (ISG) are social networks of people that are not legally constituted as an institution. They have a prominent role in the socio-economic development of the village. They are very present across the community as groups of people that share the same interests and vision. The nature of these common interests are firstly motivated by economic and lending activities; secondly by social activities; and finally by environmental means.

The most active people engaged in these groups are women. Indeed, the self-help groups are only conformed by women. They provide social and affective assistance in emergency situations such as the death of a relative, the care of a sick member and the like. The emotional benefits of such cooperation made them to leverage the same concept into other groups geared towards other purposes, especially economic and environmental activities. The main reasons referred by members of these groups to join are the learning effects, the entrepreneurship training and the possibility to access the credit. Members are satisfied with the cooperation and this is a symptom that ISG really work out.

Likewise, men also join these two latter groups and other groups are only made by men, especially groups of farmers engaged in optimizing their economic activities into cooperatives. Despite the involvement of men in social groupings, women are more socially entrepreneur and supportive. They have a special concern and ability to grasp these societal advantages.

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[220] Women are the main beneficiaries of microfinance, as they show more motivation and commitment with accessing the credit and investing it accordingly. Extensive information of women's development role can be found at the 2006 Peace Nobel Laureate Muhammad Yunus' book, 'Banker to the poor' (1999).

ISG have different functions among its joint activities. They are a platform of dialogue and discussion. Members find a place and time to gather and share their constraints, worries, ideas and solutions. They become a learning process as people that share their success stories inspire other to take the same path. They set up informal ruling and managerial procedures. They are channels of communication where information flows from one to another. They are wide social networks of people. They are forums where people debate and make decisions, introduction of new concepts, ideas and products. And, in the end, they develop a behavior as important catalysts of development and social change.

Despite the visible benefits of ISG, they do not have many links with external developmental organizations or the regional government, and, if there are so far, they are not really visible (which reflects a low impact).

Entrepreneurship

By one way or another, *entrepreneurship* is a demand-driven factor that needs strong support and encouragement. This is the core factor that lay down and complements other factors. We have seen how people, especially women and youth, are strongly demanding entrepreneurship training and support. Indeed, we have seen in the last section how people are making use of their own limited resources and implementing entrepreneurial initiatives for their own development.

They have decided to take their own way to development, which make them feel freer, confident and stronger. Yet they are aware of the importance and the benefits to cooperate with the local government and the different developmental organizations. They all need each other.

4.3.7 Relevant Formal Institutions for Development in Dodoma Region

Formal Institutions for Development (FID) refer to the institutions and organizations that may have a significant interest in the overall objective of poverty alleviation in the Dodoma region. While during the analysis the main institutions have already been mentioned, the purpose here is not only to identify them but also to analyze their role and capacities. Actually, they might be the authentic stakeholder leaders, implementers, facilitators and supporters of the development process. Figure 15 of Annex 4 provides a summarized overview of the major FIDs that have taken part in the fieldwork.

Local Government Authorities (LGAs)

Three levels of local authorities represent LGAs: district, ward and village. The District Council comprises the ward councilors, members of the Parliament and reserved space for women. The link between the district and the villages is through the Ward development committee, which is represented in the district via the Ward Executive Officer (which is employed by the district) and the Village chairperson (publicly elected). This structure is completed with the Standing committees in social services, financial and planning, personnel and administration and economy, which support the District Council (see figure 14, Annex 4).

According to the Tanzania Community Development Policy[221], District Councils 'have the legal authority to make by-laws, to oversee development in areas of their jurisdiction, to plan, implement and evaluate development activities in their areas, to collect taxes, to provide social services such as primary education, health, water and rural and urban roads, to employ staff, and provide them with working tools'.

Concerning the Village Governments, 'although Local Governments generally have the overall responsibility to mobilize human and natural resources and use them to bring about community development and are well placed to do so, Village Governments have a special position, because they are very close to the people. Since community members in one village have similar problems, it is easier for Village Governments to plan and strategize more concretely for the development of the community than for District Councils which are charged with the responsibility of a wider area and whose problems are not so similar'.

'Village Governments should make use of strong leaders and people with sufficient expertise in devising, designing and implementing plans for the development of the community. Development levy will be collected after the people have harvested and sold their crops so that they have the money to pay'.

The survey positions the main role of the LGAs as facilitators. While people assume that LGAs along with the Central Government provide basic education and health care services, as well as some basic infrastructure in transport and water, the role of the LGAs is insufficient, lacking resources, expertise, and knowledge. Villagers have higher expectations.

Likewise, LGAs are a key stakeholder to bring development. If any organization wants to reach the villagers and cooperate with them, they need first to contact the District Council and the Village Government, explain the project and then start the operation. Ward and village leaders are facilitators by bridging development organizations with the locals. District and village government officials carry out bureaucratic procedures and legal approval.

Actually, they are not leading the development process. They rather perform a passive role in the community that can partly explain the low reputation of LGAs among villagers. Although some people manifested the corruption risks associated to the big power and responsibility of LGAs officials, there is a general concern to involve LGAs in the development initiatives undertaken by all means, and make them part of the solution.

<u>Non-Governmental and Community-Based Organizations – NGOs and CBOs</u>

There are around seventy-four active NGOs and CBOs in the Dodoma region[222] struggling to alleviate poverty and by contributing to the development of Dodoma

[221] "Community Development Policy", United Republic of Tanzania, Ministry of Community Development, Woman Affairs and Children. Dar es Salaam, June 1996.
[222] According to data from the Regional Commissioner's Office, Dodoma, October 2009.

region, far ahead the forty-five organizations recorded in 2001[223]. They work in a wide variety of sectors tackling social, economic, and environmental issues. While most of the organizations are fully Tanzanian, in recent years a lot of international NGOs have set up operations in the country. The scope of their work varies geographically, some of them reaching the village or ward level and some of them the whole region. There are some NGOs that have operations in Dodoma as part of a nation-wide strategy.

In spite of the large quantity of organizations, they are not very present and visible at the village level. The exception is Compassion, a Christian-based organization that is widely appreciated by her work with poor and marginalized children.

In a developing world where aid delivery methods are changing toward fostering systematic aid disbursements into the national budget of the recipient country (budget support) in the attempt to transfer the sense of ownership of the development initiative[224], NGOs and CBOs still face unstable funding implemented and managed in a project-by-project basis. They cannot capture the systematic approach to development in a long term run. The funding is mainly coming from donor countries and private overseas foundations.

The support of the GoT does not concern financial assistance. It is rather limited to the LGAs administrative and bureaucratic supply of procedures, human resources and network facilitation.

There is an overwhelming and palpable lack of collaboration between organizations. Despite sharing the same objectives, they do not get the synergies of a beneficial and complementary cooperation and there is no formal platform or network of joint dialogue. Duplicities of services, tasks, work and processes are overloading the capacities of the LGAs. However, most of the organizations are well aware of this fact, recognize its importance and show strong willingness to collaborate. They would need someone to push them with strong commitment and leadership. In a nutshell, there is a general perception that results could be substantially better.

<u>SACCOS</u>

The governmental institution Savings and Credit Cooperatives Societies is a wide network of credit supply that reaches the villages. It is very visible and well known by its support among the locals and the development community, although is facing a lot of technical, managerial and resources handicaps[225].

It urges a modernization of its facilities, the adaptation of the offering to the market and more technological and human resources capacity, capturing the benefits of ICT, keeping records of the operations, setting up formal training programs to spread the benefits of saving and business skills.

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223 "Dodoma Region Socio-Economic Profile", National Bureau of Statistic and Regional Commissioner's Office, 2003.
224 See Paris Declaration on Aid Effectiveness, 2005.
225 See "The value savings and financial intermediaries in Tanzania", Blyh and Wiberg 2003.

It is currently collaborating with the CRDB bank, which is lending to the cooperative using SACCOS policies and procedures. However, this project is occasional and is due in 2010.

Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA)

As the main business association in Dodoma region, TCCIA acts as lobby organization with the aim to improve the business environment. Her main activities are training, networking, matchmaking and organization of business clusters. It provides business services with a business information centre in Dodoma city.

The chamber only counts with a limited capacity and resources to perform her activities effectively, which is determining a marginal role and impact among Dodoma businesses. The scarce dimension of her resources does not match with her status, the big responsibility and a major role that it might play in the area.

Basically, it lacks a systematic approach to support the businesses, with prominent networks to manage an appropriate coordination. It lacks the capacity to generate and disseminate information, and elaborate business reports. Besides, it is not receiving financial assistance from the Central Government. Instead, it is funded mainly by the Swedish International and Development Agency (80%) and by member annual fees (20%).

University of Dodoma (UDOM)

The University of Dodoma is a public institution established in 2007, located in the outskirts of Dodoma City. As a University, her core responsibility is to provide a conducive environment for teaching and learning, knowledge generation and community service.

Despite the young age of the institution, it is widely visible in the region, especially in the Dodoma municipality and it is contributing to its development by the mere fact of setting up its operations in Dodoma. Creating employment, boosting the local economy, improving the infrastructures, and cultivating talent are some of the most relevant benefits, among others.

With the ambitious growth plan in a short period of time, the university has a big chance to get close to the community and thus to make a notorious contribution to the regional development, especially providing human resources, training, education and leadership. The community welcomes any effort with good will as it sees the university a prestigious institution. UDOM could pave the way for further endogenous development.

Central Government

The GoT capacity to development is very limited. Even if financial resources are there, and Tanzania is a donor darling with big amounts of development aid flowing every year to the National Treasury; it lacks the capacity to absorb them. The National Poverty Reduction Strategy (MKUKUTA) is a good strategy with very nice words, but, in practice, implementation is not bringing intentions to results. Among other constraints, corruption is rampant.

Even though with budget support as the main method of aid delivery, the Central Government has no way to define and dictate Tanzania's own development without foreign aid interventions. Tied conditionality, economic and political interests and the import of the timing imposed by donors is pushing the Central Government to focus on external aid management instead of capturing the real needs of her own population.

There is a strong need to thresh the policies to the ground or bottom level. A key document such as the National Agriculture Strategy does not segment the policy interventions into the regions. Thus, it hampers the performance when it is time to implement the policies. To counterbalance the diminished role of the Central Government the recipe is to strengthen local leadership at the community level.

<u>Development Partners (DPs)</u>

Bilateral donor countries and multilateral aid agencies often refer to Tanzania as the poster child of the new paradigm of aid effectiveness. Cordiality and political stability frame a good relationship between the GoT and DPs. There is even a Joint Assistance Strategy[226] that collects the main contents of such collaboration.

In the field, though, these joint actions are not translated into tangible results. Aid harmonization is not carried out and the donor matrix[227] still shows a lot of donors tackling the same issues, overlapping activities. The main approach of DPs is at the sectoral level, and there is a big disparity of actions across regions.

The overdependence of foreign aid is seen, by one side, as indispensable. There is the widespread opinion that official development assistance is strongly needed to fight poverty, especially in cases of extreme vulnerability, and mainly in humanitarian aid, education, health and infrastructure. However, on the other side, everyone's acknowledge the failure of the external assistance approach, as it has not matched the expectations since the beginning repeatedly.

Overdependence of foreign aid also brings 'perverse effects' (int.). It is putting down and discouraging local capacity to creatively develop own solutions to development. And secondly, it is putting too much pressure to get the conditions and the timing. It is, by all means, contributing to the local gregarious attitude toward addressing developmental issues.

4.3.8 Communication and Knowledge Management between Formal and Informal Institutions

The first phase of the research concluded with the identification of the values that underpin the social and individual behavior towards the process of decision-making in the context of the Dodoma region, the study area in this case. The study reveals different levels of values' motivation that are more or less prone to foster entrepreneurship in the area (active versus dormant). Active values act as emancipative

[226] "Joint Assistance Strategy for Tanzania", United Republic of Tanzania, November of 2006.
[227] "EC-Tanzania Country Strategy Paper and National Indicative Program 2008-2013", December 2007.

values that inspire promotion strategies towards the human development path (Welzel and Inglehart, 2010).

However, two of the main handicaps that the study found were the semi-isolation of informal institutions (ISG) and the consequent limited access that these institutions have to information, knowledge and external resources in general. They have minimal interactions and cooperation with FIDs, which, on the other hand, have the potential to bring their available resources to the communities. Therefore, the research questions that emerged were: why is there such a limited connection among formal and informal institutions? How they could improve their mutual cooperation?

By means to shed some light, the second phase of the research was aimed at exploring the disconnection amongst ISG and FIDs on the ground, which is correlated to the challenge of institutional reconciliation mentioned at the introductory section of the chapter (see figure 1, Annex 4).

The research methodology built upon the findings and outcomes of the first phase, based on the following qualitative methods. First, the design of tailored modules on entrepreneurship and development was elaborated. These modules were aimed first at training local trainers from UDOM, and second, modules that these trainers could use for training the entrepreneurs of local communities. These local entrepreneurs belonged to the ISG that participated in the first phase of the research. The design was made throughout three focus groups with members of the research team and a panel of experts from UDOM and a workshop with relevant local FIDs that participated in the research and that have been analysed in section 4.3.7. Second, the training modules were tested in subsequent pilot tests with trainers, and finally with the leaders of a sample of ISG in a selected village of the study area (Mahomanyika). The method used was group dynamics with a special focus on interactivity and participation among attendants and trainers.

The pilot tests have led to some relevant findings that contribute to provide some underlying causes for such disconnection. First, the nature of knowledge between informal and formal institutions is completely divergent. Informal institutions, on one hand, are formed by social networks of entrepreneurs that are engaged in traditional, low productivity agricultural activities that are implemented on the basis of indigenous tacit knowledge. FIDs, on the other hand, work on the basis of managing explicit (or formal) knowledge that circularly flows among networks of formal institutions, but in which informal institutions do not have easy access.

Tacit knowledge (as opposed to formal or explicit knowledge) is knowledge that is difficult to transfer to another person by means of writing it down or verbalizing it. It is, therefore, a type of knowledge that is not codified. Effective transfer of tacit knowledge generally requires extensive personal contact and trust[228]. Tacit knowledge is not easily shared. It involves learning and skill, but not in a way that can be written down. Tacit knowledge consists often of habits and culture that we do not recognize in ourselves.

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[228] According to Lundvall (1996), trust is a multidimensional concept that has to do with reliability, honesty, cooperativeness and a sense of duty to others.

On the other hand, explicit knowledge is knowledge that has been codified, and it can be readily transmitted to others. Codification initiatives in organizations and communities may be one way to trigger and stimulate processes of learning. This could start according to Lundvall (1996) from a situation where the members of a firm may be able to talk about knowledge issues, but the models that are embedded in their daily talks are incomplete and the vocabulary is ambiguous.

Tacit knowledge is characterized by being essentially a property of social networks and is communicated by informal lateral communication between network members. In organizations and organisms, lateral communication works in contrast to traditional top-down, bottom-up or hierarchic communication and involves the spreading of messages from individuals across the base of the pyramid.

Therefore, the main challenge that FIDs face in order to approach informal institutions is to know how to capture and transfer this tacit knowledge by creating the conditions to transform this social tacit knowledge in explicit knowledge in order to improve the dissemination of this knowledge towards other people and communities. Most often, the major approach utilized by FIDs starts with the transfer of explicit knowledge directly to informal institutions, and thus they dismiss the opportunity to capture the tacit knowledge from these informal social networks.

In some cases, FIDs are used to approach communities through so-called participatory approaches. By participatory, they normally mean that community members attend the meetings and are entitled to participate whenever they are required and whenever they consider appropriate. Such participatory methods are mainly top-down as they do not allow lateral mechanisms of communication whereby FIDs can capture tacit knowledge and thus open up a bidirectional process of communication, by fostering learning and knowledge transmission between formal and informal institutions.

A well-regarded approach that illustrated the case of lateral communication was the identification of development challenges and their subsequent theatre performance by the members of the community. Such process is useful in increasing awareness and communicating problems that the community face. Once the villagers are concerned, they engage in an open discussion to find out potential scenarios of solutions and, once agreed, they proceed to their implementation if feasible. This approach, however, is seldom used by formal institutions as it requires local expertise, high doses of trust, time and patience.

A second major finding of the experimental research was that the proper approaching to the informal social groupings of entrepreneurs in the communities through a process of lateral communication is a critical factor for overcoming the initial reluctance and skepticism when first contacting these informal institutions. A key aspect for such achievement was that the entrepreneurs gladly acknowledged that this was the first time that a research conducted with their participation had returned to the village. The mere fact of coming back to them with the findings of the research in which they took part was highly welcomed by the participants. They interpreted the gesture as a signal of commitment and transparency, and it was a landmark for building trust amongst the research team and the ISG.

Another important factor that contributed to the high involvement of informal institutions of entrepreneurs was that the research team approached first the opinion leader of the community. The opinion leader of Mahomanyika, a highly respected and influential religious pastor, was very important to foster the mobilization of entrepreneurs and their contribution to the research. This figure acts as a channel of transmission of information between formal and informal institutions especially at an inception phase of the process.

Last but not least, another factor that positively contributed to create a friendly atmosphere during the focus group was the empathic role of the local trainers. Given that most of the members of the ISG were female, the fact that two of the trainers were also female with experience in dealing with ISG of entrepreneurs enormously facilitated the process of trust building between the university and the groups. Informal social groups, in line with their appreciation of friendliness, openness and cooperative values (see section 4.3.5), are responsive in sharing their views and knowledge when substantial trust is there.

Related to this, it is noteworthy that the University of Dodoma is regarded as a prestigious and highly credible institution. This fact is due to the high appreciation of education in the communities, a value that was identified in the research and that was embedded during Nyerere's epoch.

In parallel, the workshop carried out amongst the FIDs that participated in the research was an unprecedented networking event in the region. FIDs, which had not the opportunity to get to know each other previously, highlighted the need to foster networking, share information and knowledge, optimize available resources and engage into a synergetic process of joint cooperation with the community-based informal institutions. The local FIDs shared the high valuation of the university as the node between amongst them.

All in all, abovementioned findings mean that entrepreneurs need a business and social-innovative environment in which they can transfer tacit knowledge. Evidence from the grassroots contributes to identify underlying causes of the lack of connection between formal and informal institutions. But it also provides some hints on the critical factors that are required to catch up tacit knowledge, improve it by the participation of the stakeholders and transform it into explicit knowledge, to be codified in a comprehensive language that can be disseminated.

4.4 Analysis of the Local Value System

The following sections offer an analytical description of the interplay among the values that have been identified above, within two analytical frameworks that are often used as a means of incorporating culture into economic analysis.

4.4.1 Culture Dimensions in Dodoma region. A Value-Relational Analysis

As mentioned in section 4.2.4, my aim is not to replicate Hofstede's model in the study area, basically due to the different contexts of the research and the quantitative versus qualitative focus of data collection methods. Rather, Hofstede's Culture Dimensions are used here as a qualitative application of the framework in the attempt to explain and to help us understand culturally observed phenomena of the value system analyzed in the study area of Dodoma region. The culture dimensions are incorporated in this analysis as a broad conceptual framework related to fundamental problems of human society, which allows qualitative analysis. Therefore, the objective of this section is not to contrast Hofstede's findings, but to provide a more structured and relational analysis of the values that underpin the social behavior and agency of local entrepreneurs in Dodoma.

Individualism versus Collectivism (IND)

One of the most striking features of the value system in the study area is the high level of collectivism that is embedded into societal behavior. This sense of collectivism is felt in two ways. At a more general level, there is a common feeling of membership and unity that come from the national pride of belonging to a common identity. At the community level, the values of friendliness, cooperation, integration and optimism denote open attitudes of membership with close ties to those belonging to the social networks at the family and community level, with strong importance attached to interpersonal relationships.

The concept of family is conceptualized into extended families or clans which act as protection safeguards in exchange for loyalty. This is related to the spread of informal groups of self-help, female-driven, in which members of the groups gain security feelings in exchange of their commitment and willingness to provide help when other members of the group are in need.

This "we" consciousness and collectivity orientation emphasizes an identity based in the social system and in the principle of belonging. In these communities, there is a high-context communication and emotional dependence of individual on informal institutions or social networks, where membership is regarded as a guarantee of survival strategies. The origin of social networks, a survival strategy that works as safety net, is boosted in the motivation base of affiliation[229], in which affectionate relationships between group leaders and the others breeds motivation.

The decision-making process is embedded in the social networks (ISG). This explains that survival is less embedded in individual initiative. This fact is related to the gregarious dormant value of people reactivity in an out-grouping context, which directly affects the low self-leadership and creativity of people in individual entrepreneurial activities. Entrepreneurship has to be understood as a social asset.

The ISG of entrepreneurs that are organized towards economic activities also have the same origin like the self-help groups. They are aimed at securing basic economic resources such as through lending activities for the development of business ventures and/or the discussion of threats and potential solutions for daily constraints on their economic activities. Open and oral discussion is the predominant instrument for communication in participative events held at the social network level. The prevalence of oral over other forms of communication indicates the strong importance of the flow of indigenous tacit knowledge among social networks. This is related to the most

[229] McClelland (1961) distinguished three types of motives: achievement, affiliation and power.

successful method of persuasion in the communities: the word-of-mouth communication of successful personal cases of entrepreneurs, as mentioned in section 4.3.4.

The local language is precisely and example of tacit knowledge, as opposed to other forms of language besides one's mother tongue[230]. An effective knowledge and information sharing in tacit-explicit transfers between informal and formal institutions requires much trust[231]. The use of the local tacit knowledge is essential in the trust building process with informal social networks at the community level.

As a mode of comparison, the collectivism characteristic of local communities is in contrast with individualistic societies of the West, in which identity is based in the individual, choice-strategies are made upon hedonism and motivational sources come from individual initiative in search for achievement. Hofstede's labels a collectivist setting as a traditional society[232], opposed to an individualistic "modern" or "postmodern" society. This cultural gap is an underlying cause of the famous implementation gap occurred between donors and recipients. As Hofstede argues, the gap between "individualistic" donors and "collectivist recipients" implies that recipients will want the aid to benefit certain in-groups over others (a particularist way of thinking) whereas donors will want to serve certain categories, regardless of in-group affiliation (a universalist way of thinking).

Masculinity versus Feminity (MAS)

A much relevant characteristic of the value system of the study area is the predominance of feminity over masculinity's values. According to Hofstede's definition, a low level of masculinity features the societal behavior of communities. The values described in section 4.3.5 about friendliness, cooperation and women's role hinge toward this characteristic.

It is important to understand that the fact that these communities have pro-feminity patterns of behavior does not mean that women have more power. Rather, the conceptualization refers to values, soft patterns of behavior displayed regardless of gender that are influenced by the following feminity-based characteristics.

Friendliness underpins social interactions that are solidified by empathy with others regardless of the group or any discriminatory category. This empathy has its roots in a much more feminity conceptualization of interpersonal relations where quality of life and taking care of people are important. In such setting, relationship dominates the scope of the relationships over ego, and work is conceived as instrumental for a good life.

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[230] For example, even if I would have been able to speak Kiswahili, it would have been explicit knowledge for me, and therefore I could not have gone that far in the research with the communities if conducted by myself.

[231] Janowicz and Noorderhaven (2009).

[232] According to Hofstede (2001) a traditional society is characterized by less economic development, less social mobility and weak development of social class, tropical and subtropical climates, economy based on agriculture, more children per parent couple, historical collectivist thinking and traditional educational systems.

The ISG from communities work on the basis of mutual cooperation among members, as opposed to competitive forms of relational management. Cooperation and integration reinforce a strong sense of membership and provide a motivational pattern for undertaking the economic activities within the group. Decision-making takes place at the group level, which values promotion by merit. Aspirational motivations such as having a bricked and iron-roofed house, being able to cope with children's education fees and sufficient affordance of basic needs are motivations related to feminity values, which go beyond the satisfaction of oneself. The gains of cooperation carried out through social networks are mostly invested in family upkeeps and income generating activities.

Collectivism and feminity are closely inter-related. We have seen that both dimensions embrace values such as friendliness and cooperation. The spread of female-driven ISG illustrates the fact that a collectivist environment is more suited for women. It better supports them to deploy their inherited societal patterns of behavior of cooperation, empathy, altruism and membership.

Therefore, it is not surprising that the research outlined that women are more prone to recognize the benefits of association than men, as they see that expands the range of opportunities and, as a result, they engage in economic activity-based ISG economic (see section 4.3.4). According to research findings, men engage much less in social networks, either because they do not see the benefits or due to the absence of male-driven social groups. They face thus a potential risk of exclusion.

Collectivism and feminity are traits that characterize the profile of the local entrepreneur, which is usually portrayed with the face of a woman. In such local value system, cooperation, friendliness, openness, empathy, altruism and the like contribute to greater agency. The entrepreneur is in a better position to access to resources such as knowledge sharing and learning, access to loans and basic security services in case of urgent need (i.e. sickness). Members of the social networks are more open-minded and eager to adopt new innovations to their activities than non-members.

The portrait of the local entrepreneur largely differs from the western or universally acclaimed traits of an entrepreneur per se. Research literature in entrepreneurship widely acknowledges that entrepreneurs motivations feed from individualism and masculinity values such as achievement motivation, ego orientation or autonomy, among others (Licht and Siegel, 2005). In a "logical" attempt to foster entrepreneurship in developing countries, we have seen that donor agencies approaches, with the benevolence of its recipients' partners, stress the implementation of economic supports with this western biased, bypassing the understanding of the local context and value system. This logic is another underlying cause of the aid effectiveness' implementation gap between donor policies and project/program implementation on the ground.

Power Distance (PDI)

Power distance is the measure of the interpersonal power or influence between individuals across hierarchies. Mulder (1977) defines power as "the potential to determine or direct (to a certain extent) the behavior of another person or other persons more so than the other way around", and power distance as "the degree of inequality in power between a less powerful individual and a more powerful other, in which both belong to the same (loosely or tightly knit) social system".

According to this conceptualization, power distance in the study area is high. There are several intertwined values that contribute to this assessment. Decision-making is developmental issues such as the supply of social services is structured in a hierarchical vertical chain in which LGAs play a major role. In parallel, respected opinion leaders, normally elders, exercise a high degree of influencing individuals' and social behavior in the community.

This vertical integration hampers the possibilities of ISG to get in touch with outside formal institutions. To set up a cooperation scheme, either formal or informal institutions need to contact first LGAs, which later facilitate permission if the cooperative is positively assessed. Once the contact is settled, which is normally coming from the formal institution, it is recommendable to contact and get the agreement of opinion leaders, who can later mainstream and successfully engage the rest of villagers. This process takes time, personal contact, networking and trust-building.

Whereas dimension of masculinity versus feminity is dominated by female-based values that are supportive of a female way of leadership, the dimension of power distance is coped by a pro-male hierarchical system of relations linked to the value-notion of respect and status. This appreciation is held for group or opinion leaders, usually elders, who have a large number of cattle, good housing facilities or other self-expression means of recognition. Furthermore, in some cases opinion leaders are also influential spiritual or religious leaders whose traditional beliefs and customs are highly appreciated in the community.

The clash between the more horizontal female-based behavior that characterizes local entrepreneurs and the more vertical male-based power distance is a plausible explanation that hampers the development of joint initiatives with formal institutions of development cooperation.

In a context of high power distance, equality is more important than freedom, authority is based on tradition and top leaders are older (Hofstede, 2001). Such appreciated traits are sub-products of exogenous values that had been embedded by the local community. This is the case of the historical background, a dormant value mentioned in section 4.3.5. In this case, the influence of the colonial period and the post-colonial era of Nyerere's socialism (see chapter 3) contributed to leverage values that bring high power distance from the national to the community level.

Legacies of that historical background include gregarious patterns of behavior in which individuals value conformity over independence. This context prevents the adoption of pro-positive attitudes toward decision-making built in an achievement motivation. Rather, it pushed the communities to the adoption of deferential values that inspire prevention strategies rather than promotion. This sequence of value causalities based on historical background largely explains the fact that life circumstances have shaped a context in which private initiative was practically inexistent. This is one of the reasons why there is an infant business culture in Tanzania, especially in community-based rural areas.

At a higher comparative country level, the difference between high power distance based found in Tanzania and lower levels of this dimension that characterize donor countries (Hofstede, 2001), point also a gap. The conflict is created when donors try to promote equality and democratic processes at the receiveing end. Donors tend to be disturbed by the fact that they cannot get around powerful local leaders, who want to use at least part of the aid to maintain or increase existing inequalities based on their rationale that underpins their value system. According to Hofstede, “these leaders rarely have any commitment to the kind of democracy the donors have in mind”.

Long-term versus Short-term Orientation (LTO)

The short-term orientation of the study area is one of the features that characterize the value system of its population. It is directly related to the short-term focus value described in section 4.3.5, which stress the general trend of seizing the opportunities daily due to the scarcity of resources and the context of life circumstances in which the struggle of the families and individuals is overwhelmingly focused on survival.

In a short-term oriented society, people’s efforts and choices are framed in the present, and planning for the long-term is therefore not taken into account as a value that brings prosperity. In these communities, quick results are expected and the entrepreneur’s concern is to look after the economic opportunity of tomorrow. This behavior explains people’s readiness in expecting immediate economic incentives[233] when FIDs approach them with some ideas or projects in mind, as people size it as a strategy for short-term survival.

The lack of long-term planning is observed as one of the main drawbacks that affect the lack of initiative in developing economic activities that entail a certain degree of planning with long-term return of investment. This attitude limits the capacity of the villagers to size business opportunities and capture them in business plans that can serve as the instrument to apply for a loan. In fact, the most pro-entrepreneurs, who normally are more active in ISG than non-members, are more likely to acquire a long-term vision, as they feel attracted with the idea to access the credit as the way to receive immediate financial support that can allow them to start-up their economic activities. However, the high-interest rates that credit institutions demand, the requirement to have a collateral and the low skills in designing a business plan discourage the incentive that the possibility to get a loan offers.

The short-term focus is related with the high respect for traditions as a mode to be more connected with traditions and rituals that can bring present’s prosperity and relief. In contrast, Hofstede (2001) argues that “long-term orientation stands for the fostering of virtues oriented towards future rewards, in particular, perseverance and thrift. Its opposite role, short-term orientation, stands for the fostering of virtues related to the past and present, in particular, respect for tradition, preservation of “face” and fulfilling social obligations”.

[233] Related to the value “money first” described in section 4.3.5.

Uncertainty Avoidance (UAI)

In the study area, the short-term orientation is correlated with a dimension of high uncertainty avoidance. The struggle for survival that characterizes the context of life circumstances in the region takes place under a situation of uncertainty that is inherent in life. It is felt as a continuous threat that must be fought. This situation renders higher levels of stress and less subjective well-being. The permanent threat of drought that affects the communities that are highly dependent on seasonal rainfall highly contributes to the general feeling of uncertainty.

In such dimension, people react with strategies of survival, minimizing risks by prioritizing what is known and rejecting what is different as dangerous. There is a general feeling of powerlessness toward external forces, such in the case of unpredictable climate conditions and the scarcity of resources, to a large extent. This societal behavior is conducive to embed a sense of gregariousness that is conceived as conformity with the hardships derived of the context in which people strive.

There is, however, a trend observed in the study area that is likely to contribute to change this pattern of behavior. As a signal of discomfort with this situation, youth emerge as a driving force for change, as they are willing to engage in off-farm income generating activities in order to reduce dependency on external factors and, as a consequence, limit the uncertainty that predominates in their life circumstances. They are prone to move to urban areas and to engage in petty business and trade.

Indulgence versus Restraint (IG)

Indulgence versus restraint was a dimension added later due to the work of Minkov (2008), who expanded the reach of the study to further data that can be found in the Values Survey Module of 2008. Societies with a high rate of indulgence allow hedonistic behaviors: people can freely satisfy their basic needs and desires. On the opposite side, restraint defines societies with strict social norms, where gratification of drives are suppressed and regulated.

The study area is characterized for the predominance of patterns of behavior of restraint over indulgence. However, the source of restraint is a consequence of the life circumstances and context of the lifestyle of the communities. The low levels of income are the first cause of deprivation even of basic needs and desires indeed.

Intertwined with the struggle to get rid of higher levels of uncertainty, the study reveals timid indications that youth are progressively becoming the flagship for changing patterns of socioeconomic change that can contribute also to reduce restraint and therefore start a move toward a more indulgent society.

Comparative implications

The culture dimensions that Hofstede proposed were aimed at providing a systematic cross-cultural framework for assessing and differentiating national cultures. This comprehensive model was thought to contribute to explain that people's social behavior differs across on the extent to which they endorse the six dimensions of values. Therefore, it would be analytically naïve to attempt to compare the cultural dimensions of a region to the dimensions of a nation. One is built at the collective level, and another to the country level. However, as a mode of illustrative comparative overall positioning, it is noteworthy to highlight the distant cultural differences that diverge in the study area compared to other countries. In the case of the USA, one of the main donors of Tanzania, as exemplified in figure 15, Annex 4, there are substantial differences in almost all six dimensions, being individualist versus collectivist, power distance, masculinity and feminity, and indulgence versus restraint the most significant.

However, the attempt of this research is not to supply a comparative analysis. The real added value of Hofstede's framework in economic studies lies in that it provides a comprehensive analytical instrument in which it allows to explain how values shape the social behavior of a given area of study that is conducive to decision-making. In the case of the Dodoma region, with primary data collection at first hand, the qualitative analysis reveals the relations of values that form the basis for the following motivational analysis of the structure of the value system.

4.4.2 A Motivational Analysis through the Value Theory in Dodoma region

The Value Theory, as mentioned in section 4.2.4, defines ten basic values that can be characterized by describing its central motivational goal. Based on this description of values according to their type of motivation, the theory explicates the structure of dynamic relations amongst them. The pattern of relations is based on opposed conflicting versus congruent values. This pattern is summarized with two orthogonal dimensions. Self-enhancement versus self-transcendence, in which power and achievement values oppose universalism and benevolence values. Self-enhancement is related with Hofstede's cultural dimensions of individualism/collectivism and power distance, whereas self-transcendence is related with collectivism and feminity. The other orthogonal dimension of Schwartz's value theory is openness to change versus conservation. On this dimension, self-direction and stimulation oppose security, conformity and tradition values. Here, openness to change is related to Hofstede's cultural dimensions of indulgence and individualism, whereas conservation is more related to uncertainty avoidance and short-term orientation.

<u>Self-Enhancement versus Self-Transcendence</u>

The self-enhancement dimension embraces the most active motivation values. In the study area, these values are cooperation, entrepreneur, incentive and respect and status. Cooperation, which is observed in a high degree in the communal aspect of ISG, is the dominant driving force that characterizes the management of relations in entrepreneurial activities. This value differs to the commonly understood achievement value that the value theory defines as the "personal success through demonstrating competence according to social standards" (Schwartz, 1996). This conceptualization is based on the intrinsic assumption that the predominant type of motive is achievement. Rather, the cooperation value observed in the study area is appreciated for the affiliation-driven motivational aspect of the value that guides the motivations of entrepreneurs. Therefore, the value "entrepreneur" is closely related to cooperation. In other words, these entrepreneurs, that exercise their activities as members of a social network (ISG), are especially motivated if new activities or changes are proposed as part of the group dynamics.

The entrepreneurs, in this context, are also motivated to act attracted by the value of incentive, which is conceived as an immediate opportunity to relief their daily struggle for survival. The engagement of motivational activities based on affiliation is the motivational approach to get the aspirational values observed of respect and status. Having the aspiration to achieve a good housing, large number of cattle or money is a motivation that underpins the decision-making of entrepreneurs in the context of affiliation.

On the opposite side, the self-transcendence dimension is represented with the values that confere the sense of well-being to the people. These active well-being values are pro-collectivist and pro-feminine values of friendliness, hospitality and helpfulness, openness and responsiveness and national unity and identity. The reason that push people to engage in ISG is the acquired sense of belonging, care-security and sharing towards common interests of affinity (economic, social or environmental). The relationship between self-transcendence values and self-enhancement values is complementary rather that incongruent. There is a positive correlation among them: and individual that pursues friendliness and openness values is likely to experience higher levels of welfare, which give him or her more psychological freedom to pursue self-enhancement values (affiliation and achievement motivation).

<u>Openness to Change versus Conservation</u>

The dimension of openness to change accommodates the values that lead to greater agency. They are moved by the motivational goals of self-direction and stimulation, which guide independent thought and action in the process of novelty and challenge, choosing, creating and exploring. In Dodoma region, women's role and youth are the most open-minded values that contribute to greater agency. Women are easily eager and challenged to explore and incorporate new technological adoptions, embrace new economic activities or to attend to vocational trainings (see example section 4.3.3). Youth are showing signs of changing socioeconomic patterns of preferences towards off-farm income generating activities and economic diversification. The context in which they pursue these values is collectivist. They do not engage to new adoptions in an isolated context, but they rather value cooperation and integration by sharing opinions and making decisions within the group. These are active-innovator values.

On the other side, the conservation dimension stands for security, conformity and tradition values. This dimension is accentuated in the study area. The hardship of life circumstances embeds a context of struggle that contribute to concentrate most of the motivational energy of individuals to survival strategies. Values such as gregariousness, short-term focus, traditional beliefs, lack of creativity and leadership, historical background, infant business culture and money first have to be conceived under this context. Apparently, the conservation dimension is not congruent with the pursuit of "openness to change" values. However, there is a direct relation observed in the study area: conservation values have contributed to shape a resilient behavior, which is expressed in a baseline survival optimism of individuals that find relief and hope in this values. They act as suppliers of a safety net of security feelings that is a necessary condition for the exercise of agency of "openness to change" values. The hope for overcoming the current situation of struggle is pushing stimulation and self-direction values (women's role and youth) to embrace new developments, and change. These values see more hope in upgrading attainable values and downgrading the thwarted.

Figure 16, Annex 4 provides a complete illustration of the motivational relations among the local values identified along the four aforementioned dimensions portrayed in the Schwartz's diagram of motivational structure of value relations. Active-motivational values are highlighted in green, active-innovator values in orange, active-welfare values are coloured in blue and dormant-resilient values in red. The black-coloured self-transcendence and conservation headlines mean the predominance of these values over the grey-coloured openness to change and self-enhancement. The context of life circumstances of the people in the study area explains the prioritization of these values more easily than the others. This context was largely described in sections 4.3.3 and 4.3.4 "the struggle for development in Dodoma". As a mode of example, the historical and economic background has affected people in adopting a gregarious and short-term attitude that constraints people to limit the pursuit of stimulation or self-direction values. Or having dependent children or relatives in a large household constraints parents to limit their pursuit of stimulation values by avoiding risky activities.

<u>Value Activation: the Rationale driving Decision-making</u>

The analysis of people's behaviour according to the value theory has greatly contributed to have plausible explanations of the decision-making process in a given society. However, a common pitfall has been then the generalization of a context-based finding and its extrapolation to another society, with different values. For example, a study undertook for the 2001 elections in Italy wanted to correlate policy orientation of the main coalitions (one was center-right and the other center-left) according to value prioritization of voters. The findings showed that political choice in these elections consisted of a trade-off between power, security, and achievement values on the right and universalism and benevolence values on the left (Schwartz, 2006). On that basis, Caprara et al. (2006) hypothesized: "supporting the center-right versus center-left correlates most positively with the priority given to power and security values and most negatively with the priority given to universalism. Correlations with the priority of achievement values should also be positive, and those with benevolence values negative".

Such generalizations carry an implicit cultural bias. This hypothesis draws on the fact that entrepreneurship is mostly driven by individualistic and power values. Such generalizations are normally stated by Western scholars that embed a general assumption that achievement and power motivational values of Schwartz correlate with individualism and power distance dimensions of Hofstede. When the level of analysis is changed, then the hypothesis is no longer valid for another different society or group.

The counterfactual is evident in the rationale that constructs the decision-making process in the Dodoma area of study. As mentioned above, the entrepreneurial values that shape the social behavior and the process of decision-making are mainly characterized by collectivism and feminity, emphasizing cooperation over competition[234].

Having said this, the rationale of the decision-making process works by linking processes that activate values. According to Schwartz (2006), activation may or may not entail conscious thought about a value. Much information-processing occurs outside of awareness. The more accessible a value (i.e. the more easily it comes to mind), the more likely it will be activated. Because more important values are more accessible (Bardi, 2000), they are related more to behavior.

This logic works as follows in the study area (see figure 17, Annex 4). It is exemplified through a hypothetical scenario. In the first case, an ISG are proposed to adopt a new modern breed of goats[235]. Each of them may automatically activate active-motivational values (either for affiliation and/or achievement) that will make them likely to size this value as a high priority. The first activation is influenced by the activation of active-welfare values. Entrepreneurs have now the possibility that the adoption of the new proposal may render benefits for the group as a whole and their respective household dependents. Then, if they positively assess jointly the decision in-group, they activate active-innovation values that will push them to make the decision of adopting the innovation. The appraisal of the innovation activates the opportunity that the proposal entails in softening dormant-resilient values. In such scenario, the successful adoption of the proposal boosts "openness to change values" and relieves "conservation" values. The activation of values causes behavior[236].

Values are a source of motivation. People's values, like their needs, induce valences on possible actions (Feather, 1995). The success or failure of the adoption of an innovation will also depend on the adequacy of the proposal to people's needs and their capacity to introduce it according to the value system. The assumption of the scenario is that the proposed innovation was already suited to the local value system, which is intrinsically tailored to the needs of the community.

4.5 The Endogenous Development Model. Fostering Entrepreneurship and Innovation

4.5.1 Theorizing the Model. A Bottom-Up Approach

The analysis of the local development context of the Dodoma region has contributed to empirically identify and understand the role that local values play in shaping the social behavior that affect individuals in making their decisions for their survival and progress. The inclusion of cultural dynamics into economic development analysis in a specific social setting lay relevant implications that conduce me to theoretically synthesize the variables that are in play in order to foster or hamper economic development.

The Dodoma region is a semi-arid area inhabited mostly by a rural population that struggle to fulfill their basic needs of feeding and clothing the household and affording

[234] Whereas in wealthy countries entrepreneurship might be vocational, in most developing countries is survival.
[235] This is based on the case exemplified by the research in the section 4.3.3.
[236] Although the reasoning is causal, value activations are correlational (Schwartz, 2006).

to pay for children education fees. People have few chances to save. They engage in traditional-based agricultural and livestock keeping economic activities, who's output depends on seasonal rainfall. Scarcity of resources such as credits, agricultural inputs, market infrastructures, information, and business and entrepreneurial knowledge are daily constraints that hamper the economic development of the area. A context with these pressing conditions is characterized by tough life circumstances that breed the pursuit of survival strategies that foster the predominance of a rather dormant value system. In the formula below, high levels of *Dc* and *Vd* terminologically represent such situation.

On the other hand, the qualitative analysis has also shown that there are strong signals for potential change. The value system has identified active values that are driven by informal social networks organized toward social and economic activities that are the catalyst for entrepreneurial initiative, the adoption of new practices and change. These active values are positively correlated by a set of factors that are likely to contribute to local development. They are the gateway for embedding identified development supports that are in hands of formal institutions that work for the development of the region. These institutions are entitled to provide assets and knowledge that suit the local needs of informal institutions. Unfortunately, informal institutions are semi-isolated and they do not maintain systematic relations of cooperation with external developmental organizations. The reconciliation challenge is largely explained by an inadequate approach of external policies and efforts that are mainly based on the introduction of exogenous elements into the rural sectors concerned. As a consequence agricultural development itself was shaped into an exogenous development part that contributed to the internalization of dependency into the structure and mechanisms of growth and development itself (Van Der Ploeg, 1993).

In contrast, the grassroots research has yielded that the activation of motivational values can influence a positive attitude of social networks to cooperate with FIDs and increase agency. FIDs, if well coordinated amongst them, can unleash the synergies of collaboration and make them eager to systematically institutionalize cooperation schemes with informal institutions of communities[237]. The success of the reconciliation process enormously depends on the levels of trust that is built between formal and informal institutions. Trust-building is only likely to be achieved if it is appropriately inducted throughout tailored schemes of mutual cooperation within networks that cooperate in the basis of lateral communication. The set up of systematic processes of tacit and explicit knowledge transfers between ISG and FIDs contributed to spark a trustworthy environment. Such atmosphere was conducive to introduce the resources needed, previously identified in the research. In the formula below, the activation of *Va* and *F*, along with the identification of *Ds* brought *ISG* and *FIDs* to networking (*N*) and adopt a scheme of mutual cooperation based on the lateral communication method (*LC*), the driver of trust-building (*T*).

[237] In this case, the leadership of the process has been deployed by the University of Dodoma, which is conveniently suited to perform this role for her perceived reputation and neutrality in the region.

$$ED = \left[\frac{\left(\sum V_a - \sum V_d \right) \times \sum D_s \times \sum F}{\sum D_c} \right] \times LC(T,N)_{isg,fid}$$

Where,

V_a = Active Values
V_d = Dormant Values
D_s = Development Supports
D_c = Development Constraints
F = Factors
LC = Lateral Communication
T = Trust
N = Networking
isg = Informal Social Groups
fid = Formal Institutions for Development

In low-income societies, such as in Dodoma or Tanzania to a larger extent, key for expanding agency freedom and therefore following the path to human development is economic development (Reinert, 2007). As mentioned at the beginning of the chapter, the emphasis draws on the fact that the source of economic development is knowledge as the basis of all agency (Warsh, 2006). In order to thrive, societies have to generate and deploy knowledge and this requires the mobilization of the cognitive potential of the population on as broad a front as possible (Toffler, 1990; Drucker, 1993; Florida, 2002).

Economic development and the dynamics of production depend on the introduction and diffusion of innovation and knowledge, which impel transformation and renovation of the local productive system. Aydalot (1986) maintains that local institutions are the instrument through which innovations and knowledge are introduced into development processes. Their creativity is conditioned by the territory's experience and tradition. In other words, knowledge, accumulated in informal social institutions, is one of the mainstays of development and the local milieu may serve as an incubator of innovation (Maillat, 1995).

From this perspective, innovation is a collective learning process among the actors within the milieu in which agents make investment and location decisions (Cooke and Morgan, 1998). Thus, we are dealing with learning processes, rooted in the society and the territory, in which coded knowledge, or production "recipes", and tacit knowledge embodied into human resources are diffused within the network as a result of relations among the actors. Consequently, processes of technological change and innovation are interactive, and regional systems of innovation play a strategic role in both the learning process and the diffusion of innovation (Asheim et al., 2003; Lundvall, 1992).

4.5.2 The Methodological Framework: the Learning Economy

The diffusion of innovation required for the successful involvement of local entrepreneurs into the adoption of new skills and assets for their economic development is embedded in the learning economy. The development paradigm is that of a learning economy in which learning is an interactive process and knowledge is a collective asset shared in networks and organizations (Lundvall, 1996). Therefore, the conciliation of ISG and FIDs is based on the understanding that change in technology, skills, preferences and institutions has local and context-specific significance[238].

The understanding of a local context of development needs a framework that allows in-depth analysis of the local value system. The present research has attempted to provide such a framework. The identification phase has meant to have an understanding of the reasons that lead to instigate economic development –know-why-, and understanding of local needs, development constraints and supports –know-what-, the involved actors –know-who- and their motivational pattern for evolutionary behavior. These are the kinds of knowledge required to learn that can be obtain in a preliminary analytical phase.

The second phase consists in learning the know-how required to learn the skills that are critical to acquire the capability to progress. While know-why and know-what can become more easily codified, this type of knowledge, however, requires extensive practical experience and social interaction, as it is rooted in people's tacit culture (Lundvall, 1996). It is strongly affected by the promotion of trust among informal and formal institutions.

The basis of this methodological framework is therefore to provide an operational analytical tool to set up a process of lateral communication for the transmission flow of tacit and explicit knowledge among institutions that draw on the local value system (see figure 18, Annex 4). This process is an alternative to traditional or top-down hierarchical communication that is the norm of the vast majority of development initiatives in least developed countries, which fail to suit the poor.

4.5.3 Evolutionary Dynamics of the Model. The Human Development Path

In theory, evolutionary dynamics always favor what is most adaptive under given circumstances (Durham, 1991). In the study area, the solidification of the local value system is meant to adapt to the hardships of the daily life circumstances. Both human individuals and societies are adaptive when they command two types of capabilities: the capability to meet the needs that have to be met in order to survive; and the capability to take the opportunities that have to be taken in order to thrive. Among individuals as well as societies, the imperative of adaptability puts a premium on agency. Greater agency involves higher adaptability because for individuals as well as societies, agency means the power to act purposely to their advantage (Bakan, 1966; McAdams, 1993; Guisinger and Blatt, 1994).

[238] Opposed to the neoclassical theory where technology, skill, preferences and institutions are treated as exogenous. This conceptualization is still apparent in development policies, as we have seen in Chapters 2 and 3.

In the case of the Dodoma region, communities have developed their own survival strategies. In poverty-stricken areas such this one, with low contacts with external networks and a rough development environment, people have developed their behavior in a "comfort zone" that guarantees a minimum safety net that guards their lifestyle. At the border of this comfort zone, active values indicate the potential of agency to move towards the human development path. As an evolutionary shaped capacity, agency is a particularly human capacity (Welzel and Inglehart, 2009). Human development is hence any development that promotes the most human trait-agency (Sen, 1999). Applying the same logic to the trajectory of societies, all changes that bring a larger number of people in the situation to more fully realize their agentic traits, is to be characterized as human development (Welzel et al. 2003).

The logic of the dynamics of the model is that evolutionary adaptations to changing living conditions in ways that favor agency conduce to boost entrepreneurship –higher economic development-, which in turn expand the choice spectrum of the agent, and, therefore, allows for increased levels of SWB and thus, to human development. The source of agency is within the cultural motivational value system in which greater feelings of agency impel entrepreneurial decision-making that yields higher SWB. The tipping point is found in the character of life. When life is a constant threat –tough life circumstances-, agency is constrained; only when life becomes an opportunity to thrive, agency is valued highly.

Although there are very few studies that explain the formation of values, Tabellini (2008) founds that values are shaped mostly within the first years of the person throughout intergenerational transmission. Therefore, formation of values is rooted backward when parents pass them to children and forward when children grow in a given society or community. Therefore, greater agency today implies to foster an evolutionary process of shaping parents values and improve their son's life circumstances, into a logical sequence of a spiral virtuous circle in which causality is circular.

According to Marini's (2004) theoretical perspective, in the long-run this evolutionary virtuous dynamic towards the human development path would allow a society to move from a traditional-based society to modernity and later to contemporaneity. As far as the dynamic moves, income per capita is increased, and the local value system follows an evolutionary pattern towards the adoption of pro-individualistic, masculinity and lower power distance values according to Hofstede's cultural dimensions (see figure 20, Annex 4).

4.5.4 Theoretical Implications of the Endogenous Development Model

The introduction of cultural values into economic analysis enriches the economic development debate with a multidisciplinary and decentralized approach. Schwartz's work has added a new perspective of social psychology to the understanding of the formation of individuals' preferences and priorities for economic decision-making. His work has overcome the limitations of research based on the use of unreliable single-item indexes of value importance. Indeed, Schwartz theories go beyond the use of value lists that fail to cover the full range of motivations expressed in values that are likely to influence behavior. His approach to view value systems as integrated wholes with coherent relations to other variables that entail tradeoffs among competing value priorities provides a coherent framework whereby motivational interactions of values can be analyzed in economic development theories.

The definition of the value system across ten motivational values and the nature of value compatibilities represent a detailed instrument for identifying the correlations among values. However, the separation of motivational goals of the value types in opposed dimensions seriously limits the potential of identifying dynamic relations of values that underpin motivational decisions. The black or white conceptualization of values into the association of these values to pre-determined patterns of behavior and decision-making is hampering the promotion of a circular Taoist rationale of value-activation, as mentioned above.

Against this backdrop, the ex-ante labeling of values in a society is judgmental to certain associated types of preferences according to generalizations or archetypes that attempt to describe and explain the value system of a given group or society. Commonly, these attempts take a country as a group, in which values are analyzed in quantitative methods of data collection and analysis, normally for cross-country research purposes (i.e. Hofstede or Schwartz). This theoretical approach mistakenly biases the qualitative and explanatory functioning of the motivational dynamics of a homogeneous society. According to Sen (2004), the country dimension fail to include the local dimension of the homogeneity that a local value system needs in order to reflect the commonalities that explain its norms, behaviors, beliefs and attitudes. Under such assumptions, theories that are based on this conceptualization of "black or white" motivational structures prevent to unleash the potential of the local groups to make decisions according to their real preferences and priorities.

Take the case of empowering entrepreneurs. If the theoretical approach assesses a priori the value system of an entrepreneur based on the successful value structure of a thriving entrepreneur of the West (predominance of power achievement, hedonism and stimulation values opposed to benevolence, cooperation and universalism), the polices derived of such theories will not take the effort required to motivate locals according to their understudied value system. Instead, these policies or reforms will take the direction of policy recipes based on the neoclassical growth theories that are universally believed to work regardless differences in value systems. This appears to be the case of the development policies that are still based on neoclassical theoretical approaches to poverty reduction.

Thus, the black or white opposition of behavioral dimensions in Schwartz discourage exogenous variables to correlate with local value systems that oppose to those external values in certain types of behavior. This hypothesis explains that the explanatory factors of failure or inability to instigate progress to the support of entrepreneurship by many development programs in least developed countries are due to "environmental" variables or structural deficiencies.

On the other hand, the EDM hinges upon the local value system. The circular logic of value activation of this model is context-specific, as the result of the analysis of the value system of a given homogenous grouping (Dodoma). Therefore, this model implicitly assumes the need to theorize the decentralization of the results based on this homogeneity of values. Of course, this approach adds much more complexity in analyzing the factors of decision-making that occur in a country. This problem is indeed exacerbated if the country is rich in cultural diversity and if research attempts to challenge the results at the cross-cultural and cross-country level.

The inclusion of the value system as the cornerstone of the model is the entry point for the multidimensional analysis of economic development by including other related fields of knowledge. At this respect, the introduction of happiness (SWB) and the assessment of the role that SWB plays into economic analysis are critical for the EDM. It contributes to explain the process of formation of certain decisions that are made by local entrepreneurs, in this case, or individuals, to a large extent. Depending on the characteristics and motivational structure of the local value system, decisions are made to attain a goal as part of an overall process to achieve more happiness as an ending goal or final destination in the individual's life. Or, in other value systems, decisions are made (or not) as a result to prevent any attempts to harm a certain state of mind that is conceived as happiness in a precise moment and situation (context-specific).

These hypotheses influence the decision-making process of individuals regarding its culture. For example, the hedonistic widely assumed view that happiness is an ending goal in one's life is predominant in the value system of many groupings in the West. It was already conceptualized by Thomas Jefferson in the US Declaration of Independence in 1776. This view has implicitly underpinned the economic and sociological theories that justify the accumulation of wealth as the right path to achieve higher levels of happiness. Henceforth, growth strategies have been referred to economic gains. Indeed, the main source for measuring the wealth of nations has been the gross domestic product, that is, the economic quotation of the material wealth that a country is capable to generate.

However, narrow differences in happiness between wealthy and poor countries (Welzel and Inglehart, 2010), along with the rise of stress and other related psychological disorders of the modern Western lifestyle and the aggravation of global problems[239], question the suitability of the economic theories that underpin our current global economic system. The inclusion of happiness as a variable of a local value system in the EDM provides a different approach for treating happiness into a more flexible conceptualization, which refers to a psychological state of the mind that evolves around the circular dynamics of the inter relations among values in a given societal grouping. This hypothesis contributes to understand that in some societies, the adoption of explicit knowledge or technology entails the use of circular activation processes of values and, thus, the previous motivation of the individual. In other cases, the same hypothesis is key to explain why some groupings just prefer to reject new adoptions as they assume that they cannot add value to them according to their preferences and priorities as an adaptive response strategy for safeguarding their SWB.

Rodrik (2003), worried by the inability of neoclassical economic theories to translate

[239] For example, environmental degradation; climate change; scarcity of resources; poverty; inequality; or the global economic crisis.

into effective policies intended to alleviate poverty in low income countries, shows that growth strategies succeed or fail depending on the policy recipes of each country, as their functioning is context-specific. Universally assumed principles of the Washington Consensus (Williamson, 1990) were thought to be of general operationalization regardless country-specific institutional setting. In successful cases of growth and development such as South Korea or Taiwan, policy reforms adjusted/matched with the mix of formal and informal institutions that connected with the motivations of individuals throughout their value systems. In these Confucianist societies, obedience, respect for public authority and hardworking were key values that largely contributed to activate the motivational structure of individuals to embark into the economic development path.

Rodrik (2003) argues that economies that have performed well over the long term owe their success to institutions that have generated market-based incentives, protected property rights and enabled stability. Concretely, he also arrives to the conclusion that successful growth strategies need the reconciliation between formal and informal institutions around local capabilities, constraints and opportunities. Growth strategies require “considerable local knowledge”. The EDM aligns with his vision that economic development needs a tailored innovation environment.

4.5.5 Policy Implications: from Culture as Preferences to Innovation Environment

Compared to traditional approaches, the Endogenous Development (EDM) model stresses the importance to motivate the social behavior of local agents in making decisions that allow them to incorporate new knowledge, skills and technological innovations. The emphasis is on aesthetic values over utilitarian (see chapter 2) in a process of change that first requires the software –(motivation, knowledge) for introducing the hardware (technology, financing). Take the response of a local expert about the introduction of new practices in the study area: “you have to show people that their life can improve with ten cows rather than one”[240].

The adoption of endogenous economic development approaches at the policy level carries a relevant implication. Whereas the IAA donor-driven rhetoric officially states and promotes the need to tackle poverty reduction conceptualized according to Sen´s expansion of choice and capabilities approach, their policies are still anchored in traditional models. Donors’ mindset still conceives the poor as an intractable problem instead of a source of innovation (Prahalad, 2000).

Against this backdrop, the current aid system could reform its current IAA towards the prioritization of endogenous development approaches, and embrace the culture as preferences approach as part of its policy-making infrastructure. In such scenario, the resource allocation of development aid is likely to improve. Context, local-specific decision might contribute to increase the effectiveness of allocating the resources available to the most demanding priorities at local level. In the case of Dodoma, for example, the GoT might foster regional-oriented socioeconomic policies designed to

[240] Argumentation provided during the stakeholders’ workshop at the University of Dodoma, July 2011.

improve financial services, the standardization of property certification, rural productivity, market infrastructures, information technologies and the like, as they are the most-demanded improvements in the area.

This task is somehow risky. These policies can only work out if there is a flexible network of active informal and formal institutions that can absorb or own the implementation of such policies. And such network is improbable to appear under the current governance structure. That means that the lateral communication variable of the above formula (*LC*) might be increased, which means that high levels of trust (*T*) and networking (*N*) might be in place. Building trust requires reliability, honesty, cooperativeness and duty. It is a time-consuming challenge that entails substantial transaction costs. Without appropriate incentives for the players, substantial trust might be a missing element of the equation.

The problem is overwhelming. Under the current aid system, recipient governments, donor agencies and NGOs are not encouraged to maximize the efficiency of their services as they are accountable to donors. As mentioned in previous chapters as one of the driving threads of this research[241], the parameter of their objective function in the current market of altruism maximizes the net income or budget ($k \sim 0$), instead of maximizing the service. Their incentive is to please donors and taxpayers in wealthy countries, not the poor.

This problem is not new. It is well exemplified by the "maintenance failure" of donor-financed infrastructures in developing countries, even in places on demand. As Hofstede (2001) illustrates, "take the story of a German engineering firm that was installing an irrigation system in an African country. Overcoming great technical difficulties, the engineers constructed an effective and easy-to-operate system. They provided all the necessary documentation for later use and repairs, translated into English and Swahili. Then they left. Four months later, the system broke down; it was never repaired. The local authority structure had not had an opportunity to adopt the project as its family property; it had no local master". Unfortunately, this case has been benchmarked as one of the most common failures that are still often repeated these days[242].

Addressing this problem at the policy level entails the shift of the current development paradigm from planning to markets. The introduction of market-like approaches supports the set up of an innovation environment (Easterly, 2007) that allows greater efficiency through stronger incentives for involved actors (Barder, 2009). In the learning economy the focus is not so much on allocating existing resources as on the creation of new use-values, products and services that are inclusive of the needs of the poor. The adoption of market-based approaches facilitates the introduction of the implicit mechanical organization of actors through channels and networks for exchanging qualitative information as well as social elements of dominance and trust (Lundvall, 1996).

[241] See the market of altruism in chapter 1.

[242] See www.admittingfailure.com, a brand-new website that advocate the need to report and share the failures as a source of learning, and the case of engineers without borders in http://www.ted.com/talks/david_damberger_what_happens_when_an_ngo_admits_failure.html

Therefore, market-based approaches can significantly contribute to reduce the traditional principal-agent problem that is common in the current aid delivery chain (as mentioned in chapter 2, see figure _, Annex 2), reduce information asymmetries and problems of free-riding. Furthermore, these approaches are often an effective way to decentralize and coordinate the actions of multiple decision makers with diverse and competing interests, but only if the market operates within institutions that enforce the rules of the market (Barder, 2009).

If the donor community wants to bring the potentialities that market-based approaches have in aligning incentives with the poor, build trust and organize social networks, it needs to think out of the box and stimulate the private sector to meet local needs. Policy design requires a theoretical framework that fosters the creation of value at the local level instead of the reallocation of existing resources, the shift of the governance paradigm from planning towards the introduction of regulated market-based approaches and the introduction of collective action in which the interaction of actors shape the formal rules of the game as a product of the local value system (see figure 19, Annex 4).

4.6 The Introduction of Market-based Approaches. Challenges for the New Aid Governance

4.6.1 The Call for Market-Based Approaches

Classic economic theories have justified the need of state intervention in providing public goods in cases of distributive inequality as an example of market failure (as we have seen when discussing the market of altruism in chapter 1). Economic theory then has argued the provision of development aid as a public good aimed at the reduction of poverty. However, sixty years of public-based development aid failure is increasingly attracting the need for another change. This time, the aid community is advocating for a new aid paradigm that welcomes market-based approaches for poverty reduction.

There is a general consensus in the academia. Although prominent development scholars differ on their recipes, they are united in their concerns about the present state of poverty alleviation strategies adopted by the development community (Chambers, 1983; 1997; Easterly, 2005; 2006; Sachs, 1998; Sachs, 2005; Sen, 1999). Easterly (2006), for example, notes that after nearly sixty years and more than \$2.3 billion, an aid industry based on donations and grants continues to generate disappointing results, in part because incentives are misaligned. Sachs (1998; 2005) supports an approach of targeted donations to catalyze longer-term market-based solutions and recommends that developed countries increase their level of financial commitment, focus the majority of their resources on lifting the poorest of the poor onto the first rung of the economic development ladder, and harmonize these aid efforts around the MDGs. Chambers (1983, 1997) emphasizes that the voices from below must be incorporated in development agency plans and that the elites funding these programs must take the time to sit, listen and learn from the poor. In similar fashion, Sen (1999) suggests that we need a much deeper understanding of the multidimensional nature of poverty and that the poor must be active agents in its alleviation.

Indeed, both the WB and the UN[243] have recognized that the poor must be participants in the design of a more inclusive process of economic development. The WB has emphasized the importance of making markets work for the poor and the need for those in poverty to actively contribute in this process (Narayan, Patel, Schafft, Rademacher, and Koch- Schulte, 2000). Similarly, a high-power commission convened by the UN recognized that top-down, grant-based poverty alleviation approaches were not sufficient. The Commission on the Private Sector and Development (2004) recommended that future development programs should place greater emphasis on market-based approaches, particularly those that incorporate multiple viewpoints in their design.

In addition to growing pressure on the aid industry to explore new approaches, a second trend is also leading to a greater focus on the role of markets in addressing poverty. The poor are not well served by the private sector; they are often ignored and lack access to many goods and services. Furthermore, even when their needs are met, they tend to pay more for the same products than the rich. This applies both to the poor in developed countries (Fellowes, 2006) and in the developing world, where the poor may pay ten to fifty times more for water, medicine or credit than their geographically-proximate wealthier counterparts (Prahalad and Hammond, 2002). These market failures, however, are also potential business opportunities. Indeed, this is a core assumption in the BoP perspective.

For any organization or sector, change is difficult. Yet, the intersection of these two drivers – the growing interest in exploring new poverty alleviation approaches and the increasing appreciation of a larger role for market-based ventures in serving the needs of the poor – offers the potential to align strategies and incentives across sectors and organizations that typically have not collaborated (Brugmann and Prahalad, 2007; London & Rondinelli, 2003). The results in the intriguing idea that market-oriented motivations of growth and profits can potentially be aligned with the development community's efforts to scale their poverty alleviation efforts. This alignment between profits and poverty alleviation is a key relationship at the heart of a BoP[244] perspective (Prahalad, 2004).

Market-based approaches implicitly support therefore the hypothesis of value creation: "the greater the value created for those living at the BoP, the greater the value created for the venture" (London, 2007). This proposition is stated further in the Fortune at the BoP of Prahalad (2006), in which argues that the BoP carries the assumption that by including the poor in the value chain the venture is expected to generate economic, societal and environmental returns to the organization investing in the venture and the local community in which they operate. This is called the triple bottom line of benefits towards sustainable development (Prahalad, 2002: Hart and Milstein, 2003; London and

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[243] See their private-sector supported initiative "Growing inclusive markets" http://www.growinginclusivemarkets.org/

[244] The base of the pyramid is a term that represents the poor at the base of the global socio-economic ladder, who primarily transact in an informal market economy (London, 2007).

Hart, 2004; Wheeler et al., 2005).

The alignment on incentives is one of the core implications of the EDM analyzed, the reason why formal and informal institutions cooperate towards the pursuit of the same objectives as one of the priority principles for reconciling institutions and thus unleashing local entrepreneurship. However, there are also other market-based approaches such as the microfinancing initiatives at the BoP, value-chain initiatives and aid agency training programs to small-scale entrepreneurs that offer similar incentive alignment with the locals. The BoP goes further and there are closer linkages with the Endogenous Development Model that are worth exploring in the following section.

4.6.2 Affinities amongst the EDM and Market-based Approaches with the BoP

London (2007) dissected the linkages of the BoP approach to poverty alleviation and distinguished six principles that characterize the poverty alleviation attempts of market-based approaches with the BoP. The first principle is that the BoP requires the entry of an exogenous or external venture or entrepreneur into the informal economy where the local poor live and operate. This principle is related to the EDM need to impel external resources to match the needs of the local communities (the so-called Development Supports and Constraints in the research). To implement this principle, London argues that it entails the ability to create a web of trusted connections with a diversity of organizations and institutions, generate bottom-up development and understand, leverage and build on existing social infrastructure, called it "social embeddedness" (London and Hart, 2004). This argument is precisely the role of the learning economy in the EDM, and it is related to the set up of a lateral communication framework to encourage a formal systematic cooperation scheme among formal and informal institutions.

The second principle is about the inclusion of the poor entrepreneur in the value chain. They are conceived as key actors in the co-creation of bottom-up solutions tailored to their needs, which is the BoP mantra for success (London and Hart, 2004). This allows these ventures to combine knowledge developed at the top of the pyramid with the wisdom and expertise found at the bottom in a way that best fits the local environment and enables co-discovery of new opportunities to serve those at the BoP (Whitney and Kelkar, 2004). The term "knowledge developed at the top of the pyramid" refers to explicit knowledge and the term "wisdom and expertise found at the bottom" is about tacit knowledge. The interaction of the in a lateral process of transfer is the core aspect of operationalizing the lateral communication system at the EDM.

The third principle is connecting local with non-local. It says that BoP ventures connect those at the BoP to markets they did not previously have access to, by either bringing non-locally produced products to BoP markets, or by taking BoP-produced goods or services to non-local markets (Rangan et al., 2007). This perspective is premised on the BoP venture establishing a set of mutually beneficial partnerships with local organizations, community institutions and entrepreneurs currently operating at the BoP (Brugmann and Prahalad, 2007; Hart and Sharma, 2004; London and Rondinelli, 2003; Sharma, Vredenburg, and Westley, 1994). By connecting both formal and informal institutions towards the principle of mutual benefits is an inherent mechanism that fosters institutions to share incentives towards setting up cooperation schemes and partnerships in local communities. It allows trust building and networking and thereby it reinforces the lateral communication process of the EDM.

The fourth principle is the principle of patient innovation. The BoP as a source of innovation is one of the added-values of a BoP proposition (Christensen, Craig, and Hart, 2001; Hart and Christensen, 2002; Prahalad, 2006). Innovation needs time crystallize. In terms of a time commitment, establishing these ventures requires the sponsoring organization to have a long term orientation in developing their business models. Indeed, similar to investments in technology research and development (R&D), BoP ventures are posited to view business model development as an innovative process that will take time to come to fruition (London, 2007).

This principle of patient innovation has important implications when the BoP perspective is compared to other development programs. Due to their funding approach, typical development initiatives rarely have much opportunity for the experimentation and trial-and-error that is inherent in an innovation process. Indeed, investment is centralized into one or a few activities, with limited ability to generate the requisite variation needed for successful innovation. These initiatives are also often expected to be fully operational within a year or so and to aggressively scale up shortly thereafter (London, 2007).

The BoP as a mechanism to introduce patient innovation matches with the need of setting up the EDM in a framework of innovation environment. As I mentioned that this process is “time-consuming”, the BoP approach provides the incentives to formal institutions and entrepreneurs to implement R&D schemes based on experimentation and learning, which is a pre-requisite of the EDM. It has the potential to soften the current rush of most developmental organizations that are accountable to high-demanding donor programs and to implicitly introduce the long-term orientation at local level which is a requisite for the innovation environment.

The fifth principle is that the BoP favors self-financed growth. In this perspective, the key to growth and scalability is profitability associated with competitive advantage. Indeed, the BoP perspective relies on the view that unmet societal needs are also potential business opportunities (London and Hart, 2004; Prahalad, 2004; Prahalad and Hart, 2002). BoP ventures are viewed as operating under a hypothesis of mutual value creation; the greater the ability of the venture to meet the needs of the poor, the greater the return to the partners involved (Hart and Milstein, 2003; Wheeler et al., 2005). While the specific outcomes from and boundary conditions for the interaction between profits and poverty alleviation require deeper exploration and careful monitoring (Leonard, 2007; London, 2007b; Walsh et al., 2005), this relationship clearly points to self-financed growth as a critical aspect of both the BoP venture’s economic and societal performance.

To generate sustained economic returns, BoP ventures are looking to create a competitive advantage for themselves and their partners (Hart, 2005; Hart & London, 2005). However, unlike the business environment in the formal economy, competitive advantage in the informal economy at the BoP is not based on the protection of property rights (de Soto, 2000), but from establishing a set of mutually beneficial partnerships with formal and informal institutions operating at the BoP (Brugmann and Prahalad, 2007; Hart and Sharma, 2004; London and Rondinelli, 2003; Sharma et al., 1994). As a result, this source of competitive advantage also provides a check on the societal value created by the venture, thus reinforcing the assumption of the triple bottom line of profits of the BoP. This principle of self-financed growth contributed to foster local factors and to generate a mix of locally owned development supports, which are two of the characteristic of the EDM. The emphasis on local ownership at the community level counterweights the donor-driven efforts placed on country ownership, which fails to target the poor appropriately.

Finally, the sixth principle is related to build upon the local value system. The BoP perspective emphasizes that there is an intrinsic economic rationale to the informal sector, and that organizations wanting to serve the poor should learn from, and adapt their business models to this sector (London and Hart, 2004). This means that the BoP venture, be it a for-profit business or a non-profit initiative, should focus on leveraging what is "right" in BoP markets. London (2007) point the example that a number of initiatives serving the poor rely on existing self-help groups, and the associated social capital within these organizations, as a way to distribute their products. This principle implicitly draws on the assumption of value activation of the local entrepreneurs rationale of decision-making, the cornerstone of the EDM[245].

The BoP is thereby a market-based approach that suits the EDM. We have seen that the BoP, the most "state of the art" market-based approach of inclusive business, has important parallelisms with the EDM. They arrive to similar assumptions from two different perspectives, the BoP coming from a business orientation of the rational theory and the EDM coming from a socio-economic developmental analysis of a local value system.

The BoP provides a compelling literature of market-based and business-oriented advocacy that promotes the role of the private sector as the best recipe to poverty alleviation. However, some authors, led by Karnani, argue that the BoP as a source of economic profit is not as large as it was thought and that the poor have been too much romanticized as rational consumers that are assumed to make better choices to increase their economic welfare, avoiding the fact that just being poor hinders people's ability to make good decisions (Karnani, 2009). The criticism therefore hinges around two aspects. The first questions the degree of how lucrative is the proposition of BoP markets[246] and, second, the capacity of BoP approaches to adapt to the local value system.

Actually, the main challenge for most of the ventures willing to target BoP markets is their financial capacity. The entry investments for engaging in BoP markets are high. The source of economic profit comes from the generation of economies of scale due to the fact that economic margins per unit of product are very much narrow. Therefore, ventures decide first to target BoP markets with large population where initial

[245] See section 4.4.2.

[246] There is a common view that the BoP market is made of 4 billion underserved poor worth of USD13 trillion.

investment efforts can be capitalized for the scalability of their successfully tested business models to other BoP markets. This is the primary reason why most of the BoP initiatives are taking place in large emerging markets such as India, Brazil, Mexico, Indonesia or China. Whether BoP strategies are feasible for the poorer, more isolated markets such as some typical from Sub-Saharan Africa still remains an enigma.

4.6.3 The New Aid Paradigm: Combination of Market-based Approaches supported by Public Agencies

The Spence Report (see section 1.3.4) is currently the flagship of the most consensual economic development theory at present, under the umbrella of the Endogenous Growth Theory. The report[247] promotes the need to introduce market-based approaches under the guidance of a range of public policy that supports a fair implementation of pro-poor market mechanisms. It argues that the reliance on markets as the most efficient-allocation mechanism is necessary, as there is no known effective substitute. It stresses, however, that public policies have an important role to play in shaping the outcomes by means of experimental approaches.

We have also seen in the previous section that the academia is fully in line with the advocacy for change and the introduction of market-based approaches. Easterly (2006) calls for searchers rather than planners; Sachs (2005) calls for more private-sector led investments in support of the MDGs; Chambers (1997) and Sen (1999) pledge for the participation of the poor in economic decision-making; Harford and Klein (2005) advocate for the liberalization of a market for aid; Moyo (2009) claims that solutions to Africa's development have to do with opening up markets and investing in civil service; Barder (2009) justifies the need for market and networks to improve aid performance, to name a few.

This time, such consensus is supported by two robust empirical forces that irrefutably indicate that time is up for the third way of aid: the emergence of an overwhelming proliferation of market-based approaches and the success of market-friendly policy support for eradicating poverty in countries such as China, India, Brazil, Vietnam, Indonesia, Bangladesh, Botswana or Nigeria[248].

The trending topic that remains unresolved and very much debated is how the IAA might embrace market-based approaches. There are many possibilities in the middle of two extremes. One in which market-based initiatives are fully modeled, designed and implemented by public donor agencies and the opposite: the control and implementation is fully in hands of the private sector, relying on the allocation of resources on the invisible hand of the market. Whereas Sachs, Chambers, Sen or Barder's proposals are thought close to the former, Easterly, Harford and Klein and Moyo's are closer to the latter. None of them, however, discuss the role of the donor industry in the new aid paradigm[249].

At present time, with almost ten years of BoP travel, we have some preliminary

[247] Comission on Growth and Development (2008).
[248] Not to mention the acclaimed success of the East Asian tigers in the 1970s and 1980s.
[249] Except Moyo, who advocates for getting rid of them.

indications of how this movement is evolving. The BoP was a total revolution. The number of conferences, initiatives, and papers on the subject matter exploded, corporations across the globe started launching BOP ventures, and many business graduates started seeking out top MBA program as a means to channel the passion that brought them to the Peace Corps in the first place. "BOP" emerged as one of the most powerful management buzzwords of the last decade (Simanis et al., 2008).

However, the concept encounters two major obstacles: the need for a substantial seed investment in the initial phases that mostly hampers SMEs to access BoP markets, leaving room only for large MNC with big budgets for penetrating growing emerging markets. These MNC, in need to get the returns, logically decide to invest in large low-middle income markets that offer better chances of scalability. The other major obstacle is that the simplification of the complex meaning of "poverty alleviation" and "development" to the managerially accepted language of "customer needs" and "product development" gave managers a way to get their arms around the challenge, but it also led them to adopt a strongly "economistic" notion of poverty (Simanis et al., 2008) that raised criticism in public agencies and non-profit circles.

As a result, BoP proponents kept investigating on the subject and came to elaborate the BoP Protocol (2005)[250], an ongoing effort to create and systematize a new business innovation process that creates enduring value for BOP communities while building a foundation for long-term corporate growth and renewal.

Market approaches at the BoP are still running in its inception and thus face a lot of challenges. The current aid system, on the other hand, counts with a long historical background that, despite repeated failures in meeting overall objectives, has been positioned as an interesting system for attracting the interest and the funds of wealthy taxpayers in donor countries that are willing to support the poor. The market of altruism is bigger than ever, as so it is the demand for aid. The IAA is discussing to move from aid to a Global Development Partnership that welcomes the private sector. The donor industry acknowledges that market-based approaches are more efficient than public-led initiatives in working with the poor.

Taking the comparative advantages of the two approaches, the ideal scenario stands in an equilibrium in which the IAA evolves towards a global development partnership in which public funds are delivered through the private sector. The role of the donor community focuses on three elements. First, fundraising private-led initiatives at the BoP; second, leading the governance of the system by setting the formal rules and policies of the game. They could enable a market-friendly pro-poor environment in which private organizations can deploy its BoP strategies by committing to the triple bottom line of benefits; and third, acting as the supreme audit institution of the system that monitors and evaluates the impact of market-based initiatives on poverty reduction. Such ideal scenario, however, would mean to redefine the whole aid system,

[250] The primary purpose of this project is, therefore, to create a validated research protocol, which will provide a framework for engaging the BoP in a manner that fosters a deep understanding of local needs and local perspectives. This protocol will also provide insight into the processes by which firms can identify and develop sustainable business models in partnership with BOP customers.

which is mostly propelled by the national strategic interests of donors and a big aid industry. It would likely happen a big clash of powers among the titans of the IAA. On one hand, the aid industry is not willing to lose her instruments of self-interest led foreign policy in an increasingly more competitive and multipolar world. On the other hand, large MNC and the private sector are still encouraged to pursue high economic returns for its investments. In another hand, the aid industry has failed to reduce poverty as expected, which is a global public good. To another, the private sector needs new battlegrounds and approaches to find blue oceans for their products and services. Which forces will win the race? In the end, it is all about values.

4.7 Concluding Remarks

The last chapter drew extensively upon the statement that the GoT and the donor community have not succeeded in the design and implementation of pro-poor policies and initiatives that could motivate the poor and make them part of the development solution, besides the problem. The dissonance between governmental policies and the final beneficiaries is one of the main arguments that explain the deep implementation gap about the effectiveness of aid.

This gap has long forgot to include the role of local culture into development economics' theories and analysis during most of the development aid era. However, culture re-floated again in the 1990s since the adoption of endogenous growth theories, the Spence Report and the staging of poverty at the centre of the global development agenda. In reality, unfortunately, the inclusion of culture into international development penetrated the rhetoric of the donor community, but failed to enter the circles of development economic analysis, models and policies. Culture was mostly referenced as the rest explanatory factor for "inexplicable" differences among development policies and projects' objectives and results.

The cultural factor has raised a growing deal of attention of prominent development scholars such as Sen (1999) or Chambers (1997), who have promulgated that culture influences economic behavior and thus shapes development. Nevertheless, the incorporation of culture into economic analysis has been mostly led by sociologists, anthropologists, political scientists and psychologists -such as Hofstede, Welzel, Inglehart or Schwartz, to name some of the most prolific- but has not persuaded the analytical mindsets of development economists yet.

The introduction of such a complex and ambiguous concept of culture is mainstreamed in economic analysis throughout the value system as a unit of analysis. It concretely refers to the dynamic (evolutionary aspect of intergenerational transmission) set of behavioral patterns, attitudes and norms (as a trend) that are more (or less) appreciated in a group and in the individual, as they are key aspects in motivating their economic decision-making process. Hofsede's culture dimensions and Schwartz's value theory are two of the most commonly used frameworks for explaining cross-cultural variations and understanding of national cultures and organizational behavior.

I have used these two frameworks for the analysis of the local value system of the Dodoma region, which well exemplifies the case of a low-income traditional rural economy that has adapted to a context of hard life circumstances through the struggle for survival. Profound development constraints such as the dependence of predominant agricultural activities to seasonal rainfall, difficulties in accessing the credit due to inability to provide a collateral or unaffordable interest rates, absence of market infrastructures or lack of entrepreneurial skills are, among other, seriously limiting the few opportunities for local entrepreneurs to exercise greater agency.

However, the local value system analysis has also found that there are underexploited potentials for empowering local development. The communities are informally organized through social networks of entrepreneurs that act under the principle of collective action, either for safety –self-help groups- or entrepreneurial purposes –income generating activities-. They are the most active agents of the community, but the impact of their actions is hampered by two main features: they are semi-isolated and thereby they have limited outreach and no systematic collaboration with FIDs, which are likely to contribute with already existing development supports; as a consequence, they have limited access to external resources.

Under the current situation, many of the local potential resources –i.e indigenous knowledge- are lost. Formal institutions are unable to capture the tacit knowledge of the communities and thus fail to adapt to their value system through the transmission of explicit knowledge built from the communities. The challenge is therefore to improve the knowledge management approach. Against this backdrop, the learning economy provides an operational analytical tool to set up a process of lateral communication that facilitates the transmission of tacit and explicit knowledge among institutions which is build upon the local value system.

The ingredients for the success of a learning economy are networking and trust. Firstly, in the study area, active networking activities between FIDs, LGAs and opinion leaders are a necessary condition for the persuasion and involvement of ISG. Second, a systematic implementation of a lateral communication scheme with ISG is indispensable for building trust. Key elements of trust-building are the social ability of FIDs' trainers, who must be emotionally intelligent enough to create empathic communicational linkages with local entrepreneurs.

Under these circumstances, a local entrepreneur has more chances to empowerment. The local entrepreneur is early adopter of innovations, more open-minded and risk-taking, due to her propensity to activate active-motivational values and to relief her dormant values. Thus, her empowerment is based on the activation of her motivational values. The active-motivational rationale of a survival entrepreneur (like in Dodoma) substantially differs from the rationale of a thriving entrepreneur (like in wealthy societies). The reason is found in their different value-sources of priorities. A survival entrepreneur is characterized by the predominance of collectivist, feminity, higher power distance, shorter-term orientation and higher uncertainty avoidance values compared to the thriving entrepreneur (see table 6, Annex 4).

Many Western scholars, who have promulgated a common portrait of an entrepreneur regardless difference in culture (characteristics of a thriving entrepreneur, a Schumpeterian view), have mistakenly biased this conceptualization based on an opposed bi-directional motivational structure of values (self-enhancement or self-transcendence, openness to change or conservation). However, the analysis of this structure in the study area has revealed a circular motivational logic of values, which is key to understand the functioning of value activation of local entrepreneurs (see figure 17, Annex 4).

Such logic is the backbone of endogenous development, which is based mainly, though not exclusively, on locally available resources and local value system, with openness to integrating indigenous as well as outside knowledge and practices[251]. The proposed EDM puts in place and facilitates the activation of all the context-specific variables (values, factors, resources, lateral communication, trust, networking, ISG, FIDs) that are meaningful for local development in an innovation environment. The role of the model is to foster the diffusion of innovation through a learning economy based on the circular transmission of knowledge that activates value's motivations in a collective learning process. The dynamics of the model follows an evolutionary process of a virtuous circle that conducts to the human development path (Welzel, 2003; Inglehart and Welzel, 2009; Sen, 1999). This dynamic sparks the linkages of greater agency, entrepreneurial activity, expansion of choice and enhanced SWB, which might allow a traditional economy to move towards modernity.

Building upon the value theory of Schwartz, the EDM adds a multidisciplinary and decentralized approach in throughout the local value system and its interaction with the other variables. In particular, the model goes beyond ex-ante judgmental conceptualization of cultural analysis of certain groups or societies whose behavior largely differs from successful thriving models of entrepreneurship. The inclusion of happiness into the local value system explains the decision-making process of individuals in adopting (or rejecting) new knowledge or technology.

Unfortunately, the current aid system and its IAA do not conceive the subjective-nature of the understanding that the seed of development is found in people's mind. The localization of endogenous development approaches would entail the abandonment of "one-size-fits-all" policies-approaches and the dogma that culture is a "rest" factor that explains objectives-results' deviations.

Such a move requires the wished reform of the governance of the aid system and embrace policy-making framed under a multi-stakeholder innovation environment that fits public and private interests. The new aid paradigm will not be purely based on markets, or planning. Rather, the equilibrium will hinge upon the capacity of adaptation of the donor community and the private sector. On one hand, the donors and the aid industry might adopt a leading, facilitator, and monitoring role in setting up the regulatory framework for fostering locally-oriented market-based approaches at the BoP. On the other, the private sector might be able to reconcile the design and implementation of inclusive business models that render economic, social and environmental profits.

It is paradoxical that the journey of understanding a local value system returns over the starting point of the research. We have seen, first, that the current structure of the IAA does not encourage endogenous patterns of development rooted in local value systems.

[251] It has mechanisms for local learning and experimenting, building local economies and retention of benefits in the local area.

Second, we have seen that there is a potential for this kind of development, by motivating locals' behavior. Now, it seems that if there is a consensual will to do so, the first step might be to change donors' mindset and motivate them to shape a value system that prioritizes the support of endogenous development approaches.

CHAPTER 5:
“SUMMING UP”

Summing Up

There are many ways of presenting a summary of the present research. By following the sequential pulse of the investigation the redaction would facilitate an easier monitoring of the exposition. However, this is precisely what I have tried to do with the summoning up of each chapter in condensed concluding remarks that are aimed at providing this quick insight. I could also compartmentalize the presentation by thematic areas, but then I could risk to easily fall to an unnecessary lose of the interrelations of the many factors that are behind the conclusions. Finally, I have decided to outline the main arguments by following a simple analytical-purposeful rationale that underlines the hypothesis that this work attempted to challenge.

Thus, the first block hinges on contrasting the evidence that the current aid development system does not work. This is the plot that has overall occupied the dedicated attention of chapter 1. The second block presents the result of testing the objective function of donor agencies towards the maximization of the budget, and provides the description of the underlying causes that explain such result. The third block presents the inefficiencies of the current aid system in least developed countries with the unfortunate triangulation among aid, growth and development, as well as the challenges it faces if the situation wants to be reversed. The fourth block spots the possibilities for change impelled by uncoordinated but emerging driving forces. Finally, the last block paves the way for the redesign of a current aid system that can unleash the potentials for endogenous development and aid effectiveness. The overall conclusions will be presented following this section.

The Development Aid System Has Failed

Sixty years of large amounts of official development assistance, transactions costs and technical cooperation have not demonstrated the capacity of external assistance to contribute to the reduction of poverty in least developed countries. Indeed, it has facilitated the introduction of a culture of aid dependence that has pushed recipient countries to focus its bureaucracies in upgrading their managerial capacity to absorb enormous quantities of aid inflows.

Over the years since WWII, the aid system has evolved towards shaping an increasingly bigger aid industry in which new players abound and practically no member gets off the business. The aid system has created a market that is proofed effective in creating a prominent and affluent aid industry where the main beneficiaries are donor countries and some recipients' elites. It has fostered the creation of many public jobs, specialized consultancy services for the provision of technical assistance and it has propagated satellite industries that are part of the business (transport, tourism, logistics, construction, etc). There are several systemic causes that explain the inability of the aid system to generate the expected results:

The current aid system has its roots in the functioning of a market of (impure) altruism that is governed by donors' rules. The act of supplying aid provides in return a warm-glow effect of utility to donors, which are therefore willing to finance aid for poverty reduction. Taxpayers delegate the management and delivery of aid to public donor agencies that pursue impurely altruistic objectives: they supply aid under specific conditions to developing countries as an instrument of foreign policy, in which governments expect to gain political and economic returns.

The lack of incentives of taxpayers in the market of altruism aggravates the principal-agent problem between taxpayers and donor agencies. There are high information asymmetries. Taxpayers do not have the incentives and the mechanisms to monitor the supply of aid. The appreciation of taxpayers' per capita support to poverty reduction is minimal and therefore they are not empowered to take control of the process. Furthermore, donors' contributions to development aid are relatively small (around 0.4 of GNI as an average), and thereby national parliaments do not have incentives in place to monitor and control de budget. If national contributions are channelled through a multilateral institution such as the EC, the incentives to control such resources are even more diluted. In the case of the EC, which is a prominent advocate of supplying aid through budget support, the control becomes extremely complex, indeed. In such case, the control function is leveraged to recipient countries, which have an incipient tradition of budget oversight and practically null mechanisms of parliamentary control.

Against this backdrop, the use of BS carries high fiduciary risks that can even render harmful effects by inflating a system that suffers from a structural rampant corruption. This is the case of Tanzania, in which the system comprises a powerful elite that stems from the ubiquitous ruling party and a small but powerful private sector that largely benefits from the system (Gould and Ojanen, 2003). This pandemic is seriously hampering any attempts to bring good governance and slowing down the paths to political dialogue in corruption and governance issues with donors.

The partnership approach is a fallacy of the donor rhetoric. The relationship between donors and recipients is actually based on a biased agreement or alliance that is overwhelmingly led by donors' paternalistic approach. This approach is guided by three complementary principles that endorse an asymmetrical power to the relation. First, the historical background of colonialism –i.e. the EC built its development cooperation system upon aiding former French colonies for commercial purposes-; second, the implicit exogenous ownership of development policies based on "who pays, orders"; and third, the enormous economic development gap between the givers and the receivers.

The paternalistic approach feeds the utility from the warm-glow effect of the act of giving. It thereby distracts the attention of donors to focus on the collection of impact information of their services delivered with the objective to eradicate poverty in recipient countries. The monitoring and evaluation systems of policies, programs and projects are mainly input-oriented and lack a focus on results based on counterfactuals.

The EC Development Cooperation well exemplifies the top-down standardization of the "one-size-fits-all" approach. It attempts to promulgate a wide-spectrum of thematic areas of intervention to developing countries that are described at a general level –from trade and economic liberalization to environment- instead of adapting to each recipient's needs.

The Donors' Objective Function is the Maximization of the Budget

The structure of the current aid system conduces donors, either through its donor agencies or NPO, to maximize its budget (fundraising) rather than its service (efficiency). The justification of the budget maximization is against campaigning the need to globally address pervasive poverty through a compelling rhetoric whereby governments and its agencies romanticize a paternalistic discourse for raising the support of donors' contributions, either through economic donations or to reinforcing voters' loyalty to support a government that is poverty-sensitive at global level. The warm-glow effect does not place the incentives to the "theoretical" demand side of altruism, the final beneficiaries or poor. Therefore, fundraising campaigns do not focus on the donations' impact to the final beneficiaries but on the need to collect more resources to the cause of poverty.

The donors' objective function largely explains the sensationalist campaigns of many NPO for fundraising and the hypocritical rhetoric of donors' development policies. They emphasize a poverty-centered discourse while hiding their strategic national political and economic interests in third countries for gaining voters' support. This overambitious rhetoric often claims the benefits of economic integration and trade policies for poverty reduction and states unattainable commitments of new aid pledges. In practice, however, reality differs. LDCs do not catch up the benefits of economic liberalization (Bird, 2009) and the good words of the ECD do not translate into tangible impacts in poverty reduction, especially for Africa. This hypocritical rhetoric raises high expectations to partner countries and other development cooperation stakeholders – taxpayers and final beneficiaries, for example-, but it prevents to include the real interests of such policies, it reduces coherence and, in the end, it hampers the effectiveness of aid.

The market for aid marginalizes taxpayers and specially the theoretical final beneficiaries in recipient countries, the poor. The value chain of the aid market gives low value for money to both taxpayers and the poor, the two most important players of the equation. Instead, the value is spread over high transaction costs of managing the aid delivery process through aid agencies, NPOs, consultancies and recipient governments that retain much of the funds and knowledge generated.

A long period without inconsistent results in improving aid effectiveness and the big gap between donor policies' ideality and results' actuality are drawing a general disenchantment of development scholars and aid practitioners. The donor-fatigue is expanding its outreach to more development aid circles that are advocating the need for a thorough reform of the rigid international aid architecture.

The current aid system has a very limited capacity to learn from the implementation of development policies, programs and projects. It was also in the very beginnings of ODA's academic discourse that scholars started to claim other aid factors beyond injection of capital flows to developing countries. In the 1960s, Chenery and Strout already advocated the need for human skills and institutional change as requirements to make aid work. Likewise for Rosenstein-Rodan, one of the most critical factors determining the effective use of aid was identified as the efforts of the citizens of recipient countries. For the first time, right after the birth of ODA, scholars highlighted the importance of recipient ownership and institutional change as key factors towards improving aid effectiveness. Today, also trending topics of the global ODA debate.

The added-value of the EC (and other big bilateral and multilateral aid agencies), lays on their capacity to raise funds and increase the budget for development cooperation purposes, combined with the advocacy role as a promoter of a coordinated global development agenda towards poverty reduction.

Structural Inefficiencies on the Allocation and Delivery of Aid Enlarge the Gap

ODA does not flow to the poorest countries. The pattern of aid distribution across countries is insufficiently coordinated. Donors decide separately which country programs to assist and to what extent, based on their unique set of values, goals and criteria, shaped by specific contexts and historical relationships. The absence of timely information on other donors' forward intentions impedes everyone's ability to adjust their own plans accordingly. Furthermore, accountability to taxpayers or boards is seldom focused on correcting the actions of others, predictable or not: each donor has its own priorities and incentive framework.

The sectoral distribution pattern of ODA does not prioritize the sectors that are conducive of pro-poor growth in the vast majority of least developed countries. There is the need to prioritize development interventions into economic sectors that largely contribute to make a living for the poorest. Such is the case of the agricultural sector in Tanzania, the first source of pro-poor economic income by far. In general, support provided to agriculture in Africa –which has been minimal in proportion to its importance- is widely perceived as a failure (Easterly 2009).

The preferential use of BS in LDCs, such it is the case of the EC, misses the opportunity to allocate resources to the neediest sectors. The ideally-acclaimed benefits of this modality fade away under the reality of many recipient countries: lack of robust and effective control mechanisms (i.e. Parliament, Supreme Audit Institutions), weak public financial management systems; high levels of corruption; a strong culture anchored in the lack of civil society participation; lack of political will and commitment to influence political decisions; lack of technical support; lack of time for scrutiny and lack of valuable information concerning national priorities and development objectives; lack of open and participatory discussions; low level of Parliamentarians' training and the diminished role played by Supreme Audit Institutions. Against this backdrop, BS associated risks (fiduciary, development and reputational) are quite likely to be transformed into perils that question the effectiveness of this modality.

Whereas large amounts of aid inflows have contributed to sustained macroeconomic stability and underpinned economic growth (40% of the budget in Tanzania), they have failed to reach the poor. Pro-poor economic growth is today a fallacy in Tanzania. The GoT and the donor community have underestimated the potential of the rural sector to drive economic development. Sixteen years of 6-7% average of economic growth have only rendered into a mere reduction of the 3% of income-poverty in rural areas (from 40.1% in 2001 to 37.6% in 2007), where the vast majority of poor are making their living (74%). ODA dependence is likely to foster public-led economic growth, which in turn carries out the externality of discouraging entrepreneurial activity if the development policies do not target the economic activities of the poor.

Therefore, rural poverty remains the most pressuring and critical economic development problem (Aikaeli, 2010). The GoT-donors have demonstrated weak political will and poor implementing capacity to move from a traditional, subsistence-based agriculture to a modern, profit-oriented rural sector. Public expenditures in agriculture have been rather low and agricultural growth has been substantially below the MKUKUTA target of reaching 10% in 2010 (Temu, 2006). Furthermore, the GoT has fostered an incoherent policy approach with overlapping agricultural and rural strategies with a strong reform emphasis placed on an infant private sector that lacks the capacity to take effective leadership and operational lead (OECD, 2008).

The implementation of agricultural and rural policies has been characterized by the inability to target and engage the poor properly (Greely, 2007). In some cases, they even suffer the risk of exclusion due to the will of the government to proceed with the foreseen implementation of the schemes –i.e. irrigation systems- anyway (Wolter, 2008). Moreover, financial sustainability entirely relies on public investments led by donor funding, with risks of unpredictability. Last but not least, local government authorities are currently far away from having the capacity to make farmer empowerment and private sector involvement a reality.

After Nyerere's era of African Socialism, in which Tanzania's former President failed to build a development model upon traditional values, the GoT decided to embrace the exogenous model of the donors and thus welcomed large amounts of aid inflows conditioned to the requisites and approaches of the donor community, led by BW institutions. They built together an alliance that contributed to bring macroeconomic stability and economic growth to the country. However, there was a trade-off: the GoT put its efforts in upbringing its bureaucracies to manage development aid and to assume increased transaction costs by coping with the donors' conditions to improve its public financial management processes and structures. This outward move to the donor community negatively contributed to dismiss the attention and resources to target and adequately involve the poor.

Instead, the GoT engaged into a lucrative partnership with donors that facilitated the assignation of debt relief to Tanzania and that contributed to inflate the aid industry in hands of a clientelistic political and business elite. As a consequence, the gap between the government and the poor majority was aggravated. The incentives for joining the development aid industry are beyond the political outreach. Many college students engage into development studies motivated for the promising rewards of getting a job in this sector, instead of pursuing a technical career in the R&D and productive sectors.

In parallel, the donor community, well exemplified in the case of the EC, was far to bring country-specific approaches to poverty reduction and instead they generally applied their own models of economic development based on trade liberalization and regional integration, with an apparent incapacity to effectively target the needs of the poor.

The political transfer of the ownership of the development process from donors to the GoT had far-reaching implications. The adoption of such responsibilities was placed to an infant government with weak public financial management capacity, very limited capacity to oversee and control public expenditures, high levels of corruption, and a minimal role of the civil society in monitoring the budget. Against this backdrop, the apparently good intentions of donors turn out to become harmful practices with enormous risks to feed an endemically corrupted system that prevents any attempt to improve the governance of development policies.

The donor community mistakenly assumes the principle of ownership as the guarantee to support a pro-poor development model. The PD definition of ownership "*developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption"* has only its effects at the political level: the recipient government officially assumes the authority of the development strategy, but are donors who in reality exercise effective leadership and set up the rules of the game.

The mis-conceptualization of ownership (Ohno, 2005) loses the opportunity to include an entry point that could facilitate the participation of the poor into the development process and thereby to create a truly "Tanzanian development model". Instead, they are completely left aside the policy making process and worse, the government is unable to target, motivate, and involve them as key participants of the development of their own country. This remains the biggest challenge for further inclusive economic growth and development.

The inability to properly involve the poor in the design and implementation of development policies has its roots in the absence of the role that the cultural element plays in the development process as an analytical and explanatory variable. Development policies have rather been based on neoclassical economic theories that focus on rational explanatory factors for economic growth and development. Under this framework, culture has been treated as a rest factor that explains differences between the theory and reality. It has been mostly conceived as a black box that exogenously contributes or hampers the attainment of rationalistically conceptualized theoretical hypothesis.

Early claims of some scholars raised the need to adapt development policies to the final beneficiaries' needs in the 1960s (Chenery and Strout, 1966). The emergence of the endogenous growth theory that introduced soft elements such as education or R&D as explanatory factors for growth was also an important attempt to promulgate the role of human and social capital into economic development (Todaro, 1994). However, culture has not been fully included as a relevant variable that influences the process of economic decision-making of agents at an analytical and policy level in development circles (De Jong, 2009).

Rather, the cultural variable has been mainly pioneered into economic analysis by other related social sciences –sociology, anthropology, psychology, political science- as an attempt to understand the subjective formation of the social behavior that influences economic decisions (i.e. Hofstede, Schwartz, Welzel and Inglehart). The complexity and ambiguity of culture for economic analysis brought scholars to use a more concrete and defined unit of analysis, the value system. This variable exactly refers to the set of behavioural patterns, attitudes and norms of the individual that shape her decision-making.

The most cited studies on values (Hofstede's culture dimensions, Schwartz's value theory) have been mainly used for explaining cross-cultural differences across nations and organizations through the identification of cultural dimensions that hinge on universal problems (Hofstede, 2001) or basic motivational values (Schwartz, 1996). The explanation of a nation or organization's behavior swings into a more western rationalization of two opposed bi-directional structure of values (i.e. masculinity versus feminity, self-enhancement versus self-transcendence) that results into a more static conceptualization of their motivational structure. However, the analysis of the local value system at a society (group) level (Dodoma region) reveals that there is a taoist circular motivational logic of values that influences the decision-making process.

This circular logic is embodied in a dynamic process of value relations that gives room to the coexistence of self-enhancement with self-transcendence values, and openness to change with conservation values, which, accordingly activated, are conducive of economic development. They are all part of the motivational structure. The element that renders the path towards the adoption of innovations is the identification and activation of the dynamic interconnections that correlate values. This logic explains that, for example, traditionally conceptualized values of feminity and benevolence have also the potential to become catalyst of achievement and self-direction, values that have traditionally been associated with masculinity or individualism.

The labelling or classification of traditional economies into societies that have negative values for entrepreneurial activities has often been used to explain why societies fail to achieve economic development. This culturally biased conceptualization can run into the perils of offering a misunderstood and stereotyped static vision of a culture that has no prospects for development. This approach is framed under neoclassical theories in which the cultural factor is the rest. This vision expels any pro-positive attempts to analyse local cultural factors through the assumption that impoverished traditional economies do not have the potential to become entrepreneur and therefore to move through the ladder of endogenous economic development.

Values shape people mindsets by intergenerational transmission during their early years of life. This process is highly influenced by the context of life circumstances in which people strive and the contacts or connectivity of the community with external influences or organizations. In Dodoma region, communities are semi-isolated, with limited interaction with other external formal organizations. People live in a semi-arid area inhabited mostly by a rural population that struggle to fulfill their basic needs of feeding and clothing the household and affording to pay for children education fees. People have few chances to save. They engage into informal traditional-based agricultural and livestock keeping economic activities, who's output depends on seasonal rainfall. Scarcity of resources such as credits, agricultural inputs, market infrastructures, information, business management knowledge, and entrepreneurial and technical skills are daily constraints that hamper the economic development of the area. A context with these pressing conditions is characterized by tough life circumstances that breed the pursuit of survival strategies for adaptation (constraint over choice).

Some Drivers and Potentials for Change Should Pave the Way Forward

Despite the hardships of the daily life, there are signals for potential change. The local value system has identified some patterns of social and individual behaviors that are likely to conduce to higher levels of agency and thereby to more entrepreneurial activity. These patterns are characterized by the prevalence of active values that are driven by informal social networks organized toward social and economic activities that are the catalyst for entrepreneurial initiative, the adoption of new practices and change.

The communities are informally organized through social networks of entrepreneurs that act under the principle of collective action, either for safety –self-help groups- or entrepreneurial purposes –income generating activities-. They are the most active agents of the community.

Their active values are positively correlated by a set of factors that are likely to facilitate local development (people's will, learning effects, women's role, youth, credit facilities, etc). They are the gateway for embedding identified development supports that are in hands of formal institutions that work for the development of the region. These institutions are entitled to provide assets and knowledge that could suit the local needs of informal institutions. Unfortunately, informal institutions are semi-isolated and they do not maintain systematic relations of cooperation with external developmental organizations.

The reconciliation between the social networks of these local communities with the formal regional-based institutions such as governmental authorities and other public and private developmental organizations remains the main challenge. Regional and LGAs exercise a minimal developmental role of facilitation and decentralization is very limited. They do not coordinate a systematic approach with other developmental organizations, which, in turn, attempt to accomplish their objectives with sporadic interventions that do not complement with other organizations' actions.

The empowerment of these local communities entails targeting and motivating the earlier adopters of innovations, the local entrepreneurs. As they organize in groups, formal institutions need to know first their value system profile, which differs largely compared to the value system of a thriving entrepreneur typical from a modern or post-modern society or group.

The local, survival entrepreneurs make their decisions influenced by a context of higher uncertainty avoidance, where the emphasis of choice is on survival and in which there is a general esteem of reluctance upon external forces. Decisions are taken into a higher power distance environment, which favors vertical institutional hierarchy at high levels of organizations. There is a difficult access to networks, and the economy is characterized by its informality and the infancy of entrepreneurial ventures. The daily struggle for survival constraints the visionary thinking of further planning as there is no longer-term orientation than the present opportunity.

Against this backdrop, the entrepreneur makes decisions in collective action among social networks that have security and entrepreneurial functions. In such networks, the motivation to exercise agency is primarily based on affiliation and the relational modus operandis hinges upon cooperation as the way to ensure the social welfare and quality of life of the fellowship. They communicate each other through the oral tacit transmission of information and knowledge. These groups discuss the adoption of new techniques for productivity improvements, new trends in economic activities, share knowledge, act as a collateral for loans, provide learning effects and leverage the benefits of joining through the word-of-mouth advertisement of successful practices to non-members.

Formal institutions willing to cooperate with informal social networks might first create an innovation environment building upon local resources. The first step thus is to identify the development constraints of the region and the existing local factors and development supports. The minimization of development constraints and the maximization of factors and development supports will depend on the capacity to influence the social behavior of entrepreneurs towards the activation of motivational active values and the relief of dormant resilient values (enhanced agency and thus entrepreneurship).

The translation of increased entrepreneurship into economic development and the dynamics of production depend on the introduction and diffusion of innovation and knowledge, which impel transformation and renovation of the local productive system. Local informal institutions are the instrument whereby innovations and knowledge are introduced into development processes (Aydalot, 1986). Their creativity is conditioned by the territory's experience and tradition. In other words, knowledge, accumulated in informal social institutions, is one of the mainstays of development and the local milieu may serve as an incubator of innovation (Maillat, 1995).

The diffusion of innovation required for the successful involvement of local entrepreneurs into the adoption of new skills and technology for their economic development is embedded in the learning economy. The development paradigm is that of a learning economy in which learning is an interactive process and knowledge is a collective asset shared in networks and organizations (Lundvall, 1996). Therefore, the conciliation of ISG and FIDs is based on the understanding that change in technology, skills, preferences and institutions is rooted in the society and the territory. There, coded knowledge, or explicit, and tacit knowledge embodied into human resources are diffused within the network as a result of relations among the actors. Consequently, processes of technological change and innovation are interactive, and regional systems of innovation play a strategic role in both the learning process and the diffusion of innovation (Asheim et al., 2003; Lundvall, 1992)

In order to impel innovation, formal and informal institutions need an environment that facilitates the setting of networking schemes and trust-building processes based on a mutually beneficial system of incentives. Aimed at empowering the learning process between both types of institutions, the transmission of knowledge takes place through a lateral communication channel of tacit and explicit knowledge among institutions that draw upon the local value system. This horizontal process is an alternative to traditional or top-down hierarchical communication that is the norm of the vast majority of development initiatives in least developed countries, which normally fail to suit the poor.

The setting of a lateral communication approach must suit the local bureaucratic procedures. It cannot bypass LGAs, which are key to facilitate the accessibility to informal social networks. The next logical step is to call for the involvement of social groupings throughout the persuasion and agreement of community's opinion leaders, who act as prescribers for local entrepreneurs. These are necessary but not sufficient conditions.

The coordination and implementation of an innovation environment based on an endogenous development model requires a local-based leadership of neutrally perceived institutions that enjoy remarkable prestige and reputation in the area. Tanzania, with a very small industrial sector and strong participation of the agriculture in the GDP, the main problem is the cleavage between the R&D system (the university research) and the productive sector (Mwamila and Diyamet, 2009). Against this backdrop, its universities are changing, gradually assuming a new role in the society, especially in establishing and strengthening links to the productive sector. They have a good opportunity to take the lead in fostering a social-innovative environment in which lateral communication impels knowledge transfers within a learning economy. It can allow micro-entrepreneurs to increase the value of the productive sector, according to the market conditions, preventing any harm in other activities, and creating synergies between them.

The potentialities that indicate the likeliness of the endogenous development model correlate with the positive assessments of the evaluations commissioned by the EC. On one hand, the ROM study highlight that the factors for good performance suit the endogenous model. First, it stresses that social/human capital with qualified staff and proactive managers that apply inclusive management approaches is the most significant factor behind well-performing interventions. Second, it is the inclusion of the beneficiaries' priorities addressed throughout the project's lifetime in a demand-driven and service provision oriented implementation, ensuring in widespread access and use of services with high levels of ownership. Third, it emphasizes that the human and social quality of the project management team needs to be complemented by high-qualified institutional capacity of implementing partners, in terms of emphasizing the organizational framework and culture of implementing institutions. These factors imply that good performance projects partner with organizations with own accumulated knowledge, in-depth practical understanding of the local context and beneficiaries needs, with active networking and institutional relations with other organizations, with high levels of reputation and trust among final beneficiaries and with sufficient administrative capacity. That is, institutions that are well integrated in the local context and which contribute to generate a pro-poor environment by involving and working with beneficiaries.

Likewise, the EC country evaluation of Tanzania (EC, 2006) underlines that projects implemented achieve successful impacts when they are "launched in the framework of an adequate sector policy; designed to ensure sustainability; private sector led or private sector friendly; locally owned; and integrated into markets". However, the report also argues that it is difficult to credibly trace the macro-level impact of individual EC projects, except large infrastructure investments when they have removed key bottlenecks and innovative projects when the promotion of lessons learnt is part of the design.

The trigger of agency based on the activation of values conduces to an endogenous-based economic development process that follows evolutionary dynamics towards the human development path. The logic of the dynamics of the model is that evolutionary adaptations to changing living conditions in ways that favor agency conduce to boost entrepreneurship –higher economic development-, which in turn expand the choice spectrum of the agent, and, therefore, allows for increased levels of SWB and thus, to human development. The source of agency is found within the cultural motivational value system in which greater feelings of agency impel entrepreneurial decision-making that yields higher SWB. The tipping point is stressed in the character of life. When life is a constant threat –tough life circumstances-, agency is constrained; only when life becomes an opportunity to thrive, agency is valued highly.

The inclusion of SWB (or happiness) into economic development analysis is highly relevant. The mere conceptualization of SWB carries the word “subjective”, which lays the significance of happiness as a local effect. The assessment of SWB takes place at the individual level, and the socio-economic and cultural connotations of her value system is implicitly and unconsciously taken into consideration through the process of decision-making. The inclusion of this variable has some implications worth considering for economic analysis within the development community. It raises the need to question the current donor-driven exogenous development model in which the maximization of utility understood as the accumulation of economic wealth increases the levels of SWB in the same proportion regardless the country, society or community (Welzel and Inglehart, 2009). In other words, it questions the basic underlying foundation that the western economic development approach must bring economic prosperity and happiness for everybody. Furthermore, it stresses the need to delocalize and decentralize the design and implementation of development policies according to the effects of the development dynamics that occurs in distinct societies with divergent value systems. Bringing economics, psychology, sociology and anthropology working together is the next step to strikingly advance towards innovative applied research methods for development policy design.

Development 3.0: the Institutionalization of Endogenous Development in the New Aid Paradigm

Under the current governance of the aid system, the transition from an exogenous development approach that conceives culture as “the rest” to adopt an innovation environment with an endogenous development model that accommodates the value system as the pivotal variable of the development dynamic is today a utopia. Such framework can only be adopted if there is a flexible decentralization of ownership fostered by the introduction of a system of incentives within a value chain that motivate donors, recipient governments, developmental agents and local entrepreneurs to work together towards the maximization of service efficiency to the final target of the market, the poor.

Such a change requires moving from planning to markets. This call has already began with the claims of many development scholars, aid practitioners and some policymakers that exemplify the growing interest in exploring new poverty alleviation market-based approaches and the increasing appreciation of a larger role for business ventures in serving the needs of the poor. These approaches offer the potential to align strategies and incentives across sectors and organizations that typically have not collaborated (Brugmann and Prahalad, 2007; London and Rondinelli, 2003).

Furthermore, this crusade is strikingly apparent with robust emerging forces that drive the change. Emerging Southern donors like China, Brazil or India give a prominent role of the so-called South-South cooperation in the overall stage of the global development aid arena. They can help shaping a more horizontal relationship between donor and recipient countries on the basis of common interests and solidarity, respect for sovereignty in internal affairs and, in many cases, the efficiency due to lower relative costs of cooperation among developing countries. Their motivations are beginning to transcend the global level and to exercise significant influence, with high levels of financial independence due to its ability to mobilize domestic resources. They have wider range of motivations compared to traditional aid schemes. In addition to strategic considerations, political, commercial, and solidarity reasons they also encompass ideological considerations and cultural affinity, as well as pragmatic considerations related to specific interests shared in regional areas such as watersheds, shared cross border natural resources, and joint vulnerabilities.

For the recipients' viewpoint, SED have two important comparative advantages. They are referents that leverage learning effects in their own race to poverty reduction. Thus, they are recognized as successful contemporary development benchmarks that have a lot to transfer for the development of the poorest (this type of cooperation encompasses from political commitment to joint negotiations and trade integration agreements to partnership agreements on specific issues -transport, education, monetary policy, working conditions, pension systems, science and technology-, and runs through different modalities -funding, exchange of experts, technical assistance, information on best practices, and increased joint negotiating capacity).

Furthermore, SED do not attach the burden of colonialism, so they are rather seen like horizontal partners with whom to set up win-win scenarios of cooperation. Against this backdrop, SED have more chances to set up "partnerships" rather than "paternships" with their recipient countries, based on an empathic relationship that renders mutual beneficial collaborations. These new successful developing countries have unique particularities defined by their own development experiences, models and approaches.

In the same line, the triangular cooperation offers its own advantages. Firstly, regarded as supportive of and complimentary to North-South development cooperation. Triangulation involves developing countries whose successful experiences, practices and models may be better placed to respond to the needs and problems of beneficiary states. Secondly, triangular programs are thought to be a more cost-effective option to north-south alternatives. This is because the experts come from developing countries of the south, the training is localised, and other facilities such as travel and accommodation are often cheaper. Thirdly, with specific reference to Brazil and other (beneficiary) Portuguese-speaking countries, the use of the same language has meant that triangular development cooperation can become cross-continental. This is due to the fact that training and expertise are conducted in a common language. Finally, triangular development cooperation is believed to be free of contributing (northern) donor conditionality or agenda. As a result, triangular development cooperation is more likely to ensure better alignment with beneficiary countries' own development priorities than north-south development cooperation.

Another stunning major force is the private sector. For-profit private capital inflows are enormously increasing compared to official capital inflows. In fact, private financial flows are dominating developing countries' financing. According to the World Bank's Global Development Finance database, gross unofficial flows –foreign direct investment, migrant worker's remittances, portfolio equity flows, grants from NGOs, and loans without a sovereign guarantee- increased six fold between 1970 and 1985, and nearly tenfold between 1985 and 2002. Official flows –loans, grants, export credits, and publicly guaranteed debt- were less than half this level in 2002. This trend steadily continues to grow in recent years. However, their allocations mostly target middle-low income developing countries rather than low-income and least developed countries.

The non-for-profit, philanthropic private sector is following this tendency. Its increasing financial flows have transformed the development landscape. We have already concluded that private flows like FDI or remittances and other capital flows are much larger than official flows to developing countries. Although nonprofit development aid does not yet surpass ODA, recent estimates suggest a comparison between about USD 33-39 billion of nonprofit aid to USD 61 billion net official development aid (2005). This amount will steadily increase in the forthcoming years. Private charities, foundations, international NGOs, religious-based organizations and higher education institutions form the array of growing NPO that are transforming this arena. Gates Foundation, Ford's, Rockefeller, World Vision International, Save the Children International, Care USA, Oxfam, Action Aid and a large etcetera are becoming development aid super powers with large budgets and big networks at international level.

The introduction of market-based approaches through an upgraded role of business in poverty reduction has been revolutionized by the BoP proposition. The BoP thesis is twofold. It argues that the four billion people that cope with the bottom of the pyramid (segmented by income) represents a compelling target population for enterprises that wish to penetrate and scale their businesses into developing countries. At the same time, this economic incentive draws important benefits for poor populations as it is for them an opportunity to be included as key stakeholders of the value chain with improved access to markets, products and services that better suit their needs. Both merging of business and development is aligned with the human development's capabilities approach of Amartya Sen (1999), who has described participation in 'economic interchange' as a basic part of social living, noting that economic freedoms are closely linked with political and social freedoms. Consequently, when markets do not function in a fair and efficient way, as it is the case of Dodoma region, it is the poor who suffer.

At a theoretical level, there are relevant parallelisms between the endogenous development model and the BoP proposition. The BoP is a market-based mechanism that suits the endogenous development model's theoretical framework. They agree with the basic hypothesis of the model from two different perspectives: the BoP coming from a business orientation of the rational theory and the EDM coming from a socio-economic developmental analysis of a local value system. They provide the new elements that replace the rigid planning approach of Williamson's "Culture as preferences" to the endogenous development approach of "innovation environment" (see figure 19, Annex 4). Resource allocation takes place following the demand pattern of local communities with the creation/supply of new use-values, products and services (level 4). The governance of the system is regulated by a policy framework that supports inclusive market-based schemes (level 3) that involve formal institutions and informal social networks (level 2 and 1). They jointly cooperate in multi-stakeholder partnerships that suit the local value system (level 0). They agree in six principles.

The first principle hinges on the need to set up an innovation environment in which fostering economic development goals might be aligned among the exogenous FIDs (or ventures) and informal social groups of entrepreneurs, by creating a web of networking and trusted connections with a diversity of organizations and institutions, generate bottom-up development and understand, leverage and build on existing social infrastructure. This is called "social embeddedness" (London and Hart, 2004).

The second principle is about the inclusion of the poor entrepreneur in the value chain. They are conceived as key actors in the co-creation of bottom-up solutions tailored to their needs. This is the BoP mantra for success (London and Hart, 2004) and the lateral communication approach for innovative transfer of knowledge in a learning economy.

The third principle claims the need to align incentives among different stakeholders by connecting the needs of the poor with locally available resources delivered by access to the market. This perspective is premised on the entrepreneurial action of establishing a set of mutually beneficial partnerships with local organizations, community institutions and entrepreneurs currently operating at the BoP (Brugmann and Prahalad, 2007; Hart and Sharma, 2004; London and Rondinelli, 2003; Sharma, Vredenburg, and Westley, 1994).

The fourth principle emphasizes the need to foster a socioeconomic environment of patient innovation. The BoP as a source of innovation is one of the added-values of a BoP proposition (Christensen, Craig, and Hart, 2001; Hart and Christensen, 2002; Prahalad, 2006). Innovation needs time crystallize. In terms of a time commitment, establishing these ventures requires the sponsoring organization to have a long-term orientation in developing their business models. Indeed, similar to investments in technology research and development (R&D), BoP ventures are posited to view business model development as an innovative process that will take time to come to fruition (London, 2007).

The fifth principle is that the BoP favors self-financed growth. In this perspective, the key to growth and scalability is profitability associated with competitive advantage. Indeed, the BoP perspective relies on the view that unmet societal needs are also potential business opportunities (London and Hart, 2004; Prahalad, 2004; Prahalad and Hart, 2002). BoP ventures are viewed as operating under a hypothesis of mutual value creation; the greater the ability of the venture to meet the needs of the poor, the greater the return to the partners involved (Hart and Milstein, 2003; Wheeler et al., 2005).

Finally, the sixth principle is related to build upon the local value system. The BoP perspective emphasizes that there is an intrinsic economic rationale to the informal sector, and that organizations wanting to serve the poor should learn from, and adapt their business models to this sector (London and Hart, 2004). This means that the BoP venture, be it a for-profit business or a non-profit initiative, should focus on leveraging what is "right" in BoP markets. London (2007) point the example that a number of initiatives serving the poor rely on existing self-help groups, and the associated social capital within these organizations, as a way to distribute their products. This principle implicitly draws on the assumption of value activation of the local entrepreneurs rationale of decision-making, the cornerstone of the EDM.

There are, however, two big handicaps that hamper the successful feasibility of the BoP approach. First, the complexity to measure the current scope of the BoP market that is highly segmented. Some authors argue that it has been overestimated and that the economic incentive is in reality not that compelling for enterprises (Karnani, 2009). The second argument questions the effective capacity of BoP approaches to adapt to the local value system, given the complexity to understand virgin local populations with limited purchasing power that require intensive know-how for new business models and costly entry strategies.

This is actually, the main challenge for most of the ventures willing to target BoP markets. The entry investments for engaging into BoP markets are high. The source of economic profit comes from the generation of economies of scale due to the fact that economic margins per unit of product are very much narrow. Therefore, ventures decide first to target BoP markets with large populations where initial investment efforts can be capitalized for the scalability of their successfully tested business models to other BoP markets. This is the primary reason why most of the BoP initiatives (mostly driven by large MNC with higher financial resources) are taking place in large emerging markets such as India, Brazil, Mexico, Indonesia or China. Whether BoP strategies are feasible for the poorer in remote semi-isolated markets of many African countries still remains an enigma.

The above emerging trends point out the way for the reform of the current IAA into a new development paradigm that can be able to integrate them into a more flexible, decentralized, demand-driven, honest, output-oriented and endogenous approach. However, there are also important challenges that need to be addressed: the raise of new donors, approaches and aid delivery methods are contributing to increase the "classical" problems of aid fragmentation, proliferation, transaction costs and harmonization.

The IAA urgently needs to lead a period of reform in which upcoming initiatives have their room into the system. The evolution from planning to markets might follow the so-called global development partnership in which roles are assigned according to stakeholders' competitive advantages. Public donors, such as the EC, with an added value on fundraising and global public goods advocacy, might oversee, manage, fund and monitor an innovation environment framework in which market-based approaches are delivered by multi-stakeholder initiatives. They can render mutually patterns of economic, social and environmental benefits for the endogenous development of the poor.

All in all, this shift is likely to encounter substantial systemic resistance from governments and enterprises that operate through the mental software (value system) of neoclassical economic theories and rationalistic assignment of utilities. Under the above hypothetical scenario, governments' foreign political manoeuvre would be limited with less sovereignty in using development cooperation as an instrument to pursue its national strategic objectives. On the other hand, large and small enterprises might bet for new corporate governance approaches that include and promote the generation of social profits alike in their equation of incentives. This movement transcends the traditional scope of corporate social responsibility initiatives, in which a share of economic profits was allocated for philanthropic social activities, motivated by a gain in the corporation's prestige incentives.

CONCLUSIONS

The Lost Opportunity

Local values are critical for the development of societies. The divergent records of developing countries in their race to poverty reduction have long fascinated Western scholars. The East Asian Miracle, as the most remarkable example, enormously contributed to open up a new window for exploring the underlying factors of success or failure of economic theories and policies in the quest to economic growth and development.

However, modern economic theories have not foreseen the role that local values play in economic development. They have been rather concerned with trying to generalize the effect that Western-conceptualized exogenous variables might bring to developing countries as a mode to escalate "successfully" adopted economic policies from wealthy nations to the poor.

The hedonistic view of the Western success it has represented itself a cultural bias. Furthermore, the complexity of analysis of socioeconomic development theories and local cultural values has largely contributed to underestimate the potential of local values for the development of poorer countries. The self-interested political and economic motivations of donor countries in recipient nations have hindered the emergence and impact of new theoretical approaches that could be capable to inspire new development policies aimed at bridging the gap between formal and informal institutions in least developed countries.

Valuenomics as a Post-Modern Theoretical Paradigm

The absence of local values into economic analysis has meant the failure of vast amounts of development aid, to a large extent. The aid system lost, for more than half a century, a big opportunity to contribute to the development of least developed countries. However, by the same token, the Valuenomics theoretical approach represents a new paradigm whereby economic development can progress by taking into account the multidisciplinary and decentralized view that any endogenous development process requires.

The inclusion of other related areas of knowledge into economic analysis such as Psychology, Sociology, Anthropology and Political Science is critical to fairly conceptualize the socioeconomic construction of reality through a local value system. The Endogenous Development Model contributes to enrich the economic development debate in the two following aspects:

First, it overcomes the Western-biased conceptualization of value preferences across two opposed dimensions of separation of motivational goals. This "black or white" taxonomy, present in Schwartz theories, hampers the identification of motivational goals that do not move into the pole of the dimension that is associated with entrepreneurial agency (Openness to change, Self-enhancement). Instead, the EDM uses a circular Taoist taxonomy of motivational value-activation in which the promotion of active values contributes to the relief of dormant values. This process shapes a virtuous circle whereby traditional passive value dimensions (Conservation, Self-Transcendence) are part of the motivational structure of local entrepreneurs.

This element renders relevant implications. On one hand, it avoids the pre-judgmental labelling of values in a society towards certain types of preferences according to established archetypes that attempt to explain the value system of the society (i.e. least developed countries are not entrepreneur). On the other hand, the EDM builds upon the local value system. As the circular logic of value activation of this model is context-specific, this model implicitly assumes the need to theorize the decentralization of the analysis based on the homogeneity of values of a given group/society. Under this model, the local value system has the potential to contribute to the economic development of entrepreneurs. This hypothesis is critical for the design of policies that contribute to shape a pro-conducive innovation environment in which formal and informal institutions can cooperate by introducing new forms of knowledge and technology.

Second, the inclusion of the value system as the cornerstone of the model is the entry point for the multidimensional analysis of economic development by including other related knowledge disciplines. It is particularly relevant the introduction of happiness (SWB) and the assessment of the role that SWB plays into economic analysis in the EDM. It contributes to explain the process of formation of certain decisions that are made by local entrepreneurs. Depending on the characteristics and motivational structure of the local value system, decisions are made to attain a goal as part of an overall process to achieve more happiness as an ending goal or final destination in the individual's life (it is the case of many wealthy societies in the West). Or, in other value systems, decisions are made (or not) as a result to prevent any attempts to harm a certain state of mind that is conceived as happiness in a precise moment and situation (context-specific).

The former pro-Western conceptualization has implicitly underpinned the economic and sociological theories that justify the accumulation of wealth as the right path to achieve higher levels of happiness. Henceforth, growth strategies have been referred to economic gains (GDP is still the main source for measuring the progress of a society). However, narrow differences in happiness between wealthy and poor countries (Welzel and Inglehart, 2010) do not correlate with much bigger differences in their respective accumulation of wealth.

Valuenomics Beyond Development Aid

This fact, implicitly assumed by economic theories that underpin our current global economic system, has evolved as an overriding universal principle through which economic growth and the unlimited accumulation of wealth is the right path to higher levels of happiness.

However, the inclusion of SWB as an element of the local value system in the EDM provides a different approach for treating happiness into a more open, flexible and horizontal conceptualization. The understanding of happiness requires extensive local knowledge to fairly describe the determinants that influence the psychological state of the mind that evolves around the circular dynamics of the inter relations among values in a given societal grouping. This hypothesis contributes to understand that in some societies, the adoption of explicit knowledge or technology entails the previous motivation of the agent. In other cases, the same hypothesis is key to explain why some groupings just decide to reject new adoptions as they assume that they are not meaningful to them according to their preferences and priorities that are adaptive response strategies for safeguarding their SWB.

The inclusion and analysis of these hypotheses are not only exclusive of developing nations. The replacement of the static assumption of modern economic theories that happiness is an ultimate goal by the dynamic assumption that happiness is an evolutionary state of mind carries out important implications. Developed countries could not only learn to better bridge its development aid programs with their partners in the South. Indeed, they could open to the redesign of predominant growth strategies that might face some of the global threats such as global economic crisis, poverty, inequality, environmental degradation or climate change. If the new generations truly believe that there are other "aesthetic" factors that contribute to happiness beyond the accumulation of certain economic wealth, the power of transformation of the society towards a sustainable model of development is more likely to emerge.

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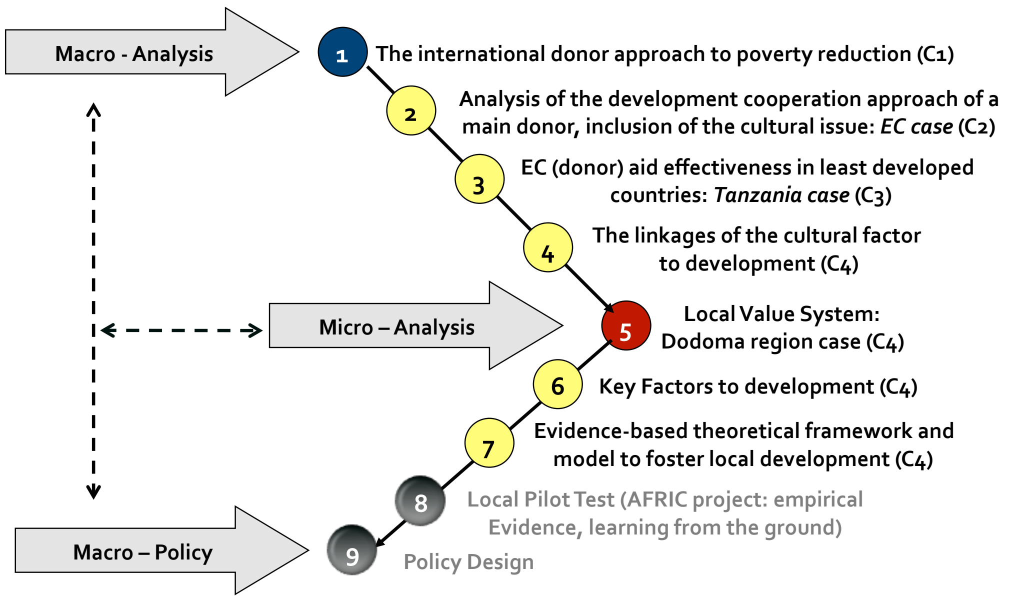
ANNEX 0

Figure 1: Methodological Framework



Sections 1-7 are of research, 7 is the model proposal and 8-9 of implementation.

Table 1: Data Collection and Analysis

Chapter	Subject	Type of Research	Source of Info	Method of Data Collection	Type of Source	Place, Fieldwork
C-1: IAA	Altruism, Development Economics, Aid Architecture	Qualitative	Documentation, Development Statistics	Desktop Research, Statistical Analysis	Secondary	Home-based
C-2: EU's DC Process	EC's Policy, Architecture and ADM	Qualitative	Documentation, Development Statistics	Desktop Research, Statistical Analysis	Secondary	Home-based
C-3: EC's and Donor Aid Effectiveness in TZA	Donors-GoT Development Approach	Qualitative	Documentation, National Economic and Development Statistics	Desktop Research, Statistical Analysis	Secondary	Home-based
	Aid Effectiveness in TZA	Qualitative	EC and Donor Experts in TZA	In-Depth Semi-Structured Interview	Primary	Brussels and Dar es Salaam
C-4: EDM	Theoretical Framework	Qualitative	Literature Review	Desktop Research	Secondary	Tanzania, Home-based
	Local Value System	Quantitative	Villagers (Entrepr.)	In-Depth Semi-Structured Interview	Primary	Dodoma (Msalato, Mtumba, Mahomanyika)
	Local Value System	Qualitative	Villagers, Local Experts, Dev. Org., Donors	In-Depth Semi-Structured Interview, Focus Groups, Workshops	Primary	Dodoma and Mahomanyika

Figure 2: Hypothesis 1 and research questions

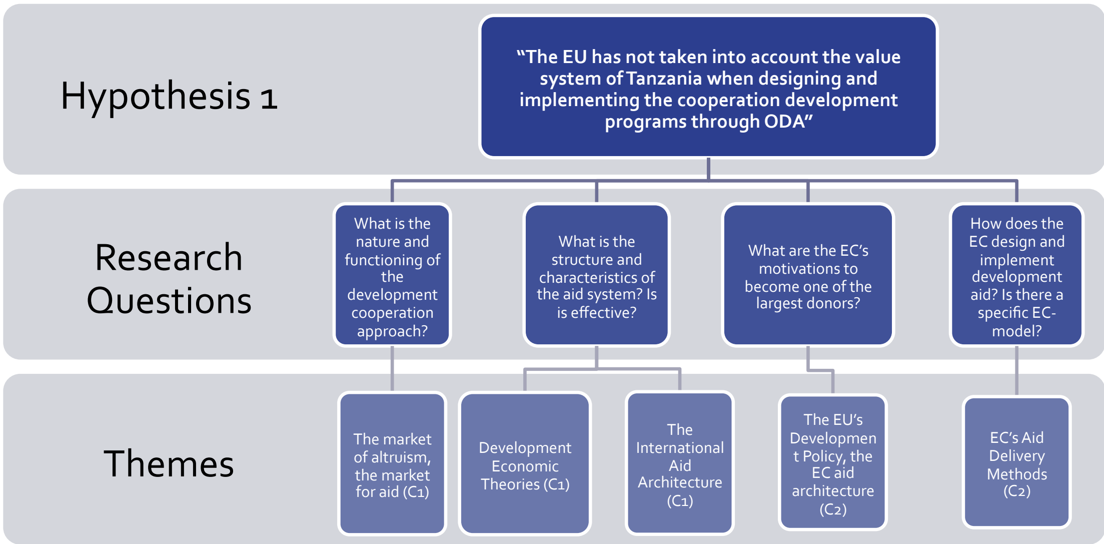
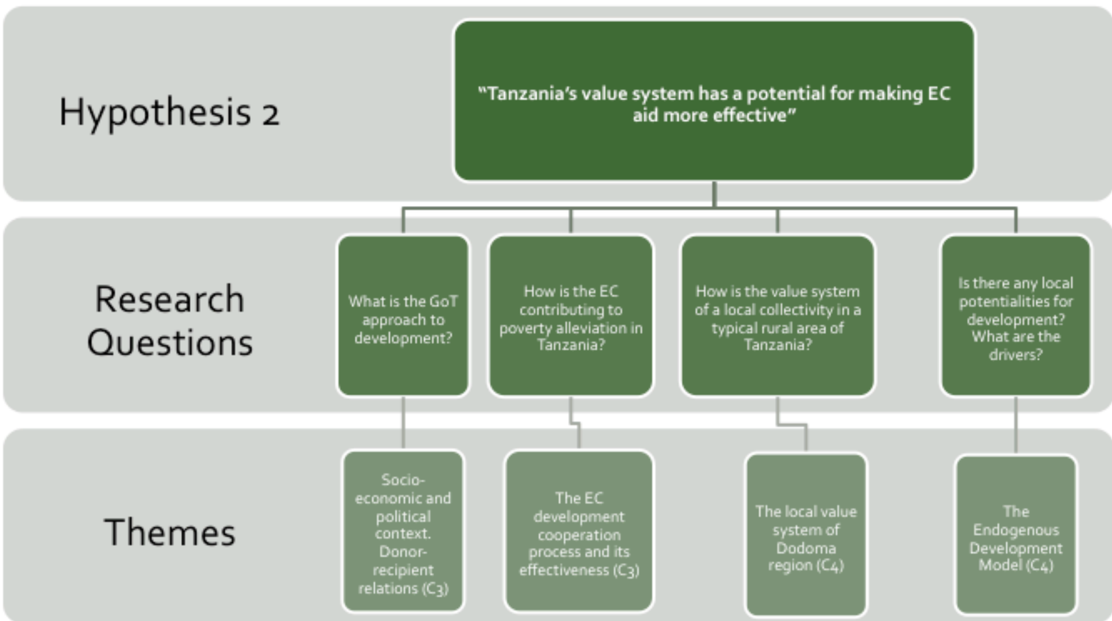


Figure 3: Hypothesis 2 and research questions



ANNEX 1

Table 1. Drivers of the market of altruism	
Suppliers	**Drivers**
Non-Profit Organizations →	Warm Glow
Government →	Pure Altruism
For-Profit-Organizations →	Prestige

Source: own, based on Andreoni (1990)

Table 2: Scope of IPG	
Overall Objective	**Field**
Social settings	International justice International rules International institutions
Preservation of life	Control of communicable diseases Peace and security Global common goods Crime and drug trafficking protection
Prosperity promotion	Financial stability Knowledge dissemination Commercial integration
Source: Alonso (2010)	

Table 3: The relationship between effectiveness and the political economy of aid				
	Donors have multiple objectives	**Imperfect information and broken feedback loop**	**Principal agent problems within aid agencies**	**Collective action between aid agencies**
Aid undermines accountability	Donors use aid to promote specific policies in recipient countries, undermining domestic policy space.	Donors impose separate accountability mechanisms to monitor performance		Aid agencies impose multiple targets and conditions on recipient governments
Poverty reduction is compromised by pursuit of broader interests	Donors do not spend aid in the most effective ways or in the places it would do most good.	The costs of diverting aid to other objectives are not sufficiently well known.		Aid agencies compete with each other for influence, access to natural resources, commercial preferment.
Proliferation, transaction costs, admin costs	Donors are spread too thin – trying to do too many things in too many countries for broader strategic or commercial reasons.	Transaction and administration costs are driven by the need to monitor inputs in the absence of ways to monitor outcomes.	Development staff have an interest in pursuing their own interests and specialists and resisting prioritisation or simplification.	Aid agencies all want to be represented everywhere, which leads to proliferation.
Short termism, lack of predictability	The loss of effectiveness from short termism is outweighed for donors by other objectives. Donor decision makers often have short (political) time horizons.	Because long term progress and impact cannot be monitored, agencies prefer to be able to react to events	Development staff are in demand when they innovate, design new programmes, change decisions. They have no interest in stability.	Donors who wish to retain short term flexibility free ride on the relative stability provided by those willing to eschew it.
Lack of focus on results	If a purpose of giving aid is to promote image and relationships, then donors can make do with	Information costs make it hard to collect and evaluate results.	Inputs are easier to monitor than results. Staff therefore focus	Agencies want to account for their own contribution, not the collective impact and

	announcements of inputs and are less interested in results.		disproportionately on inputs, on which they will be measured, rather than the results achieved.	progress. This leads them to focus on inputs rather than collective impact.
Source: Barder (2009)				

Figure 1: Competition grows in the aid industry

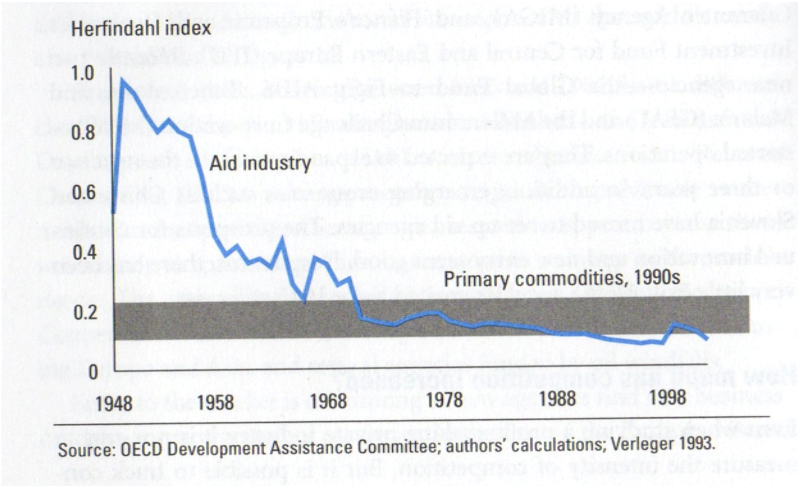
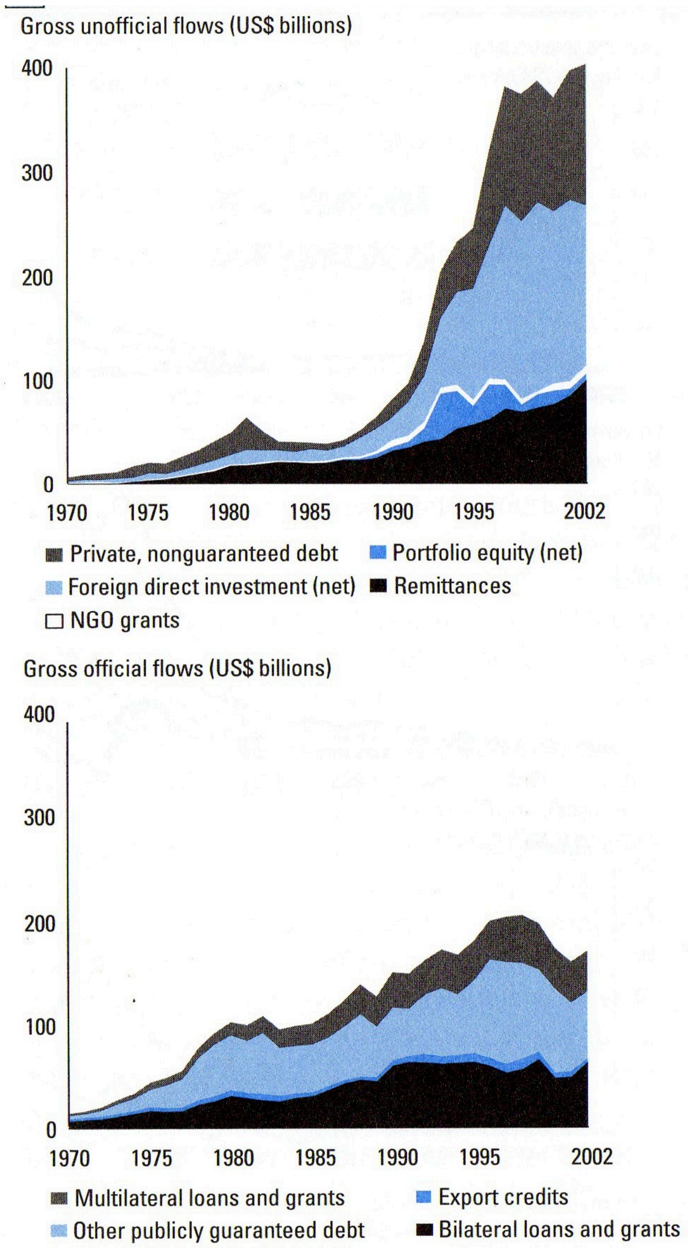
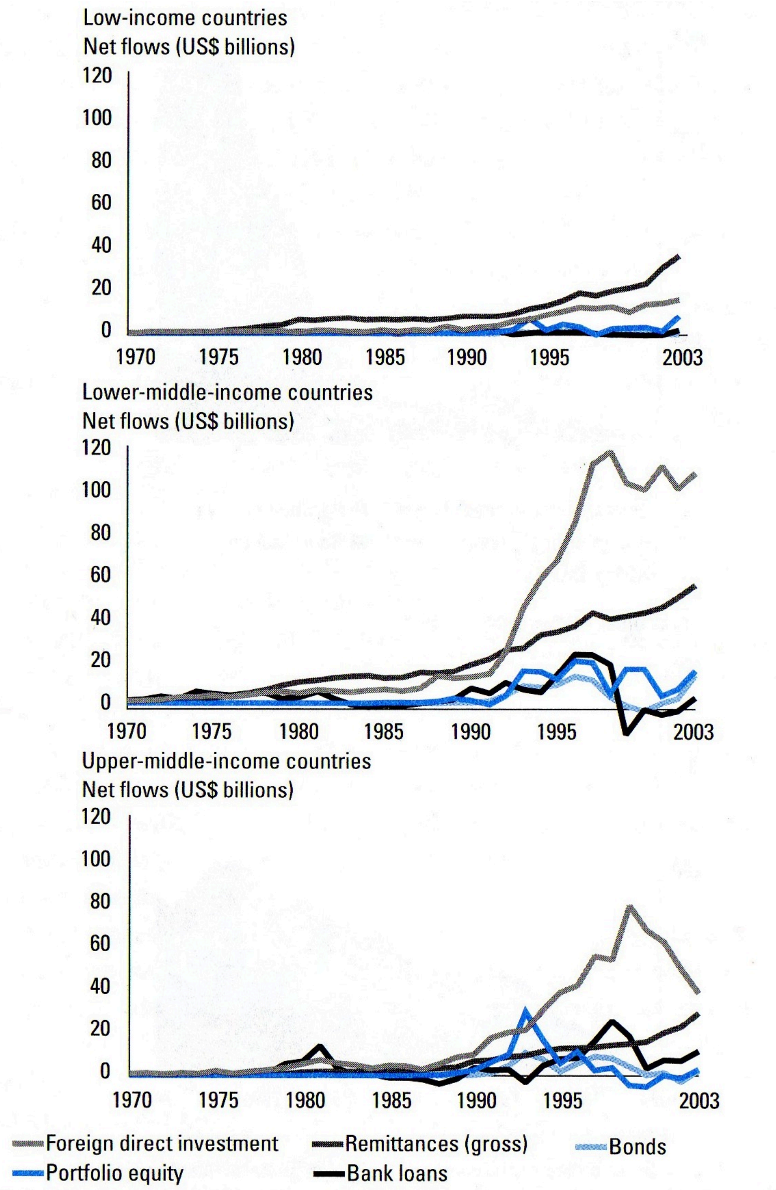


Figure 2: Unofficial flows far outstrip official flows to developing countries



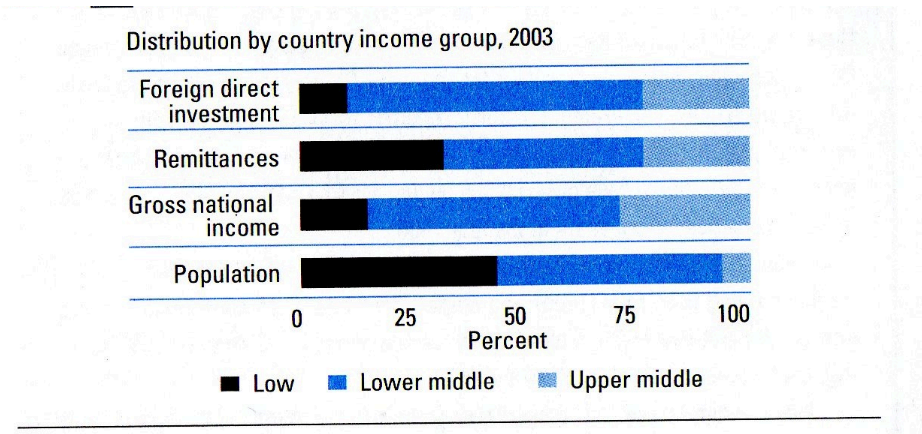
Source: World Bank, Global Development Finance database; OECD Development Assistance Committee.

Figure 3: Direct investment and remittances top net private flows to developing countries



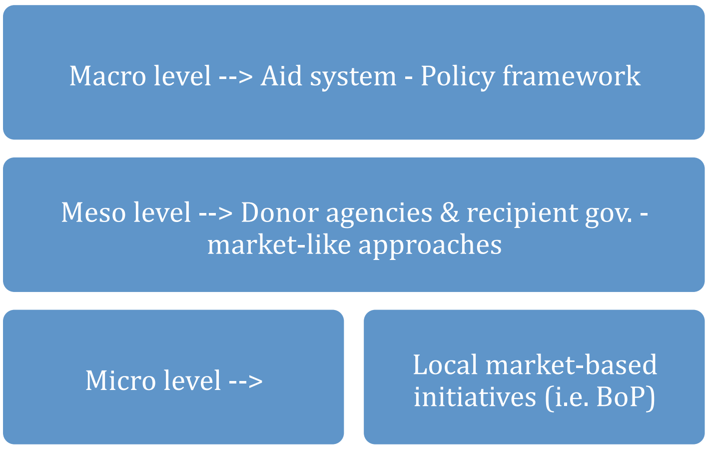
Source: World Bank, Global Development Finance database.

Figure 4: Where does the money go?



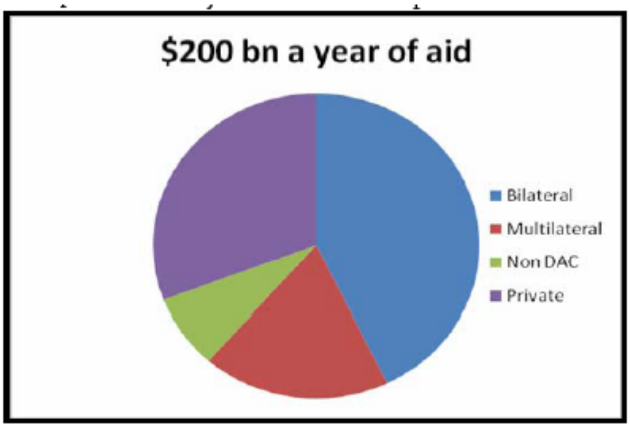
Source: World Bank, Global Development Finance database.

Figure 5: Evolution of the Aid System



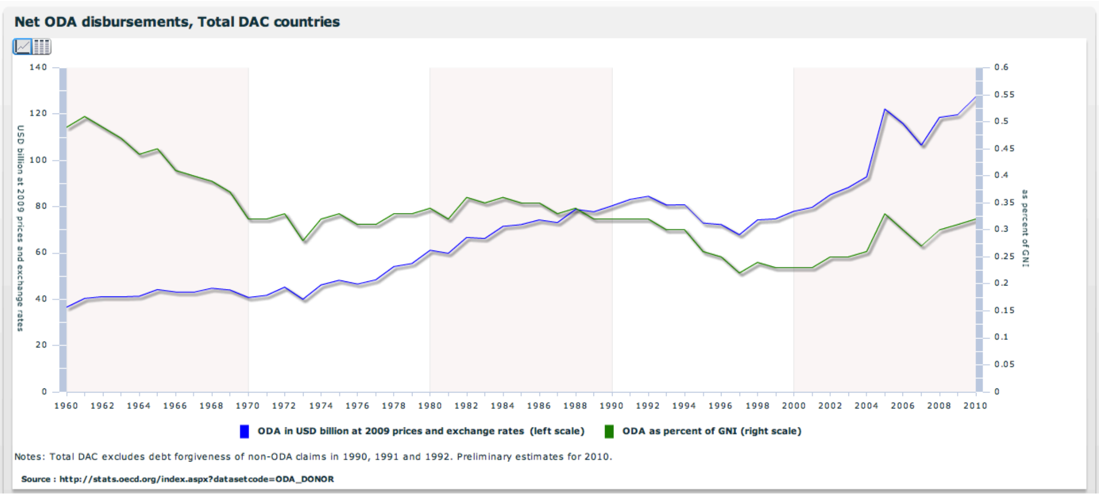
Source: own

Figure 6: Aid proportion by channel



Source: OECD-DAC data, 2009

Figure 7: Net ODA disbursements, total DAC countries

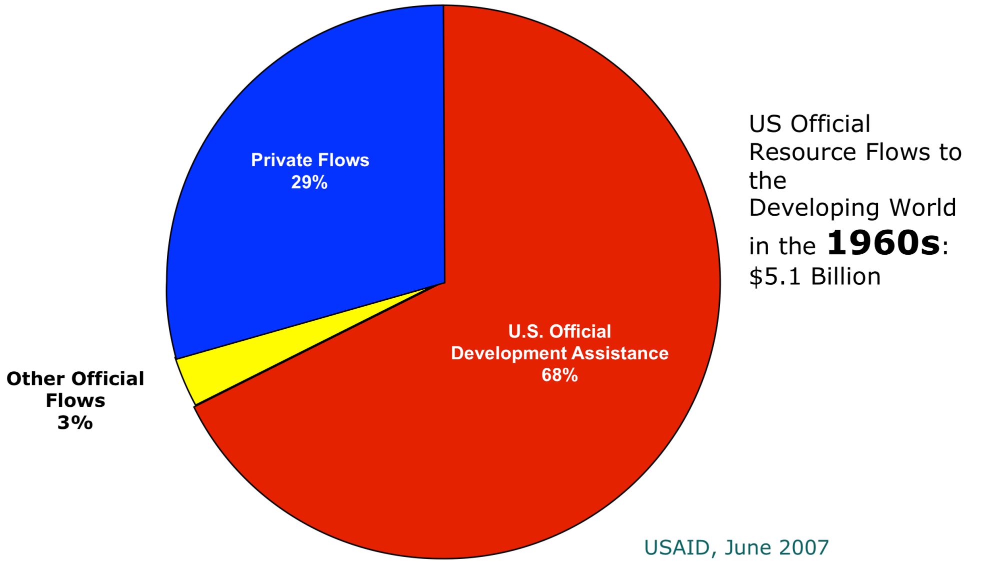


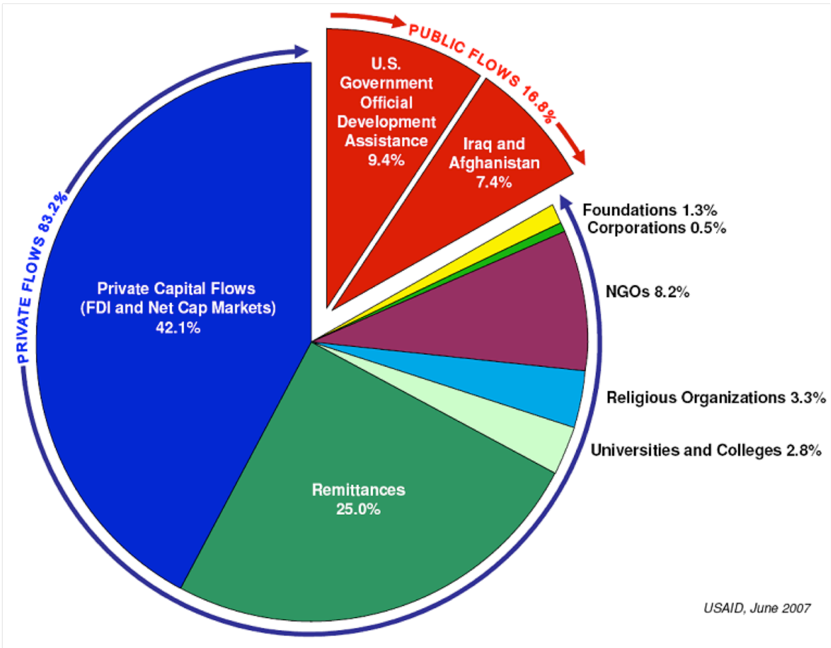
Source: OECD-DAC data, 2010

Table 4: The Millennium Development Goals (Key Features)
Goal 1: Eradicate extreme poverty and hunger
• Between 1990 and 2015, halve the proportion of people whose income is less than $1 a day • Between 1990 and 2015, halve the proportion of people who still suffer from hunger
Goal 2: Achieve universal primary education
• Ensure that by 2015 children will be able to complete a full course of primary education
Goal 3: Promote gender equality and empower women
• Eliminate gender disparity in primary and secondary education, preferably by 2015, and in all levels of education no later than 2015
Goal 4: Reduce child mortality
• Between 1990 and 2015, reduce by two-thirds the under-five mortality rate
Goal 5: Improve maternal health
• Between 1990 and 2015, reduce by three-quarters the maternal mortality ratio
Goal 6: Combat HIV/AIDS, malaria and other issues
• By 2015, have halted and begun to reverse the spread of HIV/AIDS and the incidence of malaria and other diseases
Goal 7: Ensure environmental sustainability
• By 2015, halve the proportion of people without sustainable access to safe drinking water and basic sanitation
Goal 8: Develop a global partnership for development
• Address the special needs of the least develop countries, including more generous ODA for countries committed to poverty reduction
Source: <www.un.org/millenniumgoals/reports.shtml>

Table 5: Chronological review of Modern Aid History				
Period	**ODA phase**	**Main Development Theory**	**ODA evolution**	**Political and economic situation**
1950s	Institutionalization	Linear stages of Growth	-Formation of donor-led aid multilateralism -Few donor concentration	-Success of MP in Europe -Cold War
1960s	Scaling-up	Linear stages of Growth	-Emergence of new donors (fragmentation) -Consolidation of aid architecture with IDA and DAC's creation -First aid coordination problems -First calls for recipient ownership and institutional change -Pearson Report	-Cold War -Decolonization of developing countries in Africa and Asia
1970s	Poverty-centered	Basic needs approach to development	-Targeting poverty directly -Big Push -Investing in sectors and sub-sectors (mainly social) -First commitment 0.7% -Importance of non-DAC donors -Emerging aid-industry	-Cold War -Decolonization of developing countries in Africa and Asia -Oil crises -Awareness of HPAEs
1980s	Liberalization	Neo-classical	-ODA shrunk -Aid conditionality and tied -Appearance of new aid modalities (budgetary support) -Second calls for aid effectiveness and 0.7% plight. -Brandt Report	-End of Cold War -US-led hegemony -Growing HPAEs -External debt burden -Economic recession African and Latin American countries -Financial crisis'97
1990s	Pessimism and stagnation	Neo-classical	-Aid-dependency notion -Decreasing ODA levels and confidence -Rediscovery of poverty: multidimensionality	
2000s	Multi-dimension of poverty, new big push	Endogenous growth model	-Human Development -ODA revival (Big push) -Aid advocacy (MDGs) -Third calls for 0.7% -Aid effectiveness (PD) -ODA detractors and lack of confidence (experts and civil society)	-Rise of BRICs -Transition to a new world order with the rise of China: multipolarism -New trends in ODA (South-South, decentralization, market-like approaches, etc.)
Source: own				

Figure 8: Comparison of US Public-Private Resource Flows to the Development World (1960-2005)





US Total Resource Flows to the Developing World in 2005: $164 Billion

Source: USAID, 2007

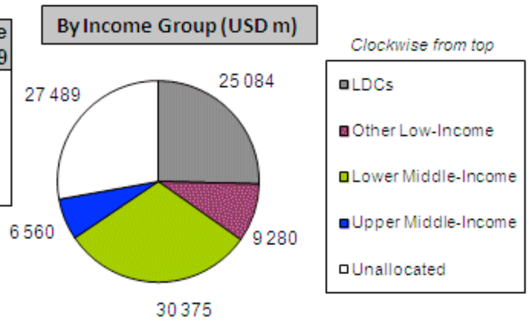
Figure 9: Gross bilateral ODA figures 2009 (total volume, distribution by income, region and sector)

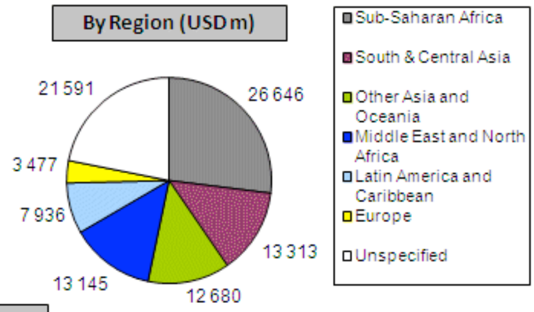
TOTAL DAC COUNTRIES

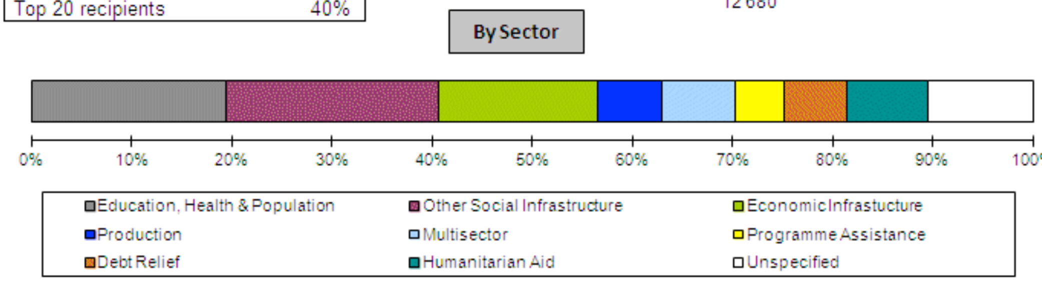
Gross Bilateral ODA, 2008-09 average, unless otherwise shown

Net ODA	2008	2009	Change 2008/09
Current (USD m)	122 359	120 000	-1.9%
Constant (2008 USD m)	122 359	123 551	1.0%
ODA/GNI	0.30%	0.31%	
Bilateral share	71%	70%	

Top Ten Recipients of Gross ODA (USD million)	
1 Iraq	6 278
2 Afghanistan	4 442
3 Indonesia	2 851
4 China	2 654
5 India	2 554
6 Viet Nam	2 133
7 Sudan	1 881
8 Ethiopia	1 838
9 Côte d'Ivoire	1 735
10 Palestinian Adm. Areas	1 545
Memo: Share of gross bilateral ODA	
Top 5 recipients	19%
Top 10 recipients	28%
Top 20 recipients	40%







Source: OECD - DAC ; www.oecd.org/dac/stats

Table 6: List of the Least Developed Countries

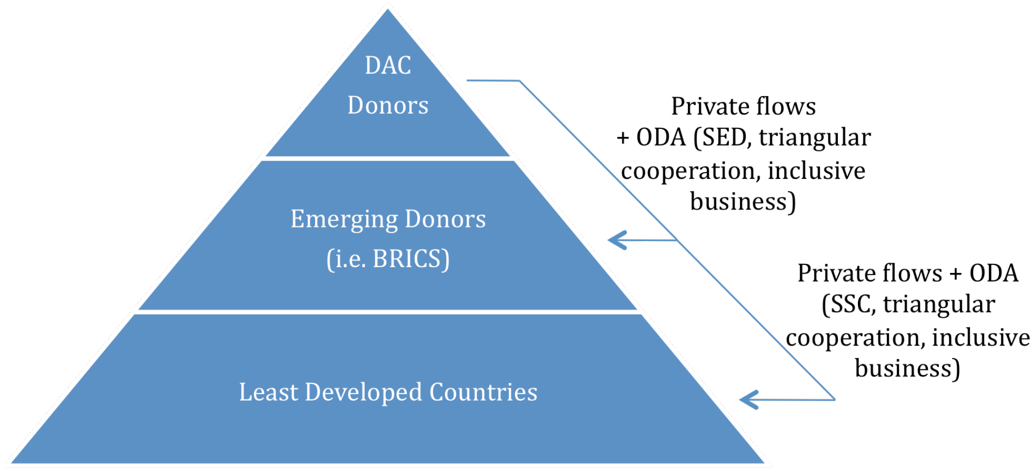
Country	Date of inclusion on the list	Country	Date of inclusion on the list
1. Afghanistan	1971	26. Malawi	1971
2. Angola	1994	27. Maldives[1]	1971
3. Bangladesh	1975	28. Mali	1971
4. Benin	1971	29. Mauritania	1986
5. Bhutan	1971	30. Mozambique	1988
6. Burkina Faso	1971	31. Myanmar	1987
7. Burundi	1971	32. Nepal	1971
8. Cambodia	1991	33. Niger	1971
9. Central African Rep.	1975	34. Rwanda	1971
10. Chad	1971	35. Samoa[2]	1971
11. Comoros	1977	36. Sao Tome and Principe	1982
12. Dem. Rep. of the Congo	1991	37. Senegal	2000
13. Djibouti	1982	38. Sierra Leone	1982
14. Equatorial Guinea	1982	39. Solomon Islands	1991
15. Eritrea	1994	40. Somalia	1971
16. Ethiopia	1971	41. Sudan	1971
17. Gambia	1975	42. Timor-Leste	2003
18. Guinea	1971	43. Togo	1982
19. Guinea-Bissau	1981	44. Tuvalu	1986
20. Haiti	1971	45. Uganda	1971
21. Kiribati	1986	46. United Rep. of Tanzania	1971
22. Lao People's Dem. Rep.	1971	47. Vanuatu	1985
23. Lesotho	1971	48. Yemen	1971
24. Liberia	1990	49. Zambia	1991
25. Madagascar	1991		

Note: Botswana graduated in 1994, and Cape Verde in December 2007.
[1] Maldives will graduate in January 2011.
[2] In July 2007, ECOSOC endorsed the recommendation of the CDP that Samoa be graduated. Samoa will graduate from the list, on December 2010 three years after the General Assembly took note of the recommendation.

Source: United Nations

Table 7: Relative importance of aid to Sub Saharan Africa		
Average % of net capital flows (2000-06)	**Developing countries**	**Sub Saharan Africa**
Private flows	84.9	38.4
Official Development Assistance	19.5	65.4
Other official flows	-4.4	-3.9
Source: McCulloch (2008)		

Figure 10: Imbrication of Public and Private development flows or "domino effect"



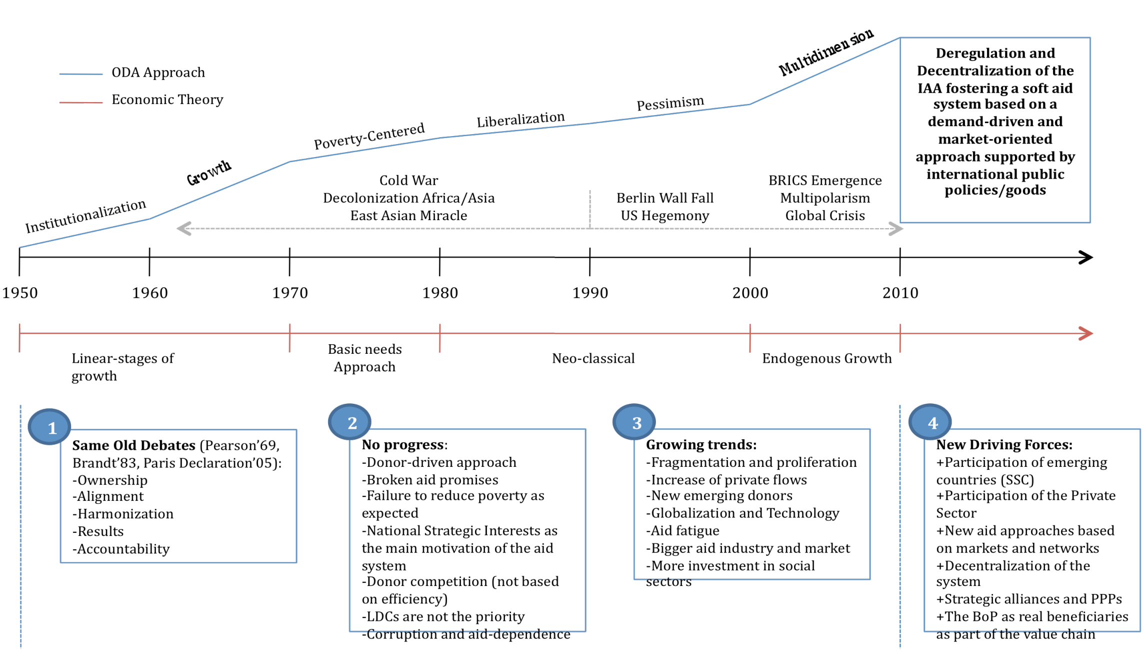
Source: own

Figure 11: Characteristics for a new Aid market

Current	New
Donor-driven	Recipient-driven
Supply-led	Demand-led
Global	Regional/Local
Centralized	Decentralized
Planning-oriented	Market-oriented
Public-like partnerships	PPPs, Strategic Alliances and Networks
Donor Agency competition	Multi-Cooperative competition
Divergent National Interests vs. Poverty goals	Convergent National Interests vs. Poverty goals
One-size-fits-all	Ad-hoc
Non-Experimental	Experimental
Macro-Micro Paradox	Macro-Micro flow
Top-down	Lateral
Political Economy-centered	Culturenomics-centered

Source: own

Figure 12: Reform of the current IAA: unstoppable driving forces



Source: own

ANNEX 2

Table 1: EU's key indicators

Key indicators (2007)	Euro area (15)	EU-27	US	Japan	China
Population (millions)	320	496	302	128	1329
Share of world GDP (% at PPP)	16.4	22.5	21.6	6.7	10.9
GDP growth (%)	2.6	2.9	2.0	2.1	11.9
GDP per capita growth (%)	2.1	2.5	1.0	2.1	11.2
Unemployment (% of labor force)	7.4	7.1	4.6	3.9	4.0
Inflation	2.1	2.4	2.8	0.1	4.8
Share of world trade (% of goods excluding intra EU trade)	16.3	21.1	11.2	7.1	11.9
Current account balance (as % of GDP)	0.0	-0.9	-5.1	4.8	10.8

Source: Eurostat

Table 2: Motivation and Common interests of EUDP				
Motivations	**Common Interests**	**Priorities** depend on:	**Political instruments**:	**Primary Objective**
Increase Power (geographic, economic, military, diplomatic) Promotion of EU regional integration model through the spread of democracy, human rights, rule of law and trade liberalism EU world view and identity	Facilitate market access to developing countries Provide financial and technical (development) aid to support socioeconomic fields (political, institutional and macroeconomic supports) Security (migration, conflict prevention, crisis management) Counter-balance US hegemony	Geographic location Prospect of membership Level and nature of political relations, (a)Symmetry of the relationship between the EU and the third country Bureaucracies of development policies	Policy dialogue Conditionality	Poverty Eradication

Source: own based on Keukelerie (2008), Arts (2004) and Bindi (2008)

Table 3: Comparative analysis of EU External Action Budget between 2001-2011				
EU Budget Heading 4	**2001**		**2011**	
(Billion EUR)	**Total**	**%**	**Total**	**%**
External Action / EU as a global actor	**8.2**	**8.7**	**8.8**	**6.2**
Pre-Accession Assistance	3.3*	39.9	1.8	20.5
European Neighborhood Policy	1.7**	21.2	1.8	20.5
Development Cooperation	1.8***	22.4	2.6	29.5
Humanitarian Aid	0.48	5.8	0.8	9.1
Democracy and Human Rights	0.1	1.3	0.2	2.3
Common Foreign and Security Policy	0.04	0.4	0.3	3.4
Instrument for Stability	-	-	0.3	3.4
Others	0.7****	9	1*****	1.3

*The sum of Pre-accession aid of both applicant countries and Mediterranean countries (B7-0).

**The sum of cooperation with Mediterranean third countries and the Middle East (B7-4) and cooperation with the Balkans (B7-5 4).

***It entails the sum of the following: cooperation with Asia (B7-3 0), Latin America (B7-3 1), southern Africa and South Africa (B7-3 2), new independent states and Mongolia (B7-5 2) and food security and support operations (B7-2 0).

****Include Other cooperation measures (B7-6, B7-5 1, B7-5 3), International fisheries (B7-8 0) and External aspects of certain Community policies (B7-8 1 to B7-8 7).

*****Include other instruments: Instrument Cooperation for Industrialized, Instrument for Nuclear Safety Cooperation, Macroeconomic assistance, Food Facility Instrument and other actions and programs.

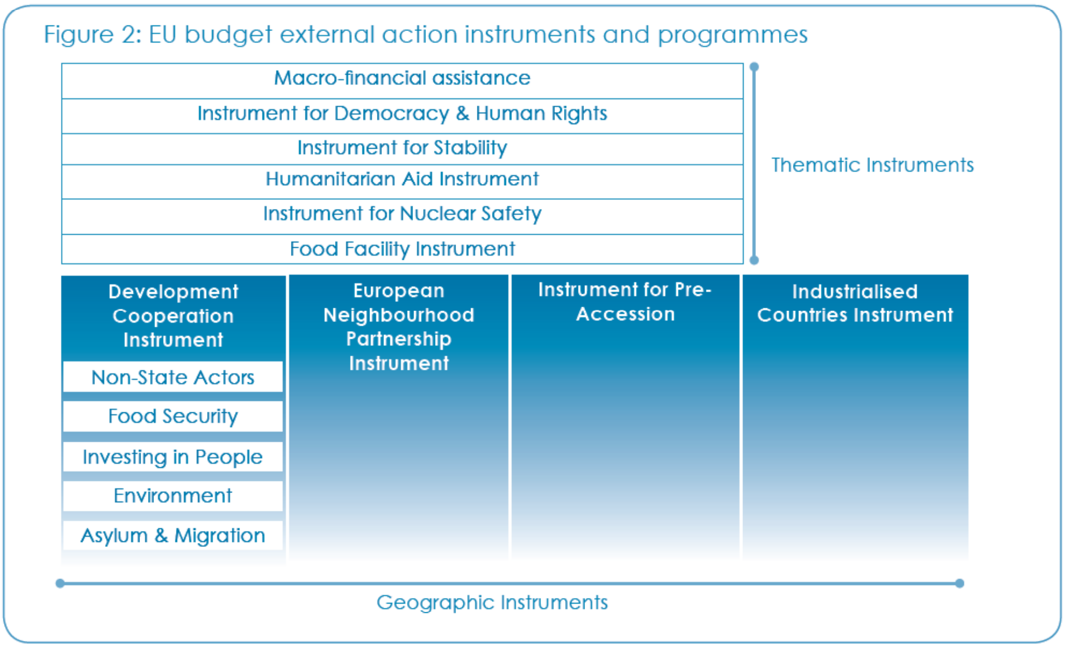
Source: own compilation based on the following EU documents: “General Budget of the EU for the financial year 2011. Figures”, EC, 2011 and “EU Budget 2011 in figures”, EC, DG Budget, 2011.

Table 4: EC Regional and Thematic Development Instruments in 2010 (billion EUR)					
	Instruments	**Vol. / %**	**Type of Aid**	**Regions**	**Average Annual Funding**
Regional	DCI	1.16 – 26.6	ODA	Latin America, Asia, Gulf region and South Africa (47 countries)	1.4
	ENPI	1.49 – 20.3	ODA	Mediterranean and Eastern Balkans (17 countries)	1.6
	EDF	-	ODA (non-budgetised)	ACP (79 countries)	3.7
	IPA	1.46 – 20.0	Non-ODA	Western Balkans and Turkey	0.96
	ICI	0.02 – 0.27	Non-ODA	East Asia, Oceania, Middle East, North America	0.025
Thematic	DCI*	0.79	ODA	Developing countries	0.98
	EIDHR	0.15 – 2.1	ODA	Developing countries	0.16
	IfS	0.15 – 2.1	ODA	LDCs mainly	0.29
	INSC	0.09 – 1.21	ODA	Developing countries	0.075
	FFI	0.15	ODA	LDCs mainly	0.3
	Macro-financial assistance	0.1 – 1.38	Non-ODA	Balkans, Central Asia, Mediterranean	0.1
	IfHA	0.95 – 12.9	Non-ODA	LDCs mainly	-

*Including the thematic budget lines of: Non-State Actors (€218263 million), Food Security (€240408 million), Investing in People (€91541 million), Environment (€201008), Asylum & Migration (€36444 million).

Source: own compilation based on the report “EU Budget 2010 Financial Report”, EC, Publications Office, 2011, EC’s Annual Action Programs 2010 and European Commission related websites.

Figure 1: EU budget external action instruments and programmes



Source: "The EU's Multi-Annual Framework post-2013: Options for EU development cooperation", European Think tanks Group, 2011.

Table 5: EC Assessment of its Aid impact under the current EUDP (2011)

Under the *status quo* option, Commission-managed aid would continue to be delivered to a wide range of sectors and beneficiary countries. The Commission would thus maintain a global and cross-sectoral presence potentially giving it influence across the board and possible leverage effect in all countries. This *status quo* option does not tackle the problem of aid dispersion and fragmentation, thereby increasing the risks of inefficiency. Moreover, scarce aid resources continue to be spread too thinly, resulting in reduced impact and a missed opportunity to increase the relevance, legitimacy and visibility of EU aid.

Strengths	**Weaknesses**
Global EU development presence is maintained (political visibility).	Fragmentation and dispersion of aid is not tackled (missed opportunity).
Global presence allows access & potential influence in all countries, and possible leverage effect on non-aid issues.	Scarce resources spread too thinly (no critical mass), resulting in low impact.
EC continues to be donor of last resort, reassuring for developing countries.	Aid continues to be allocated to countries that either do not need or deserve it, thus encouraging moral hazard (beneficiary countries assume they will all receive aid, creating less incentive for reform).
Global presence allows flexibility and capacity to react to crises on the ground everywhere	Impact of aid in certain countries remains negligible (waste of resources + reputational risk).
ECD remains valid	Poor articulation of countries' specific needs.
No need for change in current agreements (e.g. Cotonou Agreement)	High risks of inefficiency, affects COM/EU reputation.
	COM expertise spread too thinly.
	Division of labour & donor coordination made more complex leading to administrative burden & high transaction costs (both for EU and partner countries).
	Risk of aid dependency.
	Difficulty in meeting the EU's commitments for Sub-Saharan Africa and LDCs as aid is spread too thinly.
	Inability to do large-scale projects as funds per country are too small.
	In the long run, EU aid loses relevance and legitimacy because of lack of impact.

Winners: BRICS & Middle Income developing countries (who continue to receive aid); Member States (who can still count on the Commission to fill gaps).

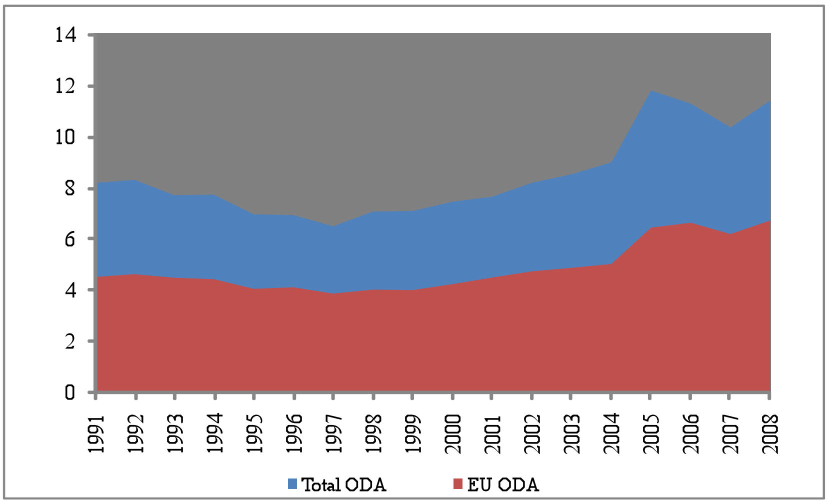
Losers: poorest and fragile countries (from whom aid is being diverted); EU taxpayers (suboptimal value for money).

Source: “Increasing the impact of EU Development Policy: an Agenda for Change”, Communication from the Commission to the European Parliament, the European Economic and Social Committee and the Committee of the regions (COM(2011)637final).

Table 6: EU Development Staff , 2006				
EU Member	**HQ**	**Field Expat**	**Field Local**	**Total**
Germany	1900	1300	3350	6550
EC	959	559	2021	3539
United Kingdom	1565	453	920	2938
Denmark	847	503	974	2324
France	1460	610	-	2070
Netherlands	645	395	325	1365
Spain	493	200	466	1159
Sweden	664	185	88	937
Italy	427	21	-	448
Ireland	125	34	250	409
Belgium	193	68	9	270
Finland	164	69	22	255
Portugal	160	11	-	171
Greece	130	1	-	131
Austria	93	21	11	125
Luxembourg	84	16	3	103
Czech Republic	30	-	-	30
Hungary	17	-	-	17
Poland	14	-	-	14
Slovak Republic	7	-	-	7
Estonia	6	-	-	6
Latvia	5	-	-	5
Slovenia	5	-	-	5
Cyprus	4	-	-	4
Malta	4	-	-	4
Lithuania	3	-	-	3
Total	**10004**	**4446**	**8439**	**22889**

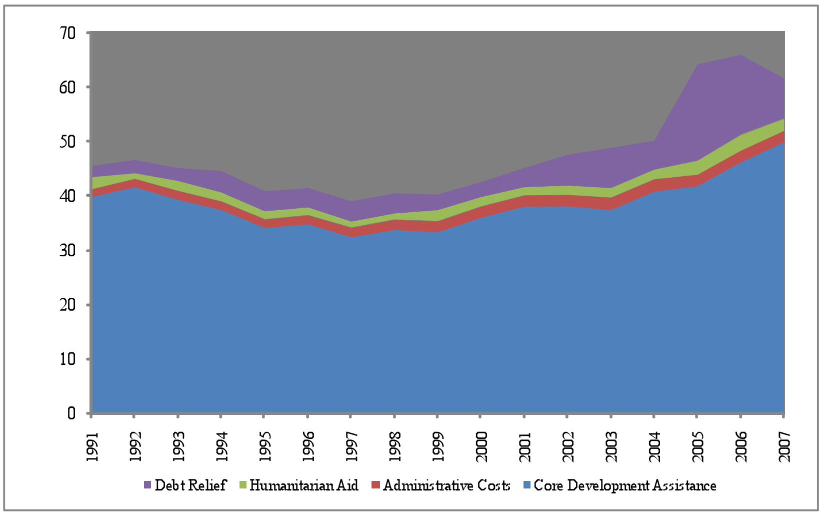
Source: EU Donor Atlas 2006 and 2008, http://ec.europa.eu/development/index_en.cfm

Figure 2: Total ODA and EU ODA (US$ billions)



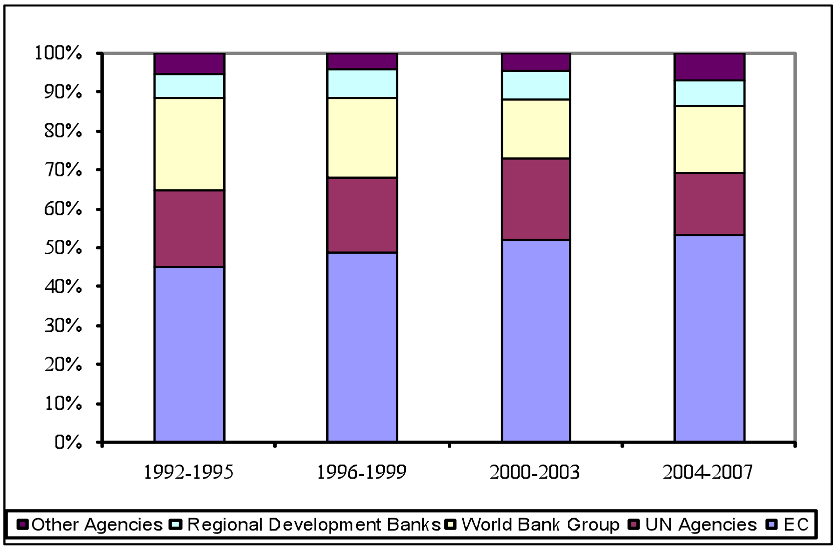
Source: OECD DAC online: EU DAC Members plus EU non-DAC Members

Figure 3: EU Core Development Assistance at constant prices (US$ billions)



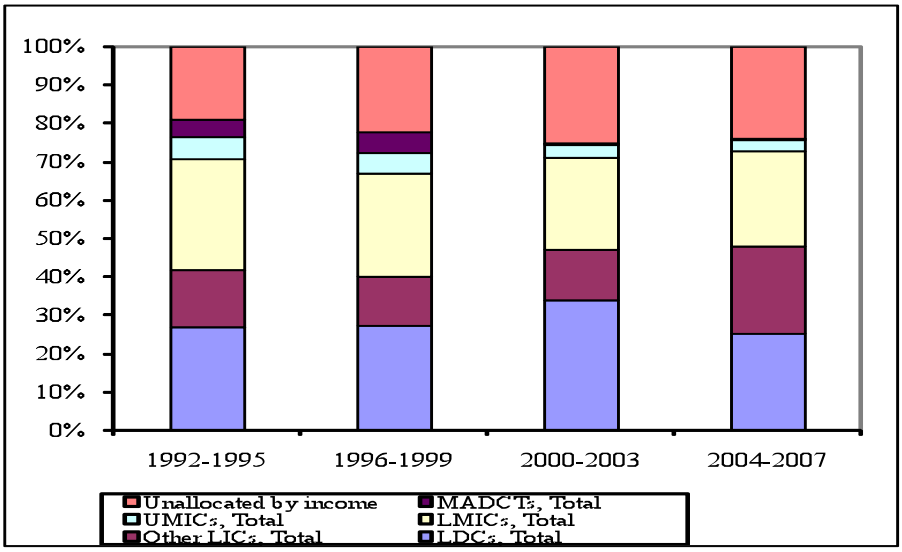
Source: OECD DAC Online

Figure 4: EU Multilateral ODA (current prices)



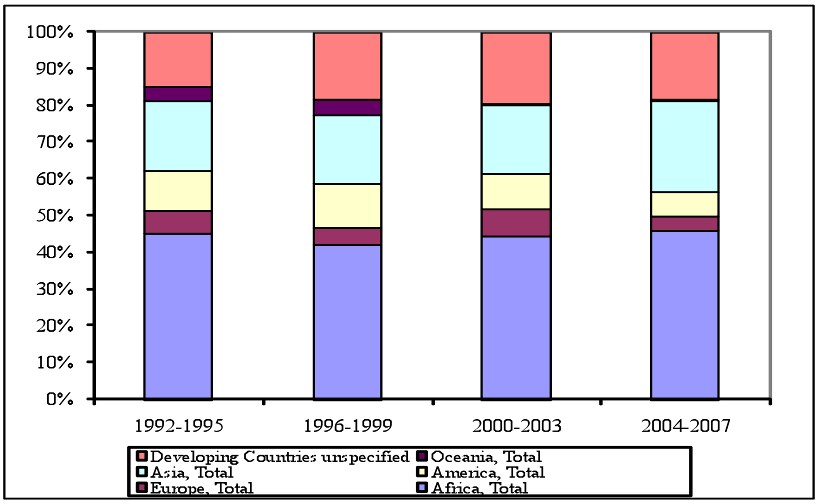
Source: OECD DAC Online

Figure 5: EU ODA by Income Group (current prices)



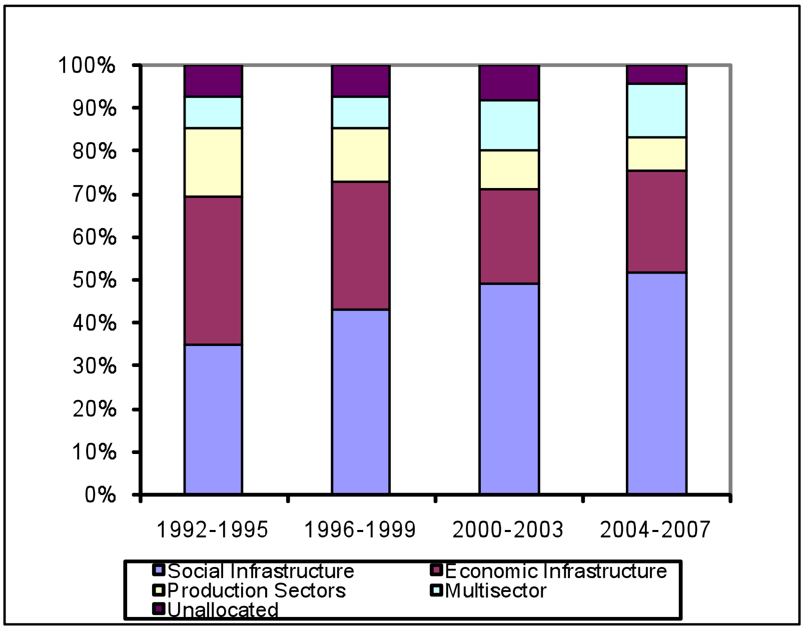
Source: OECD DAC Online

Figure 6: EU ODA per Region (current prices)



Source: OECD DAC Online

Figure 7: EU ODA per Sector (constant prices)



Source: OECD-DAC, commitment basis at constant (2006) prices

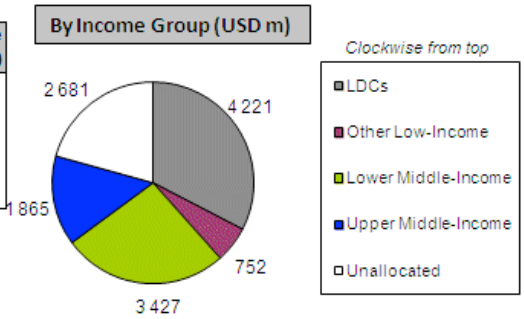
Figure 8: EC ODA to developing countries in 2009

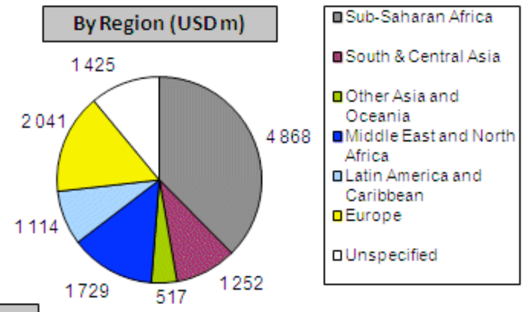
EU Institutions

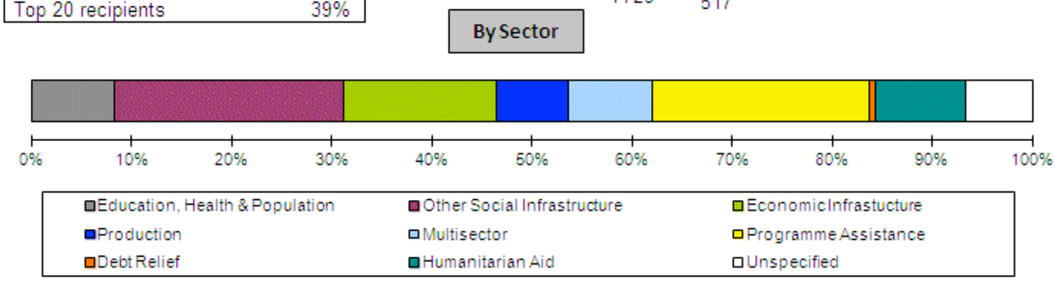
Gross Bilateral ODA, 2008-09 average, unless otherwise shown

Net ODA	2008	2009	Change 2008/09
Current (USD m)	13 197	13 444	1.9%
Constant (2008 USD m)	13 197	13 793	4.5%
In Euro (million)	9 149	9 654	5.5%

Top Ten Recipients of Gross ODA (USD million)	
1 Turkey	611
2 Palestinian Adm. Areas	601
3 Afghanistan	372
4 Ethiopia	325
5 Serbia	306
6 Morocco	306
7 Sudan	252
8 Congo, Dem. Rep.	229
9 Ukraine	210
10 Egypt	204
Memo: Share of gross bilateral ODA	
Top 5 recipients	17%
Top 10 recipients	26%
Top 20 recipients	39%







Source: OECD - DAC ; www.oecd.org/dac/stats

Figure 9: Total DAC ODA to developing countries in 2009

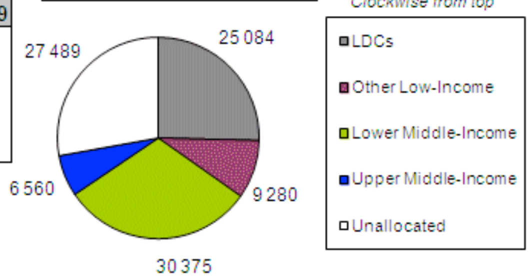
TOTAL DAC COUNTRIES

Gross Bilateral ODA, 2008-09 average, unless otherwise shown

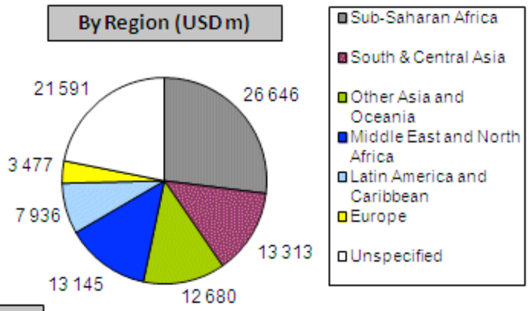
Net ODA	2008	2009	Change 2008/09
Current (USD m)	122 359	120 000	-1.9%
Constant (2008 USD m)	122 359	123 551	1.0%
ODA/GNI	0.30%	0.31%	
Bilateral share	71%	70%	

Top Ten Recipients of Gross ODA (USD million)	
1 Iraq	6 278
2 Afghanistan	4 442
3 Indonesia	2 851
4 China	2 654
5 India	2 554
6 Viet Nam	2 133
7 Sudan	1 881
8 Ethiopia	1 838
9 Côte d'Ivoire	1 735
10 Palestinian Adm. Areas	1 545
Memo: Share of gross bilateral ODA	
Top 5 recipients	19%
Top 10 recipients	28%
Top 20 recipients	40%

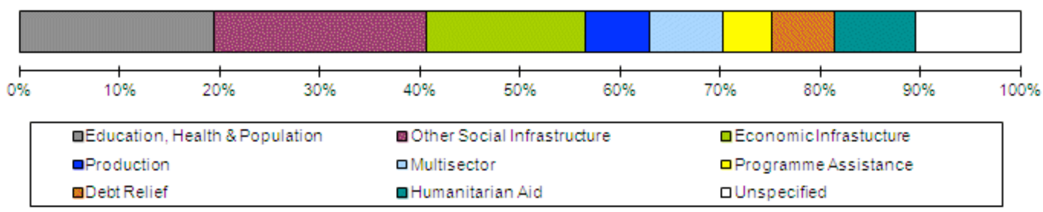
By Income Group (USD m)



By Region (USD m)

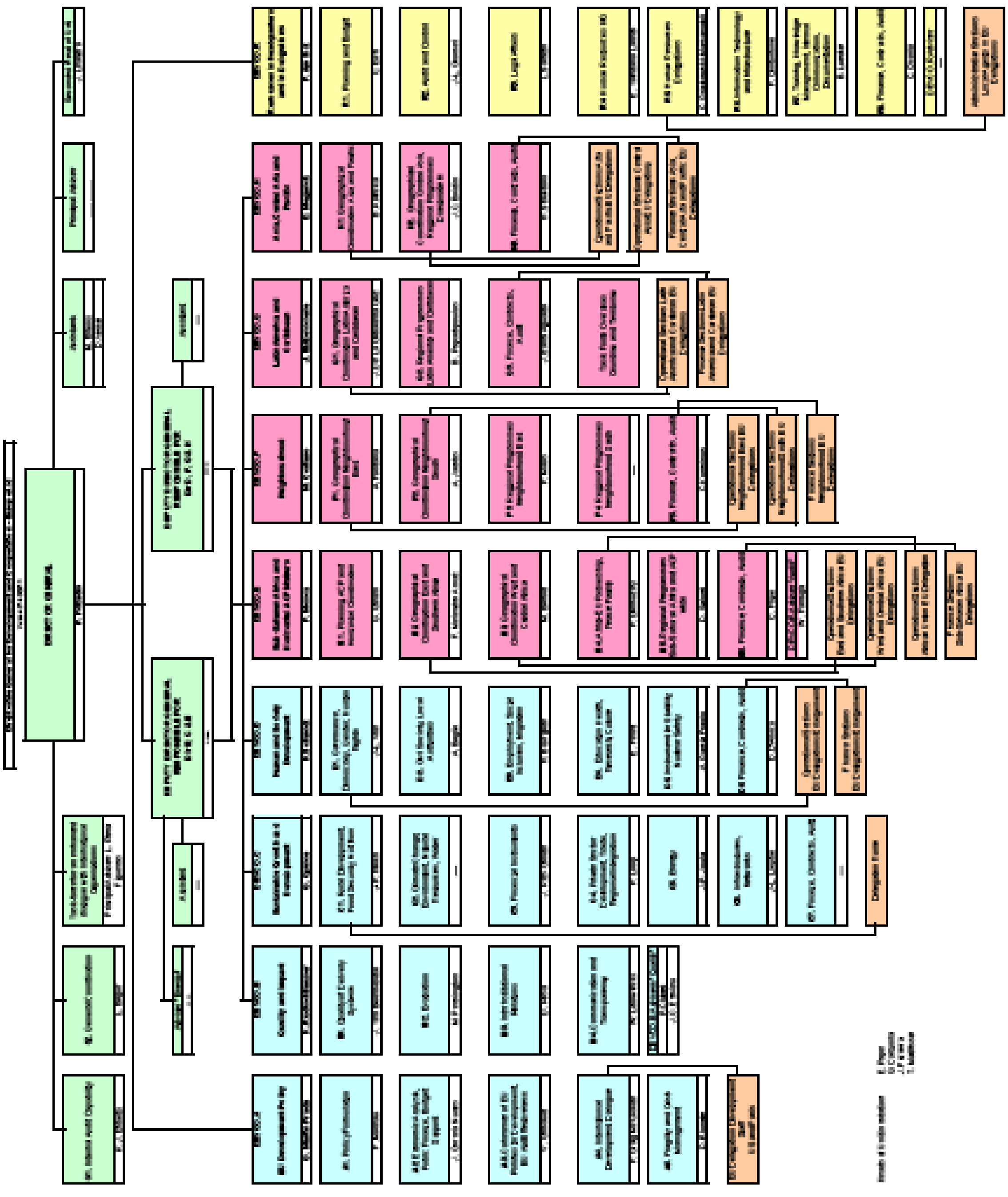


By Sector



Source: OECD - DAC ; www.oecd.org/dac/stats

Figure 10: DG Development Cooperation – EuropeAid Organigram

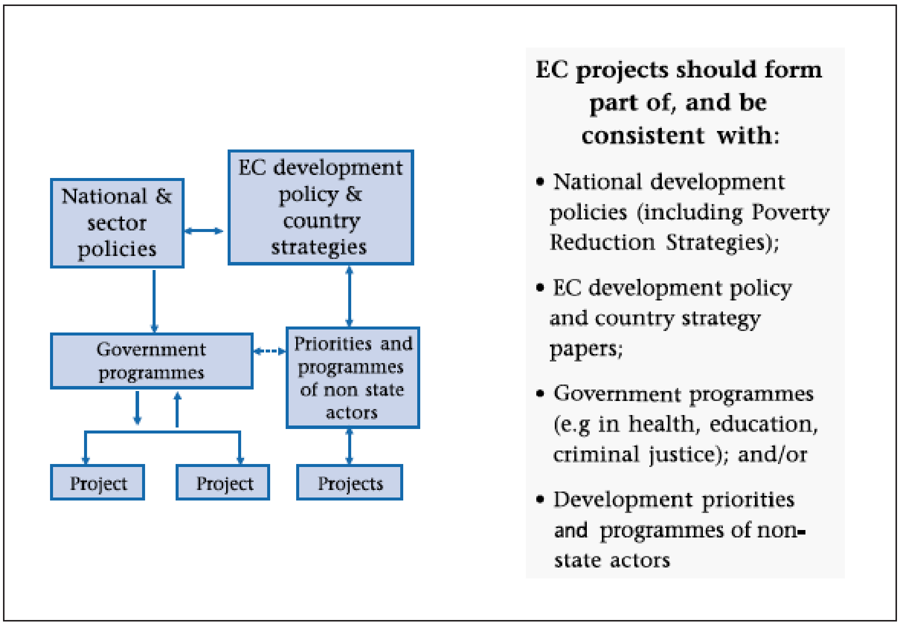


Source: EC online (2011)

Table 7: General Budget Support: Potential and Risks	
Political governance and the role of the political dialogue	Potentials · leverage of budget support dialogue is enormous and regarded as more effective than any other political exchange · budget support can always be suspended if underlying principles are breached
	Risks · GBS is used as a donors' tool to impose their governance or human rights understanding which inevitably undermines national ownership · donors have to be careful to cut budget support if the political stability of a country is in question
Role of policy dialogue, role of conditionality, links to performance and results	Potentials · budget support policy dialogue improves collaboration of donors and the government and can build on and reinforce partnership · conditionality supports government to implement reforms and focuses on results
	Risks · conditionality represents a wish list of donor priorities and undermines domestic political decision-making · conditionality is too ambitious, unrealistic and achievement is not independently assessed
Domestic and mutual accountability	Potentials · budget support strengthens domestic accountability and underlies parliamentary control · budget support reduces parallel management systems and strengthens national audit systems · external and domestic accountability are complementary and reinforcing
	Risks · donors do not include civil society or parliament as much as necessary · support to domestic accountability and budget support are not in reasonable proportions · external demands for accountability overshadow and undermine domestic accountability
Programming of budget support and its coherence with other instruments	Potentials · General budget support and sector budget support are complementary. Sector budget support can make cross-cutting reforms more responsive to the needs of sector service delivery · Project aid targeted at supporting the Supreme Audit Institution, Revenue Authorities or other public financial management institutions can reinforce partner country's capacity to manage budget support · Funding for civil society and research institutions increase domestic accountability · Budget support policy dialogue can be used as a platform to address issues arising in specific sectors
	Risks · Donors continued use of project aid undermines the potential benefits of budget support

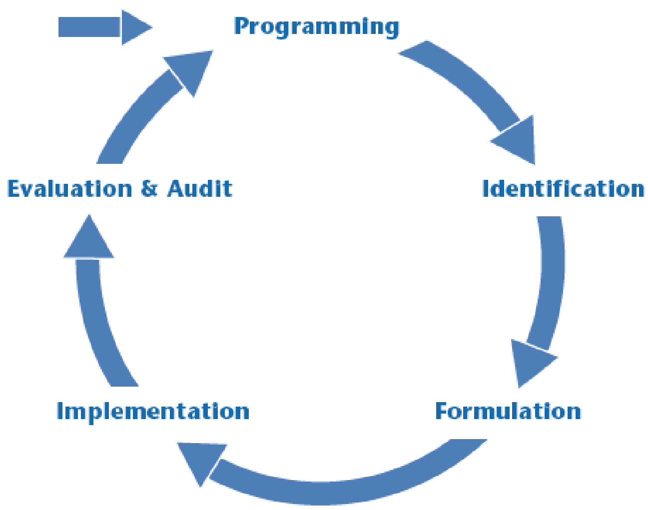
	· Donors rather use basket funds that sector budget support to minimize risks, but undermine domestic accountability and build up parallel management systems · Policy dialogue is too ambitious and overloaded
Strengthening risk assessment and dealing with fraud and corruption	Potentials · Budget support strengthens financial management systems as well as domestic accountability systems and improves the control environment. · Budget support increases donor's incentives to deal with corruption and fraud in public financial management · Budget support increases the visibility of corruption
	Risks · high levels of political corruption are the major cause for bad performance of budget support · corruption outweighs development benefits · funds are not used appropriately and do not reach local levels
Budget support in situations of fragility	Potentials · budget support to fragile states contributes to stability, restoration of institutions, government ownership and strengthening financial management capacity
	Risks · high fiduciary risks · very weak government structures · legitimation of governments unclear
Growth, fiscal policy and mobilisation of domestic revenues	Potentials · budget support can strengthen tax reforms and administration · policy dialogue can be used to support transparency initiatives in resource rich countries · budget support leads increased predictability of aid if planned long term
	Risks · budget support minimises government's incentives to mobilize domestic resources · donors rather focus on the expenditure side and too little on the income side of the budget · budget support disbursements are often not predictable · quantitative measurable targets could create unwanted negative incentives
Source: "The Future of EU Budget Support in Developing Countries", DG External Policies, EP (2011)	

Figure 11: Policy, Programs and Projects



Source: “Project Cycle Management Guidelines”, EC (2004)

Figure 12: The project cycle of operations



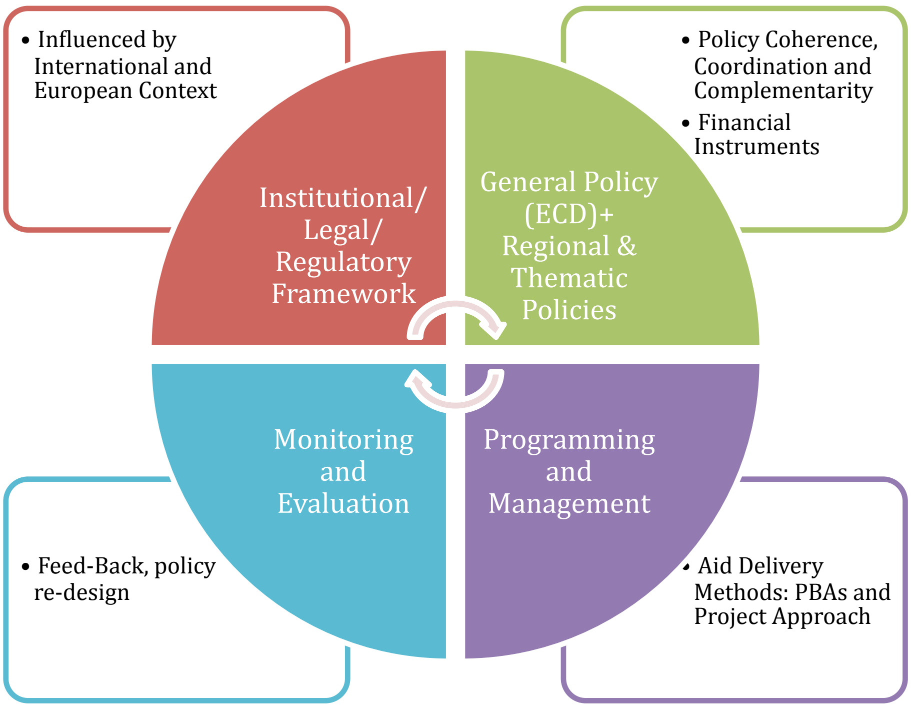
Source: “Project Cycle Management Guidelines”, EC (2004)

Table 8: Structure of the Logical Framework Matrix

Project Description	Indicators	Source of Verification	Assumptions
Overall Objective – The project's contribution to policy or programme objectives (impact)	How the OO is to be measured including Quantity, Quality, Time?	How will the information be collected, when and by whom?	
Purpose – Direct benefits to the target group(s)	How the Purpose is to be measured including Quantity, Quality, Time	As above	If the Purpose is achieved, what assumptions must hold true to achieve the OO?
Results – Tangible products or services delivered by the project	How the results are to be measured including Quantity, Quality, Time	As above	If Results are achieved, what assumptions must hold true to achieve the Purpose?
Activities – Tasks that have to be undertaken to deliver the desired results			If Activities are completed, what assumptions must hold true to deliver the results?

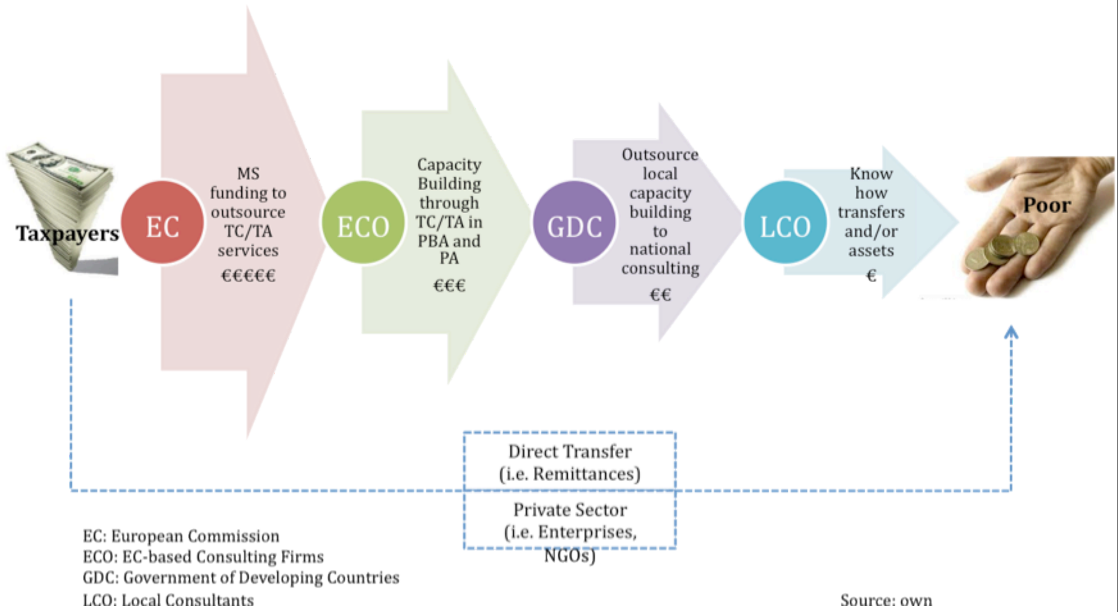
Source: "Project Cycle Management Guidelines", EC (2004)

Figure 13: EC's Development Cooperation Process



Source: own

Figure 14: Cost-Effectiveness of the Stakeholder Value Chain under current Aid System



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ANNEX 3

Figure 1: Median per capita income in Africa and non-Africa developing countries (Index, 1950=1.0)

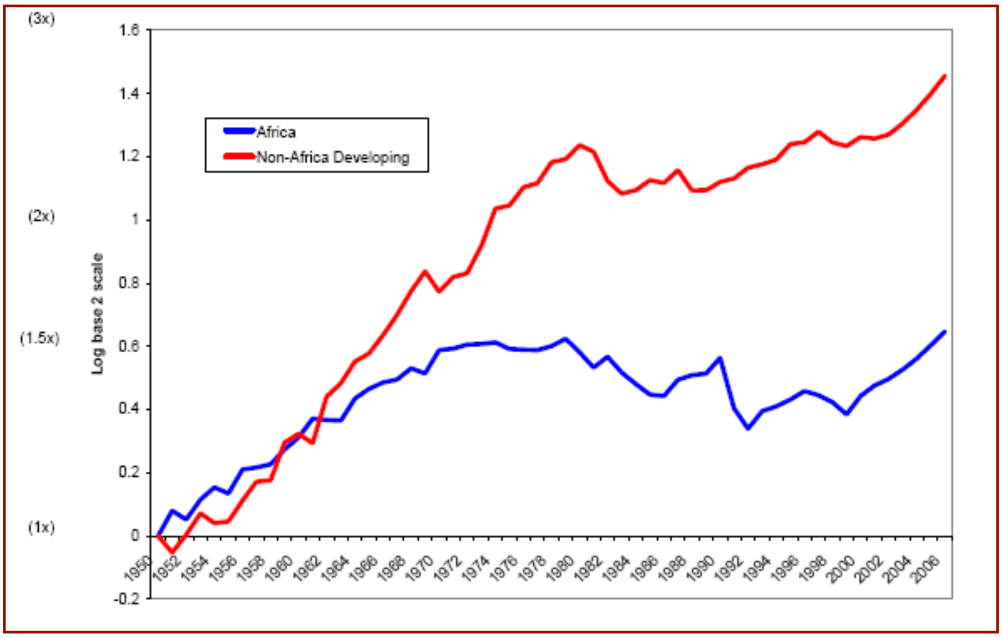


Figure 2: Aid to Gross National Income in Africa and Other Developing Countries

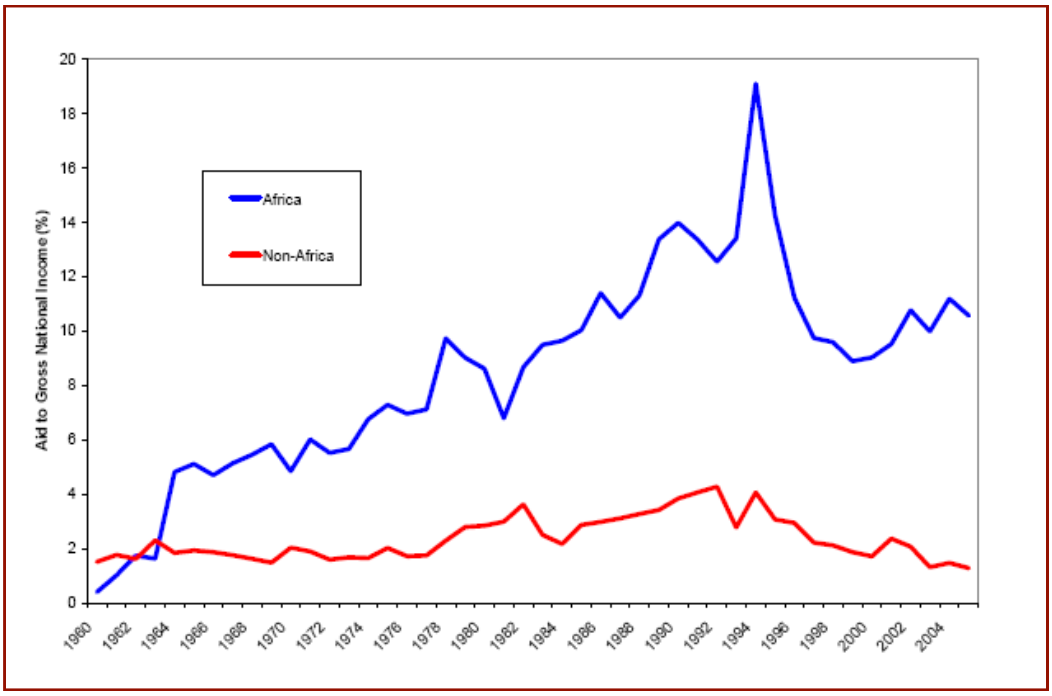
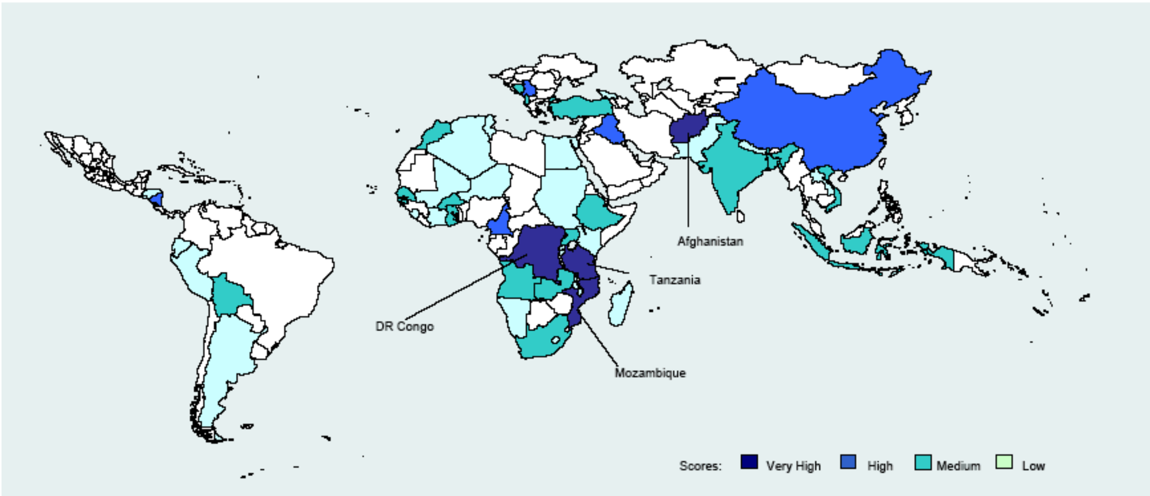


Figure 3: EU Priority countries (EU Member States Top 10 Recipients – average rankings 2003-2004)



Source: EU Donor Atlas 2006

Figure 4: Tanzania main statistical data

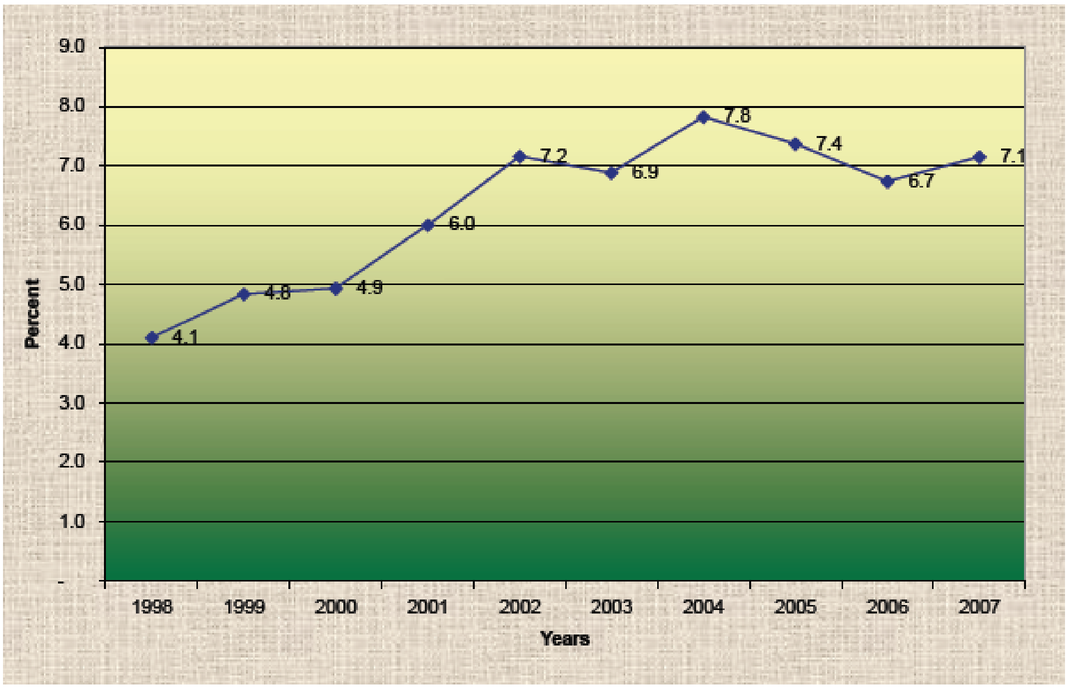
Tanzania

National facts		
Type of government	Republic	
Capital	Dar es Salaam	
Surface area (thousand sq km)	947	
Population (millions)	43.7	
Main languages	Swahili	
	English	
Main religions	Muslim (35%)	
	Indigenous (35%)	
	Christian (30%)	
Head of State (president)	Jakaya Kikwete	
Head of Government (prime-minister)	Mizengo Pinda	
Monetary unit	Tanzanian shilling (TZS)	
Economy		**2010**
Economic size	*bn USD*	*% world total*
Nominal GDP	24	0.04
Nominal GDP at PPP	62	0.08
Export value of goods and services	6	0.03
IMF quotum (in mln SDR)	199	0.09
Economic structure	*2010*	*5-year av.*
Real GDP growth	6.7	6.9
Agriculture (% of GDP)	28	39
Industry (% of GDP)	24	19
Services (% of GDP)	48	41
Standards of living	*USD*	*% world av.*
Nominal GDP per head	523	5
Nominal GDP per head at PPP	1374	12
Real GDP per head	437	5

Social and governance indicators			rank / total
Human Development Index (rank)			148 / 169
Ease of doing business (rank)			128 / 183
Economic freedom index (rank)			108 / 179
Corruption perceptions index (rank)			116 / 178
Press freedom index (rank)			41 / 178
Gini index (income distribution)			34.6
Population below $1 per day (PPP)			47%
Foreign trade			**2010**
Main export partners (%)		*Main import partners (%)*	
India	12	China	15
China	9	India	15
Japan	7	South Africa	8
The Netherlands	6	Kenya	7
Main export products (%)			
Capital goods			75
Consumption goods			25
Main import products (%)			
Capital goods			43
Fuel			27
Transport equipment			15
Consumption goods			15
Openness of the economy			
Export value of G&S (% of GDP)			25
Import value of G&S (% of GDP)			36
Inward FDI (% of GDP)			2.8

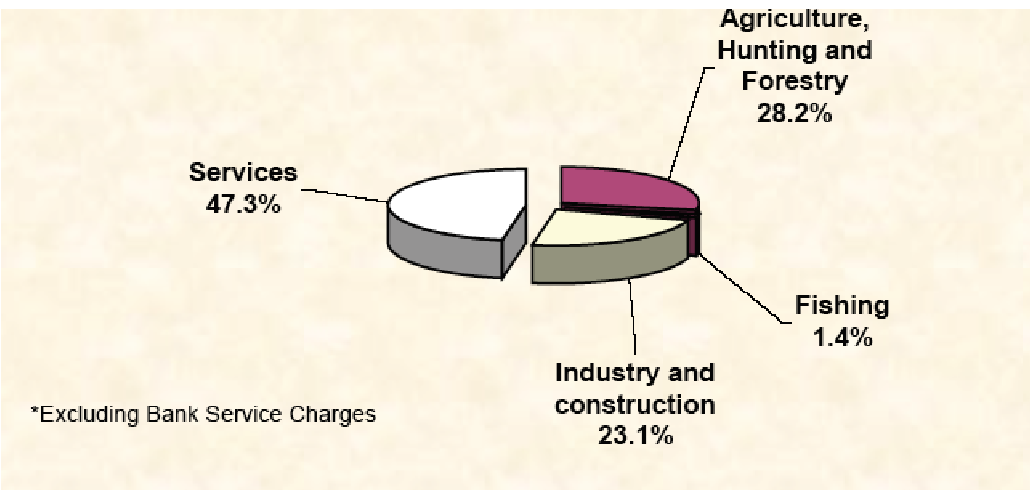
Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Figure 5: Real GDP growth at constant Prices



Source: Ministry of Finance and Economic Affairs, Tanzania (2008)

Figure 6: Shares of GDP by Sector (2007) – Current prices



Source: Ministry of Finance and Economic Affairs, Tanzania (2008)

Figure 7: GDP by Economic sub-activities – Current prices

GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY

Table No.1 — At current prices — Shs.million

ECONOMIC ACTIVITY	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Change 2006/2007
Agriculture, Hunting and Forestry	**1903867**	**2180577**	**2407300**	**2636193**	**2988383**	**3479646**	**4116444**	**4410478**	**4708556**	**5413257**	15.0%
Crops	1440539	1632039	1772952	1945945	2236209	2641586	3122896	3272143	3452690	3983327	15.4%
Livestock	278532	344538	415348	459448	502800	563136	669021	791823	867772	990996	14.2%
Hunting and Forestry	184796	204000	219000	230800	249374	274924	324527	346512	388094	438934	13.1%
Fishing	**123910**	**138044**	**145297**	**153660**	**172989**	**187693**	**207025**	**225658**	**241454**	**277189**	14.8%
Industry and construction	**1163369**	**1323326**	**1462277**	**1638459**	**2051559**	**2538485**	**2899263**	**3316757**	**3723978**	**4431057**	19.0%
Mining and quarrying	90090	98531	119175	159979	220000	288200	357368	457431	576363	742932	28.9%
Manufacturing	611112	657919	715649	762400	866228	1002827	1129558	1269145	1395282	1625504	16.5%
Electricity, gas	112564	135834	170220	196860	209640	227081	244977	271925	276915	335898	21.3%
Water supply	23080	30042	37233	43840	48666	53925	61474	68605	75809	84982	12.1%
Construction	326523	401000	420000	475380	707025	966452	1105886	1249651	1399609	1641741	17.3%
Services	**2767188**	**3241264**	**3693800**	**4139962**	**4617402**	**5174913**	**5870447**	**6786597**	**7773898**	**9076622**	16.8%
Trade and repairs	816928	944963	1046788	1182797	1298349	1454527	1593717	1752826	2044421	2416506	18.2%
Hotels and restaurants	176614	208825	225000	250978	269120	286883	319365	394417	459584	559722	21.8%
Transport	341863	402795	447314	487062	526710	577977	637720	706291	769830	886844	15.2%
Communications	70970	84362	97143	112783	130496	161623	206877	277216	374241	487132	30.2%
Financial intermediation	107920	117571	127297	140000	179715	204766	229370	265261	299734	345000	15.1%
Real estate and business services	597879	722946	868503	936440	1008089	1135252	1270108	1520109	1723571	1982107	15.0%
Public administration	418078	462814	540229	640649	754654	866917	1076215	1278881	1440913	1652556	14.7%
Education	117147	152000	169000	188733	211372	223409	236813	251022	268594	289617	7.8%
Health	60667	75921	97373	118972	151993	174789	200933	233032	275726	327658	18.8%
Other social and personal services	59122	69067	75153	81548	86904	88770	99329	107542	117284	129482	10.4%
Gross value added before adjustments	5958334	6883211	7708674	8568274	9830333	11380737	13093179	14739490	16447886	19198125	16.7%
less FISIM	-94605	-89257	-85035	-80000	-90400	-105382	-120588	-141723	-169661	-208281	22.8%
Gross value added at current basic prices	5863729	6793954	7623639	8488274	9739933	11275355	12972591	14597767	16278225	18989844	16.7%
add Taxes on products	420243	428606	529151	612000	704574	831707	999001	1367527	1663043	1958559	17.8%
GDP (At current market prices)	**6283972**	**7222560**	**8152790**	**9100274**	**10444507**	**12107062**	**13971592**	**15965294**	**17941268**	**20948403**	16.8%

Source : National Bureau of Statistic

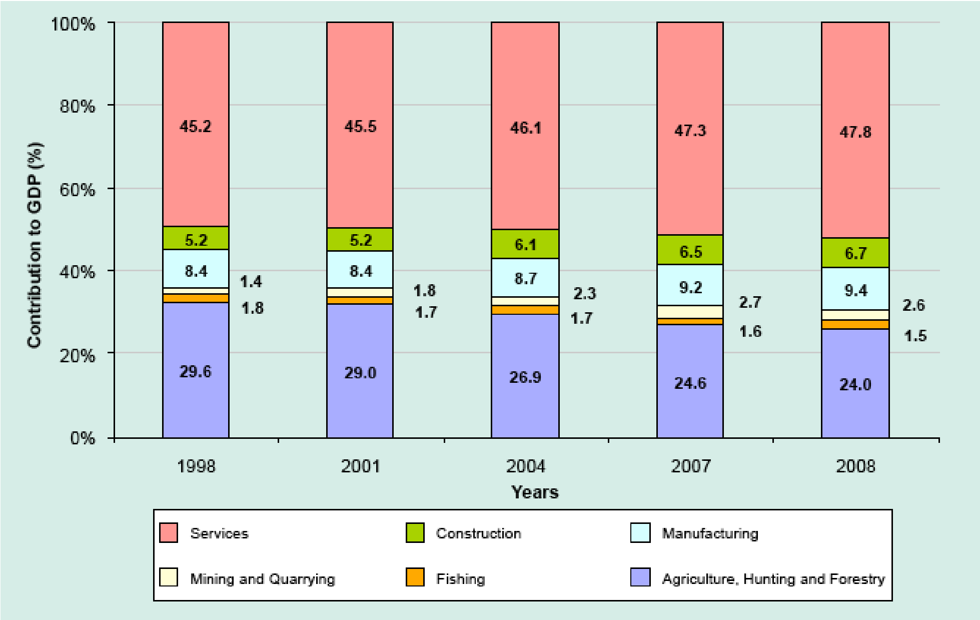
Source: National Bureau of Statistics (2008)

Figure 8: Tanzania, selection of economic indicators

Selection of economic indicators	2006	2007	2008	2009	2010	2011e	2012f
Key country risk indicators							
GDP (% real change pa)	6.7	7.1	7.4	6.0	6.7	7.1	7.5
Consumer prices (average % change pa)	6.2	7.0	10.3	12.1	7.2	6.4	6.0
Current account balance (% of GDP)	-7.7	-10.8	-13.0	-8.5	-8.8	-8.3	-8.7
Total foreign exchange reserves (mln USD)	2244	2870	2848	3206	3687	4240	4660
Economic growth							
GDP (% real change pa)	6.7	7.1	7.4	6.0	6.7	7.1	7.5
Gross fixed investment (% real change pa)	16.0	14.5	7.8	10.0	6.0	6.5	7.0
Private consumption (% real change pa)	8.1	6.0	4.8	3.5	5.5	6.5	7.0
Government consumption (% real change pa)	8.2	9.5	13.2	5.1	8.5	7.2	7.5
Exports of G&S (% real change pa)	-3.3	16.8	19.6	5.1	6.5	8.0	8.5
Imports of G&S (% real change pa)	10.3	16.3	12.3	2.6	4.5	6.0	6.6
Economic policy							
Budget balance (% of GDP)	-6.0	-5.5	0.0	-4.8	-6.4	-6.6	-6.0
Public debt (% of GDP)	27	26	27	31	33	34	34
Money market interest rate (%)	11.6	13.4	8.1	7.1	3.2	3.4	4.0
M2 growth (% change pa)	21	21	20	18	21	15	16
Consumer prices (average % change pa)	6.2	7.0	10.3	12.1	7.2	6.4	6.0
Exchange rate LCU to USD (average)	1251.9	1245.0	1196.3	1320.3	1411.7	1481.2	1505.4
Recorded unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Balance of payments (mln USD)							
Current account balance	-1102	-1820	-2702	-1816	-2073	-2120	-2500
Trade balance	-1947	-2634	-3434	-2470	-2776	-2870	-3320
Export value of goods	1918	2227	3579	3365	3954	4470	4540
Import value of goods	3864	4861	7012	5834	6730	7340	7860
Services balance	279	462	350	146	190	270	370
Income balance	-23	-300	-228	-175	-189	-240	-280
Transfer balance	589	652	609	683	702	720	730
Net direct investment flows	403	582	400	415	650	780	800
Net portfolio investment flows	3	3	3	3	2	0	0
Net debt flows	467	685	783	876	935	850	830
Other capital flows (negative is flight)	440	1177	1493	881	967	1050	1280
Change in international reserves	210	626	-23	358	481	550	420
External position (mln USD)							
Total foreign debt	4028	4974	5938	6841	7563	8240	9060
Short-term debt	989	1040	1322	1050	1116	1110	1100
Total debt service due, incl. short-term debt	2402	2077	2344	2785	2572	2650	2590
Total foreign exchange reserves	2244	2870	2848	3206	3687	4240	4660
International investment position	-6049	-8202	-9174	-10601	n.a.	n.a.	n.a.
Total assets	4232	3967	3854	4805	n.a.	n.a.	n.a.
Total liabilities	10280	12169	13028	15406	n.a.	n.a.	n.a.
Key ratios for balance of payments, external solvency and external liquidity							
Trade balance (% of GDP)	-13.6	-15.7	-16.5	-11.6	-11.8	-11.2	-11.6
Current account balance (% of GDP)	-7.7	-10.8	-13.0	-8.5	-8.8	-8.3	-8.7
Inward FDI (% of GDP)	2.8	3.5	1.9	1.9	2.8	3.0	2.8
Foreign debt (% of GDP)	28	30	29	32	32	32	32
Foreign debt (% of XGSIT)	96	101	93	112	110	109	116
International investment position (% of GDP)	-42.2	-48.7	-44.2	-49.6	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	57	42	37	45	37	35	33
Interest service ratio incl. arrears (% of XGSIT)	16	13	12	14	13	12	11
FX-reserves import cover (months)	5.3	5.5	3.9	5.1	5.2	5.5	5.7
FX-reserves debt service cover (%)	93	138	121	115	143	160	180
Liquidity ratio	104	103	91	102	107	110	110

Source: EIU

Figure 9: Sectoral contribution to GDP (2001 - Constant prices)



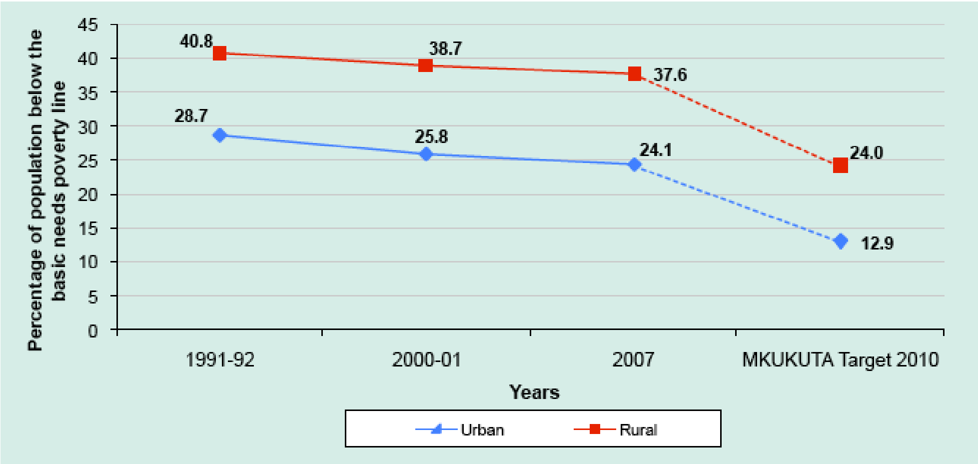
Source: Economic Survey 2008

Table 1: Incidence of Poverty in Tanzania

Poverty Line	Year	Dar es Salaam	Other Urban Areas	Rural Areas	Mainland Tanzania
Food	1991/92	13.6	15.0	23.1	21.6
	2000/01	7.5	13.2	20.4	18.7
	2007	7.4	12.9	18.4	16.6
Basic Needs	1991/92	28.1	28.7	40.8	38.6
	2000/01	17.6	25.8	38.7	35.7
	2007	16.4	24.1	37.6	33.6

Source: Household Budget Survey 2007 (NBS, 2009). Basic needs refers to absolute poverty (below than $ 1 a day.

Figure 10: Trends and Targets of Income Poverty Reduction, Urban-Rural, 1991-92 to 2010



Note: Urban areas excludes Dar es Salaam

Source: HBS 1991/92; HBS 2000/01; HBS 2007; Vice President's Office 2005

Table 2: Gini coefficients

	Dar es Salaam	Other urban areas	Rural areas	Mainland Tanzania
1991/92	0.30	0.35	0.33	0.34
2000/01	0.36	0.36	0.33	0.35
2007	0.34	0.35	0.33	0.35

Source: HBS 1991/92; HBS 2000/01; HBS 2007

Table 3: GDP and Expenditure (At constant 2001 prices, TShs millions)

Economic Activity	2000		2007	
	Expenditure	GDP Share (%)	Expenditure	GDP Share (%)
Household consumption	6,615,765	77	10,021,704	73
Government consumption	1,014,494	12	2,495,962	18
Investment	1,421,461	16	3,358,305	24
Net exports	-466,381	-5	-2,074,049	-15
GDP at market prices	**8,585,339**	**100**	**13,801,921**	**100**

Source: Economic Survey 2007 (MoFEA, 2008a) and Economic Survey 2008

Figure 11: Tanzania MDGs Assessment

TANZANIA MID-WAY ASSESSMENT AT A GLANCE

Mainland

MDG	1990	2000	2008		2015	Glance
			Actual	Expected**		
Proportion of population below basic needs poverty line	39	36	33.64	25.0	19.5	
Under-5 Underweight (%)	28.8	29.5	22	18.4	14.4	
Under-5 Stunted (%)	46.6	44.4 (1999)	38	29.8	23.3	
Primary school net enrollment rate	54.2	58.7	97.2	87.2	100	
Under-five mortality rate (per 1,000 live births)	191	153	112	99.6	64	
Infant mortality rate (per 1,000 live births)	115	99	68	59.6	38	
Maternal Mortality Rate (per 100,000 live births)	529	-	578	244	133	
Births attended by skilled health personnel (%)	43.9	35.8	63	77.1	90	
HIV prevalence, 15-24 years	6	-	2.5	<6	<6	
Access to potable water :% of rural population	51	42 (2002)	57.1	67.6	74	
Access to potable water :% of urban population	68	85 (2002)	83	79.5	84	

** = Computed as % passage time thus 2008 is equivalent to 18 years or 72% time that has elapsed

Source: MDG Progress Report 2000-2008

Table 4: MKUKUTA's Clusters and Priorities

MKUKUTA Cluster I: Growth of the Economy and Reduction in Income Poverty

a. Investment Climate
b. Financial Sector
c. Trade Competitiveness
d. Agriculture and rural economy
e. Fishing
f. Food Security
g. Manufacturing
h. Tourism
i. Mining
j. Transport
k. Energy
l. Forestry and Beekeeping
m. Wildlife/Hunting
n. Cross-cutting Growth Challenges

MKUKUTA Cluster II: Improvement of Quality of Life and Social Well-Being

a. Education
b. Health
c. HIV/AIDS
d. Environment
e. Water and Sanitation
f. Urbanization
g. Gender

MKUKUTA Cluster III: Governance and Accountability

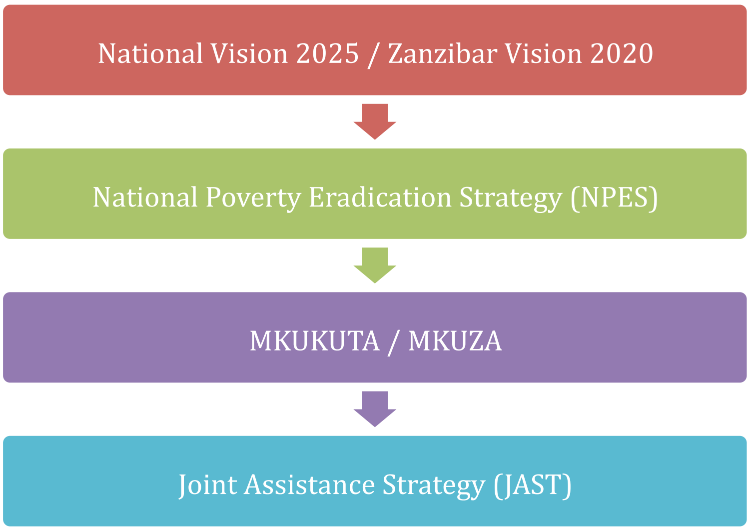
a. Government effectiveness
- Public Service Reform
- Local Government Reform
- Public Financial Management Reform
- Legal Reform

b. Corruption and Anti-Corruption
c. Public Accountability
- Parliament
- Civil Society Organizations
- Mass Media

d. Human Rights

Source: MKUKUTA, GoT, 2005

Figure 12: Tanzania National Development Framework



Source: own compilation

Figure 13: Net ODA flows to Tanzania between 2007 and 2009

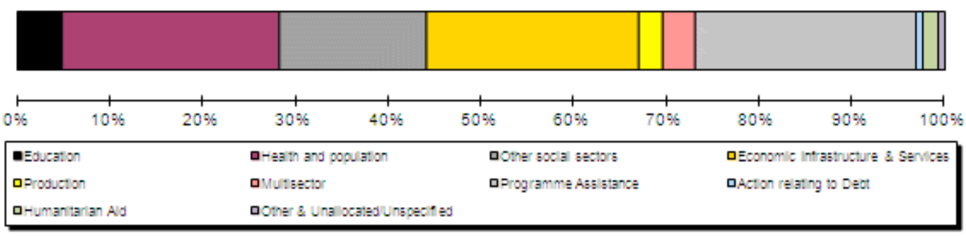
Tanzania

Receipts	2007	2008	2009
Net ODA (USD million)	2 820	2 331	2 936
Bilateral share (gross ODA)	65%	59%	48%
Net ODA / GNI	16.8%	11.3%	13.6%
Net Private flows (USD million)	- 444	122	190

For reference	2007	2008	2009
Population (million)	41.3	42.5	43.7
GNI per capita (Atlas USD)	410	460	500

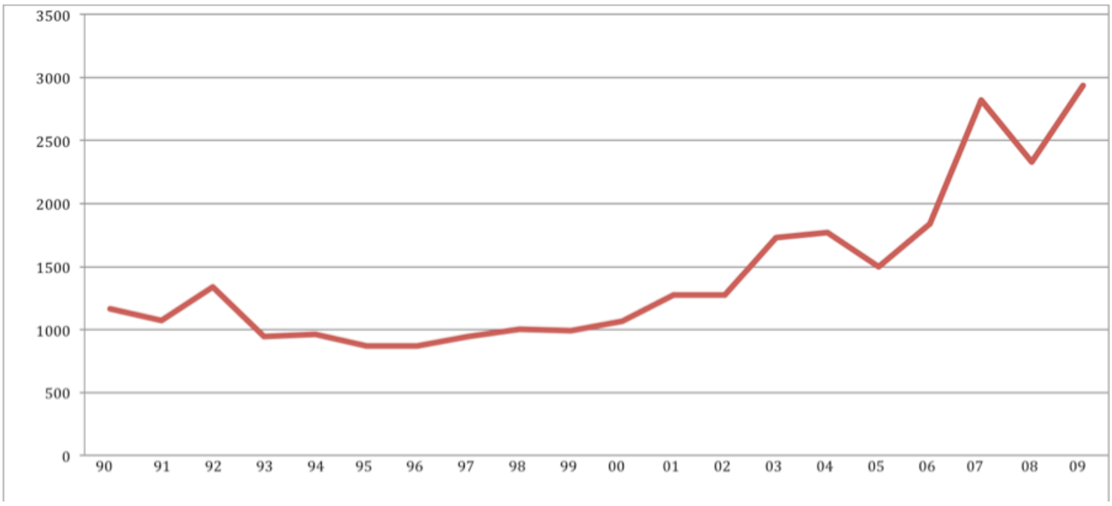
Top Ten Donors of gross ODA (2008-09 average)		(USD m)
1	IDA	525
2	United States	265
3	United Kingdom	236
4	AfDF	169
5	EU Institutions	162
6	IMF (SAF,ESAF,PRGF)	153
7	Global Fund	139
8	Norway	122
9	Denmark	113
10	Sweden	111

Bilateral ODA by Sector (2008-09)



Sources: OECD, World Bank.

Figure 14: Overall Net ODA Disbursements to Tanzania, 1990-2009 (USD Million)



Source: OECD DAC Online Database

Table 5: Top Sub-Saharan African net ODA Recipients

Top Sub-Saharan African net ODA Recipients (USD Million)

	Recipient	1990		1995		2000		2005		2009
1	Kenya	1181.29	Zambia	2030.67	**Tanzania**	1062.78	Ethiopia	1927.47	Ethiopia	3819.97
2	**Tanzania**	1163.15	Cote d'Ivoire	1211.84	Mozambique	906.17	Congo, DR	1881.45	**Tanzania**	2934.22
3	Ethiopia	1009.15	Mozambique	1062.39	Uganda	853	Sudan	1823.22	Cote d'Ivoire	2369.02
4	Mozambique	997.31	Ethiopia	876.48	Zambia	794.65	**Tanzania**	1498.71	Congo, DR	2353.56
5	Congo, DR	895.79	**Tanzania**	869.14	Ethiopia	686.06	Mozambique	1296.96	Sudan	2288.89
6	Sudan	813.13	Uganda	832.87	Ghana	597.54	Uganda	1191.91	Mozambique	2013.27
7	Cote d'Ivoire	686.4	Kenya	731.36	Kenya	509.21	Zambia	1172.05	Uganda	1785.88
8	Uganda	663.1	Ghana	648.39	Cote d'Ivoire	350.54	Ghana	1149.04	Kenya	1778.39
9	Ghana	559.72	Sudan	237.02	Sudan	220.39	Kenya	752.33	Ghana	1582.78
10	Zambia	474.81	Congo, DR	194.75	Congo, DR	177.12	Cote d'Ivoire	91.21	Zambia	1268.69

Source: OECD DAC Online Database

Table 6: Total Overseas Development Assistance by Aid Modality for FY 2002/03-2007/08 (USD)

Type of Modality	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
GBS	279,04	458,61	393,01	501,28	698,83
Basket Funds	168,44	80,96	320,88	253,51	136,76
Project Funds	385,86	269,06	604,6	421,79	526,87
Total Disbursements	833,34	808,62	1.318,49	1.176,58	1.362,46

Source: Ministry of Finance, Tanzania (2008)

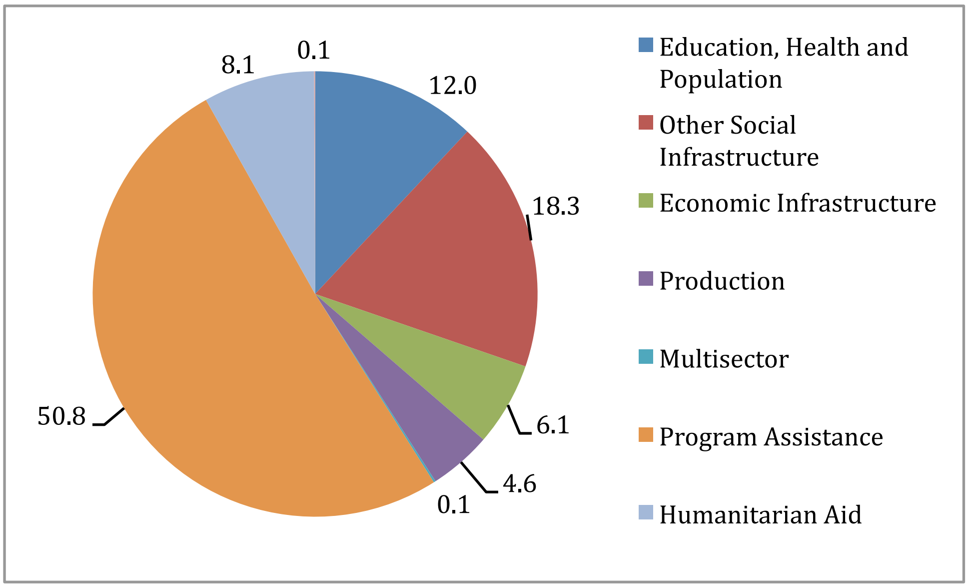
Table 7: The NIP undet the 10th EDF Financial Envelope

The Indicative 10th EDF Financial Envelope for Tanzania

Sector/area	€million	% of total	Financial instruments
Total	**555**		
Infrastructure, Communications, Transport	**139**	**25**	**Sector Budget Support**
Trade and Regional Integration (NSA component)	**55.5**	**10**	**Project approach**
Macroeconomic	**305**	**55**	**General Budget Support**
Other programmes of which:	**55.5**	**10**	**Project approach**
Support for NSAs	23		
Support to the NAO	5		
Support to elections 2010	3		
Technical Coop.Facility	5		
Core reform programmes (including Zanzibar)	8		
Energy and climate research	8		
Contingencies/ claims	3.5		

Source: The EC Specific Strategy and National Indicative Programme 2008-2013

Figure 15: EC Sectoral Allocation of net ODA to Tanzania, 2009 (USD Million)



Source: OECD DAC, Online Database (2011)

TABLE 8: EC ODA to Tanzania by sector	Disbursements gross (current USD millions)	2006	2007	2008	2009
TOTAL		195.1	193.9	184.8	138.4
450: V. TOTAL SECTOR ALLOCABLE (I+II+III+IV)		94.4	144.5	117.1	56.8
100: I. SOCIAL INFRASTRUCTURE & SERVICES		18.6	73.4	73.1	41.9
110: I.1. Education		0.3	16.4	24.5	13.8
110: I.1. Education	111: I.1.a. Education, Level Unspecified	..	..	0.3	13.2
	112: I.1.b. Basic Education	0.3	16.4	19.2	0.6
	113: I.1.c. Secondary Education	..	..	..	..
	114: I.1.d. Post-Secondary Education	..	..	5.0	..
120: I.2. Health		1.2	4.0	2.4	1.2
120: I.2. Health	121: I.2.a. Health, General	..	1.6	..	..
	122: I.2.b. Basic Health	1.2	2.4	2.4	1.2
130: I.3. Population Pol./Progr. & Reproductive Health		1.6	4.6	1.0	1.6
140: I.4. Water Supply & Sanitation		11.4	26.9	19.6	22.2
150: I.5. Government & Civil Society		3.5	20.6	24.0	3.0
150: I.5. Government & Civil Society	151: I.5.a. Government & Civil Society-general	3.5	20.6	24.0	3.0
	152: I.5.b. Conflict, Peace & Security	..	..	..	..
160: I.6. Other Social Infrastructure & Services		0.6	0.8	1.7	0.1
200: II. ECONOMIC INFRASTRUCTURE AND SERVICES		64.7	46.0	27.5	8.4
210: II.1. Transport & Storage		64.4	45.6	26.6	8.4
220: II.2. Communications		..	..	..	..
230: II.3. Energy		0.3	0.4	0.9	..
240: II.4. Banking & Financial Services		..	..	..	..
250: II.5. Business & Other Services		..	..	..	..
300: III. PRODUCTION SECTORS		8.3	24.1	16.1	6.3
310: III.1. Agriculture, Forestry, Fishing		7.8	7.8	9.2	3.9
310: III.1. Agriculture, Forestry, Fishing	311: III.1.a. Agriculture	0.7	0.9	0.9	2.6
	312: III.1.b. Forestry	..	0.5	1.1	0.9
	313: III.1.c. Fishing	7.1	6.5	7.2	0.4
320: III.2. Industry, Mining, Construction		0.4	0.7	0.4	1.9
320: III.2. Industry, Mining, Construction	321: III.2.a. Industry	0.0	0.5	0.4	1.9
	322: III.2.b. Mineral Resources & Mining	0.3	0.2	0.0	..
	323: III.2.c. Construction	..	..	..	..
331: III.3.a. Trade Policies & Regulations		..	14.6	5.3	..
332: III.3.b. Tourism		0.1	0.9	1.2	0.5
400: IV. MULTISECTOR / CROSS-CUTTING		2.8	1.1	0.3	0.2
410: IV.1. General Environment Protection		1.7	1.1	0.1	0.0
430: IV.2. Other Multisector		1.2	..	0.2	0.2
500: VI. COMMODITY AID / GENERAL PROG. ASS.		62.4	19.1	49.3	70.3
510: VI.1. General Budget Support		62.4	19.1	49.3	62.7
520: VI.2. Dev. Food Aid/Food Security Ass.		..	..	..	7.7
530: VI.3. Other Commodity Ass.		..	..	..	..
600: VII. ACTION RELATING TO DEBT		..	..	..	..
700: VIII. HUMANITARIAN AID		16.2	23.3	18.5	11.2
720: VIII.1. Emergency Response		16.2	23.3	18.5	11.2
998: XII. UNALLOCATED/UNSPECIFIED		22.0	6.9	0.0	0.0

Source: OECD DAC Online Database, 2011

Table 9: Intervention Framework for the 10th EDF Tanzanian NIP

4.6.1 Macroeconomic support

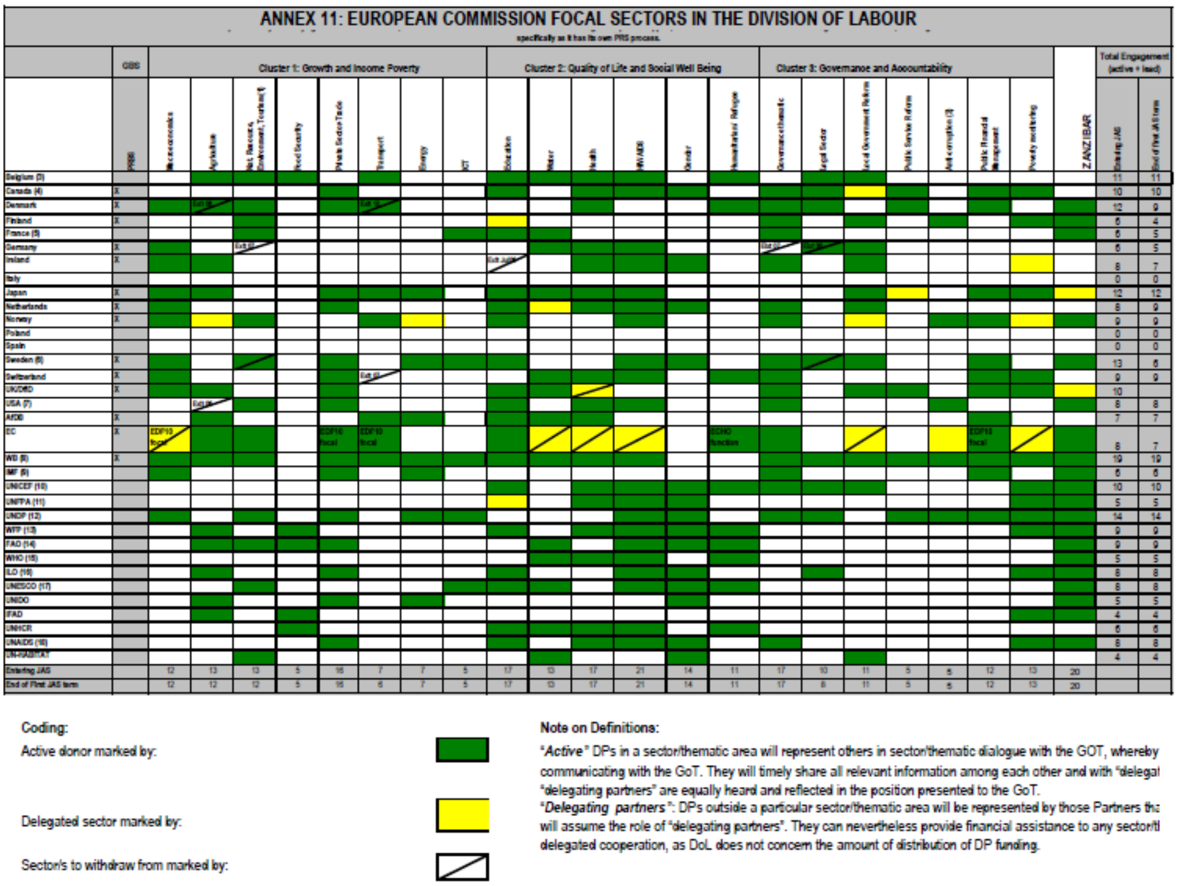
	Intervention Logic	**Objectively Verifiable Indicators** (all target are set for 2010)	**Sources of Verification**	**Assumptions**
Overall Objective	• Achieve and sustain broad based and equitable growth	• Real GDP growth rate of 6 – 8 percent • Gini co-efficient of income distribution: To Be Determined • Head count ratio: rural 24%; urban 12.9%	MKUKUTA Annual Implementation Report Household census ??	**No major droughts, armed conflicts, or civil unrest**
Programme Purpose	• Enabling macro-economic environment for sustained economic growth	• Inflation: below 4 percent • Central government revenue as percentage of GDP: TBD • Fiscal deficit as percentage of GDP: 3% (after grants) • External debt to export ratio: 11:1	MKUKUTA Annual Implementation Report	
Results	• Macro-economic stability enhanced • Share of Public funds for pro-poor sectors increased • Quality of delivery improved for pro-poor services • Improved Public Finance Management	• Key targets for social sectors and macro economics as set in MKUKUTA for 2010 achieved • Budget execution in line with MKUKUTA priorities • Quality of planning and budgeting process improved • Improved scores on the Public Expenditure and Financial Accountability Assessment	MKUKUTA Annual Implementation Report PEFAR report PEFA scores	

Source: EC National Indicative Program, 2008-2013

Table 10: Fieldwork interviews held in Brussels with EC Experts (May-June 2009)		
Name	**Position**	**Organization**
Ms. Linda Hales	TZA Desk Manager	DG Development
Mr. Antonio López	Head of Cooperation to TZA (2004-06)	EC Delegation
Ms. Eva Johansson	TZA Desk Manager	Europeaid
Mr. Douglas Carpenter	Head of Economic and Trade in TZA Delegation 2004-08	EC Delegation
Mr. William Hanna	Head of Cooperation to Central Asia	EC Delegation
Mr. Carlos Illán	Advisor on Development	Development Committee of the European Parliament
Mr. Jordi Del Bas	External EC Trainer on Monitoring and Evaluation	EuropeAid

Table 11: Fieldwork interviews held in Tanzania with the Donors and GoT (November 2009)		
Name	**Position**	**Organization**
Mr. Enrico Strampelli	Head of Cooperation	EC Delegation
Mr. Marcos Sampablo	Trade Attaché	EC Delegation
Ms. Sherri Archondo	Senior Private Sector Specialist	World Bank Country Office
Mr. Ernest Salla	Assistant Resident Representative	United Nations Development Program
Mr. Mario de Zamaroczy	Coordinator of East Africa Regional Technical Assistance Center	International Monetary Fund Regional Representative Office
Ms. Carin Salerno	Head of Cooperation	Swiss Development Cooperation Country Office
Ms. Katharina Jenny	Deputy Head of Cooperation	Swiss Development Cooperation Country Office
Dr. Markus Schneider	Researcher	Swiss College of Agriculture / Swiss Development Cooperation Country Office
Mr. Victor P. Mwainyekule	Assistant Director	Division of Poverty Eradication and Economic Empowerment, Ministry of Finance and Economic Affairs of Tanzania

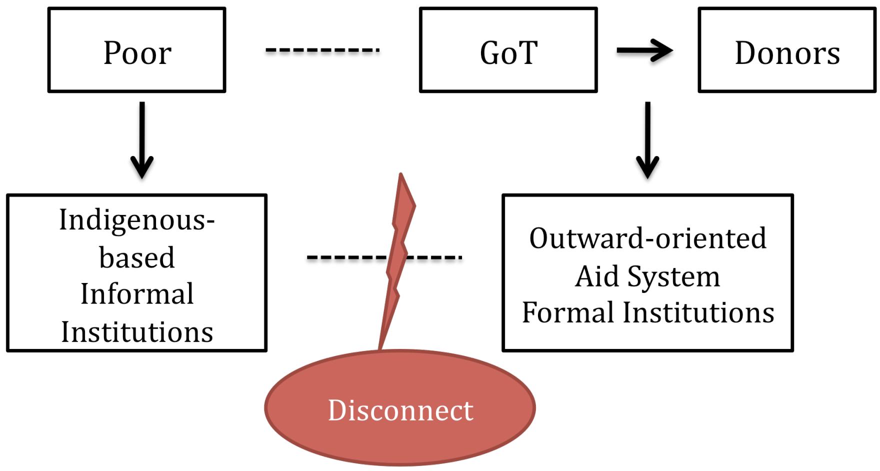
Figure 16: Divison of Labour - Tanzanian donors and the EC focal sectors (2009)



Source: EC NIP 2008-2013

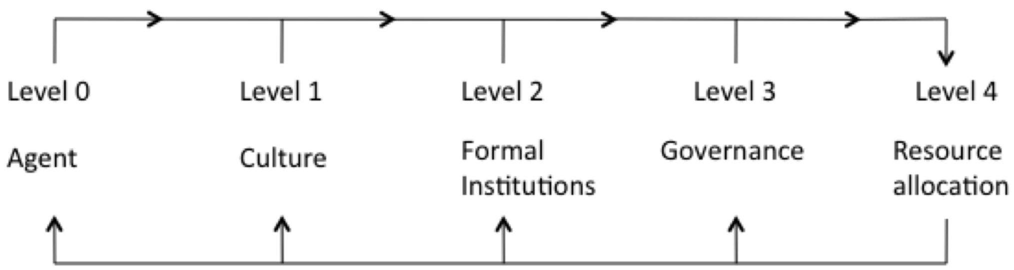
ANNEX 4

Figure 1: the Disconnect between Formal and Informal Institutions



Source: Own

Figure 2: Culture as Preferences: Theoretical Framework



L0: Evolutionary mechanisms of the state of mind of the individual

L1: Embeddedness: Informal institutions, customs, traditions, norms, religions

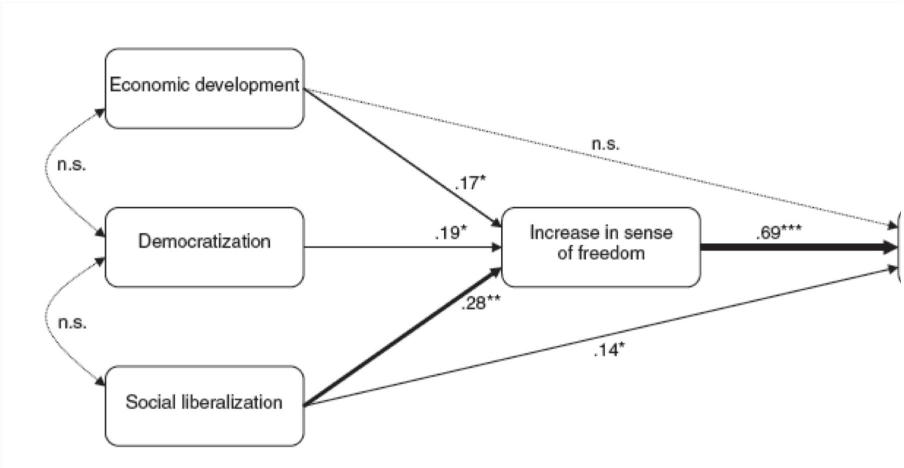
L2: Institutional environment: formal rules of the game – especially property (polity, judiciary, bureaucracy)

L3: Governance: play of the game – especially contract (aligning governance structures with transactions

L4: Resource allocation and employment (prices and quantities; incentive alignment

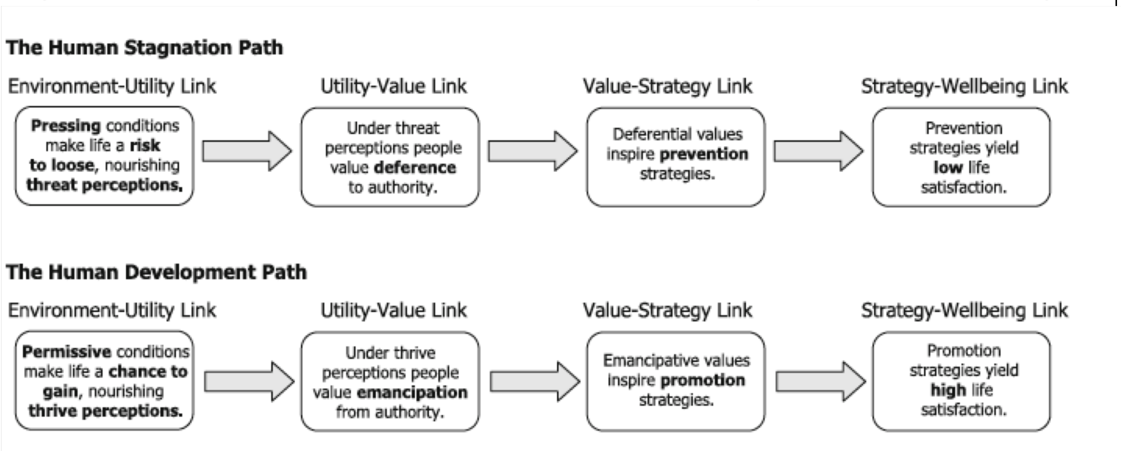
Source: Adapted from Williamson (2000) and De Jong (2009)

Figure 3: Socio-economic change, Growing Freedom and Rising Happ the Human Development Path



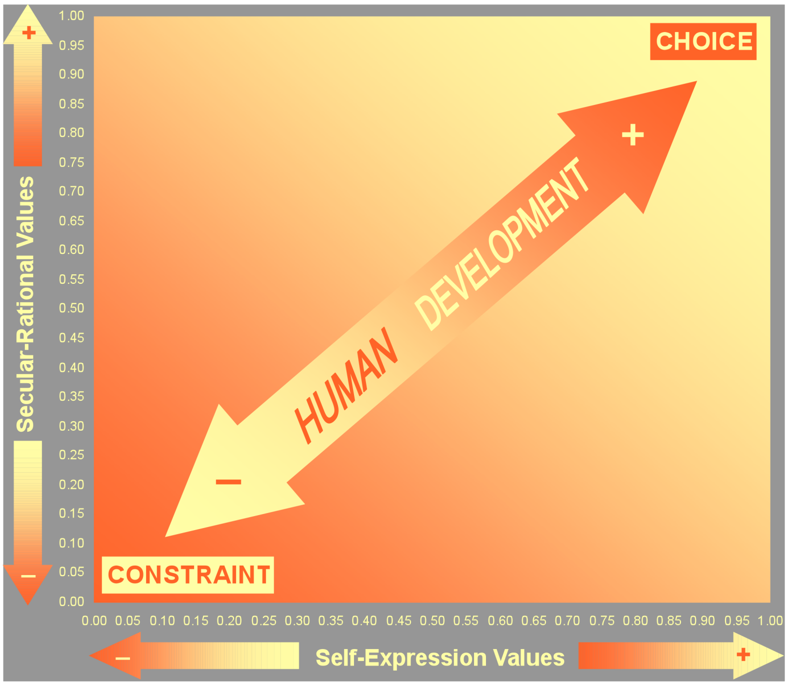
Source: Inglehart et al. (2008)

Figure 4: Vicious and virtuous versions of the evolutionary model of social change



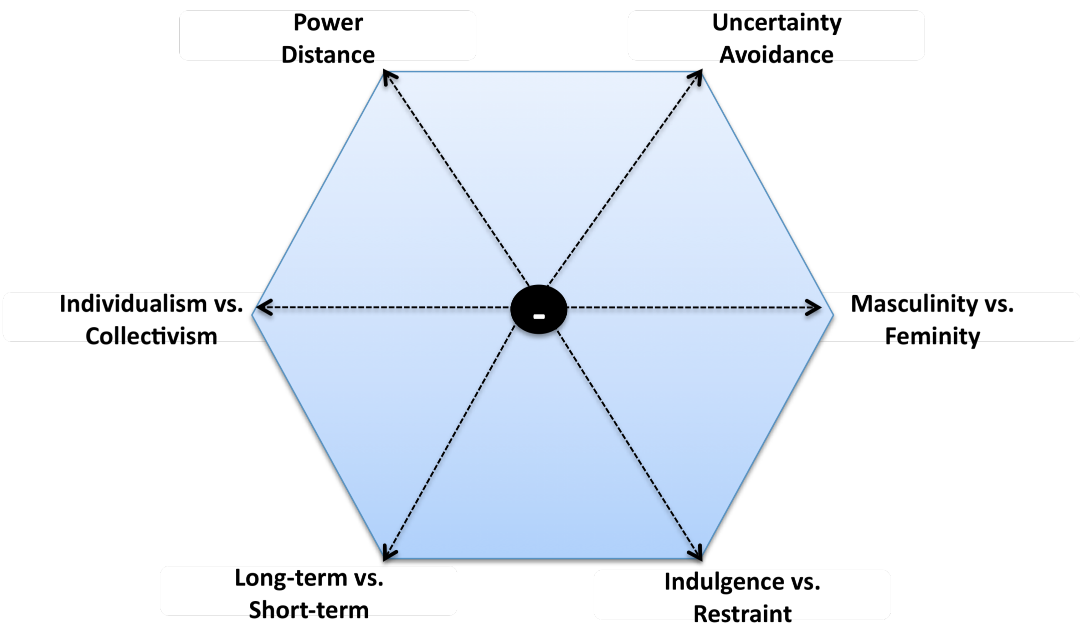
Source: Welzel and Inglehart (2010)

Figure 5: the two dimensions of Value-Space in Theory



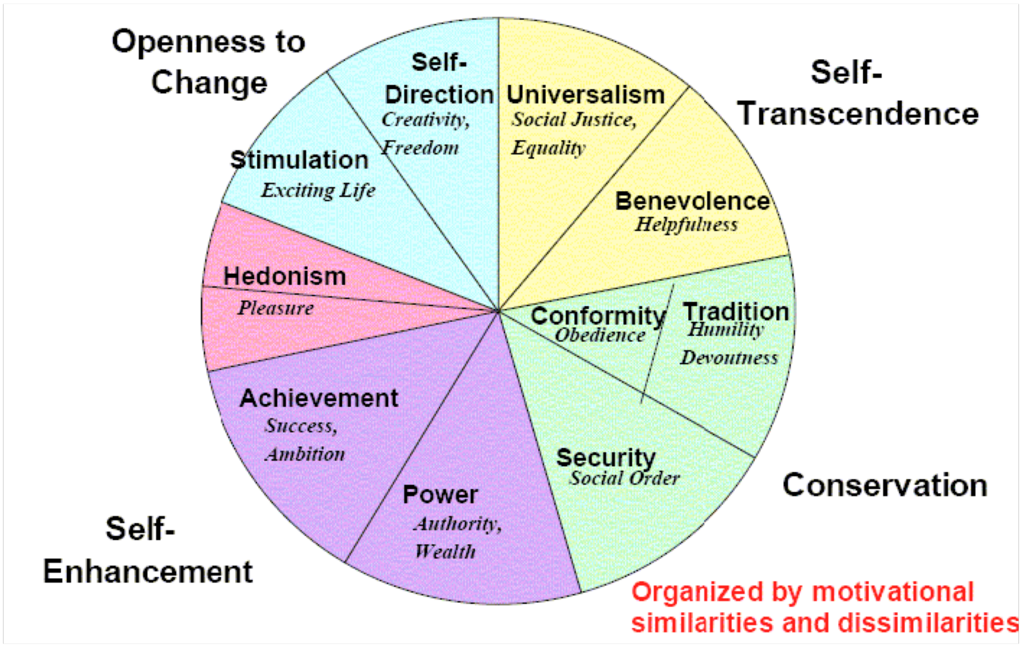
Source: Welzel (2006)

Figure 6: Hofstede's Cultural Dimensions



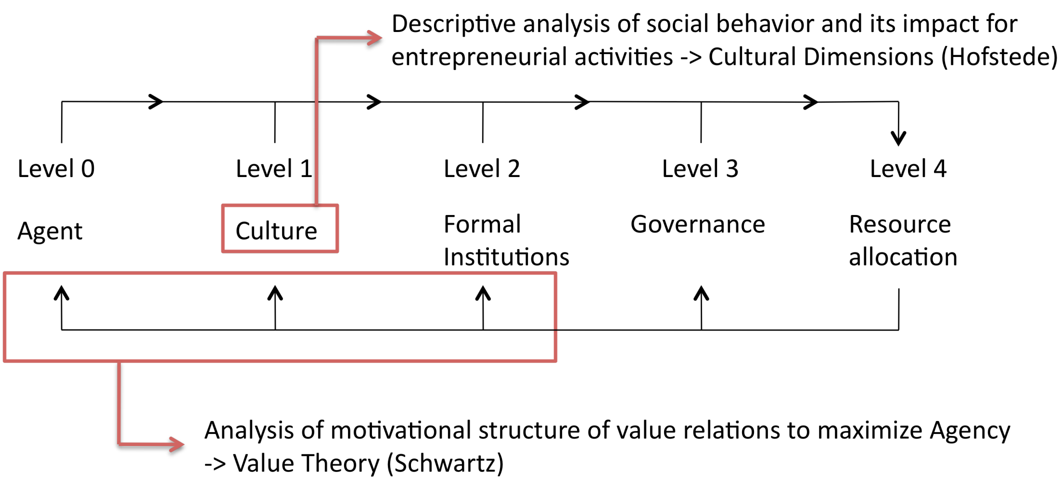
Source: Adapted from Hofstede (2001)

Figure 7: The Structure of Value Relations



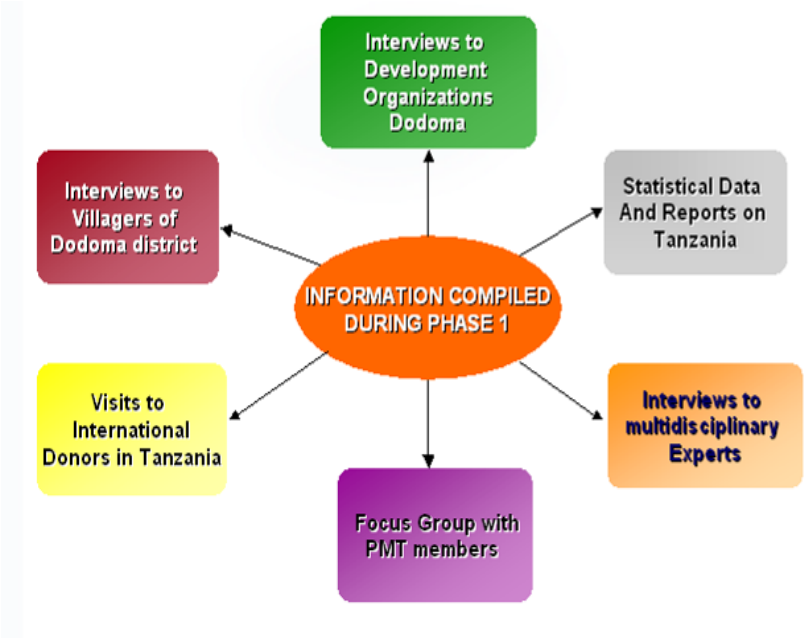
Source: Schwartz (1992, 2005)

Figure 8: Analytical Framework within Theoretical approach



Source: own

Figure 9: A summary of the sources of information on the methodological process in Tanzania

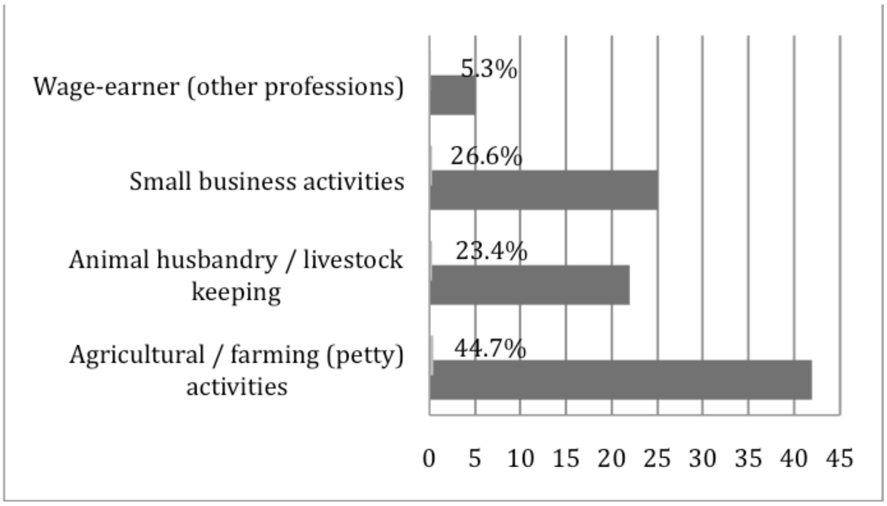


Source: own

Figure 10: Specific activities carried out during the fieldwork
1. Data compilation, dissemination and analysis of the economic, social and cultural situation.
2. Inter and intra institutional analysis, structure and functioning of public authorities.
3. Coordination and execution of Discussion and Focus Group with PMT (about socio-cultural value system)
4. Multidisciplinary local panel of experts identification: Sociologists, anthropologists, economists and political experts.
5. Design of the semi-structured questionnaires for fieldwork interviews with experts, villagers, and development organizations.
6. Fieldwork: In-depth interviews execution with experts, villagers, and development organizations.
7. Local literature compilation and review (statistical data and reports).
8. Preliminary networking contacts: concept validation and partnership involvement.
9. Public presentation and seminar with the objectives and main findings of the research.
10. Workshop: discussion and design of training modules titled ”Entrepreneurship for local development”.
11. Pilot test 1: training of local trainers of the University of Dodoma on ”Entrepreneurship for local development”.
12. Pilot test 2: training of local entrepreneurs at the villages level on ”Entrepreneurship for local development”.

Source: own

Figure 11: Source of income in Dodoma



Source: fieldwork research

Table 1: Major Crops and petty activities in Dodoma

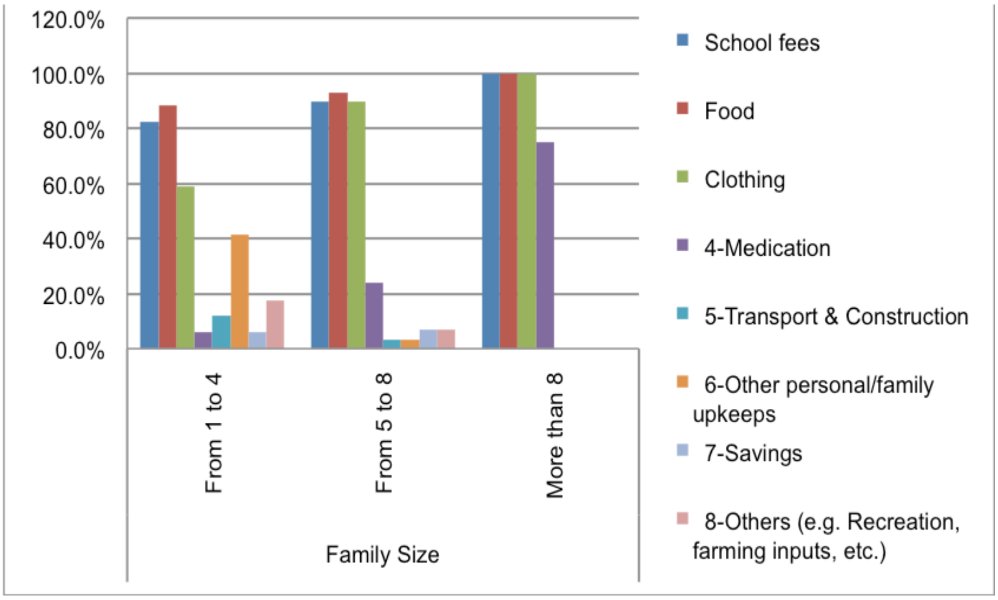
Agricultural/farming (petty) activities	Responses	
	N	Percent
Maize	21	39.6%
Sunflower	14	26.4%
Sorghum	7	13.2%
Groundnuts	4	7.5%
Salt	3	5.7%
Sesame seeds	1	1.9%
Others	3	5.7%
Total	53	100.0%

NB: Tabulated at value 1.

Source: fieldwork research

Table 2: Main Constraints to development	
Threats to development	Percentage
Drought/Shortage of rainfall	50.0%
Lack (access to) of capital/low circulation of money	18.2%
Lack of agricultural/farming implements, inputs (seeds, pests) and technologies	9.1%
Animal diseases	9.1%
Availability of reliable and fair markets	3.4%
Others (e.g. Thieves, stubborn clients, etc.)	10.2%
Total	**100.0%**

Figure 12: Household Expenditure in Dodoma

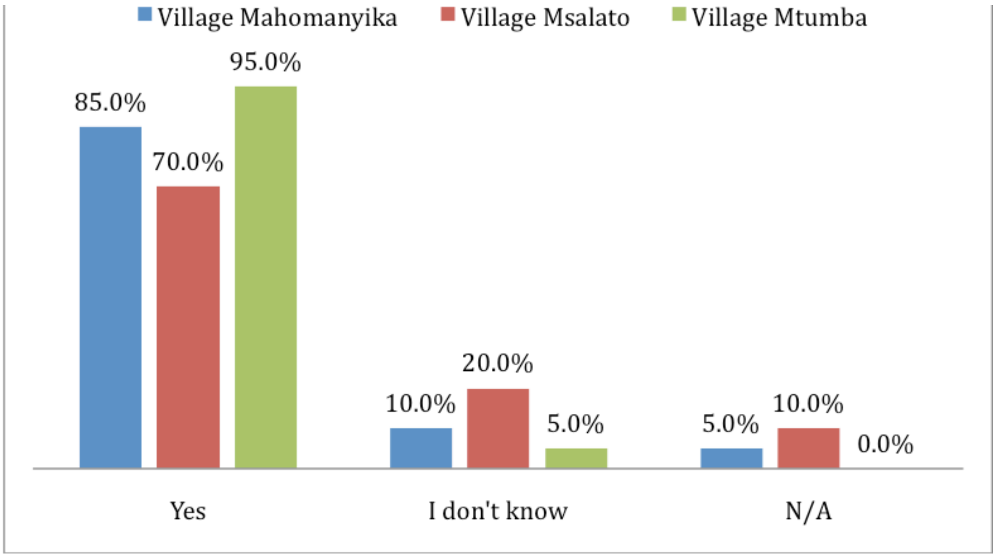


Source: fieldwork research

Table 3: Nature of Informal Social Groups	
Nature of the Groups available	**Percent**
Women groups concerning economic and lending activities	20.3%
Groups of economic and lending activities, no specification of gender	36.2%
Women groups of Self-Help	20.3%
Environmental protection and conservation	18.8%
Social services (health, community, etc.)	4.3%

Source: fieldwork research

Figure 13: Availability of socio-economic groupings



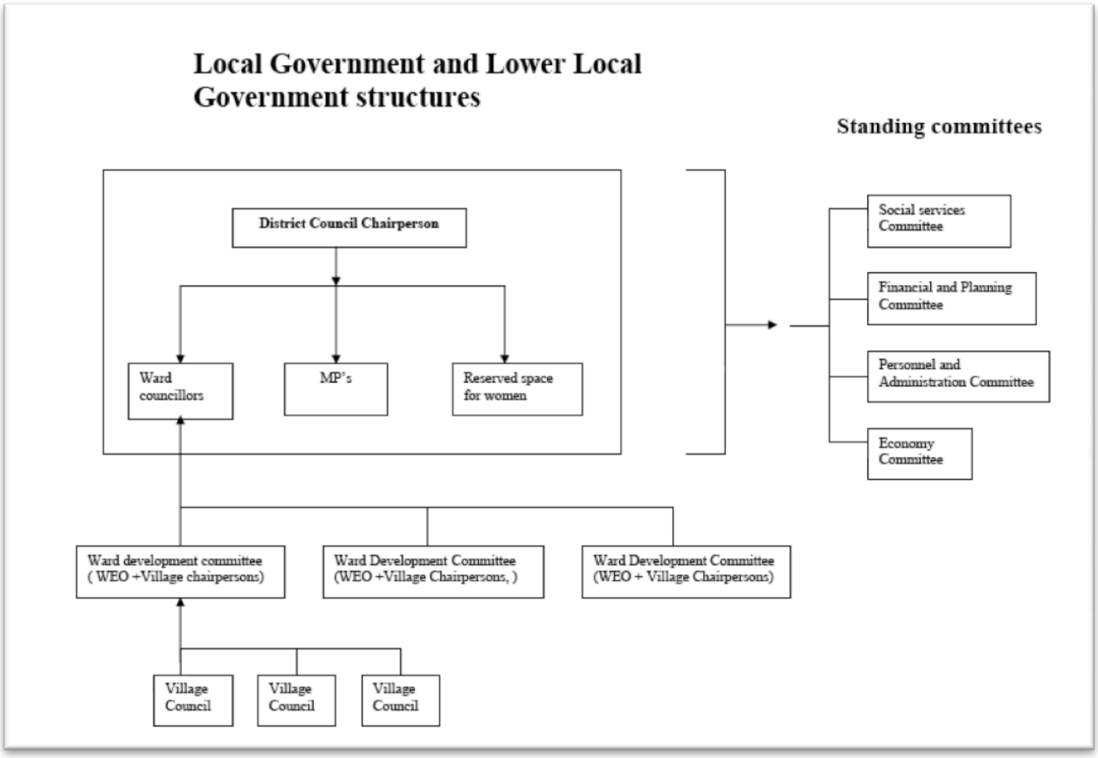
Source: fieldwork research

Table 4: Values – Factors relationship

	Factors	Values
Human Capital	• Education & Training • People's will • Learning effects	• Friendliness • Cooperation • Openness • Optimism
Social Capital	• Youth • Women • Informal Social Groups	• Friendliness • Cooperation • Openness • National identity • Women's role • Youth • Traditional beliefs (V-)
Entrepreneurship	• Develop entrepreneurship capacity	• Women's role • Youth • Entrepreneurship • Cooperation • Historical Background (V-)
Stock Capital	• Access to credit • ICT	• Short term focus (incentive to motivation) • Openness
Natural Resources	• Arable land (land titling)	• Respect and status • Cooperation

Source: own

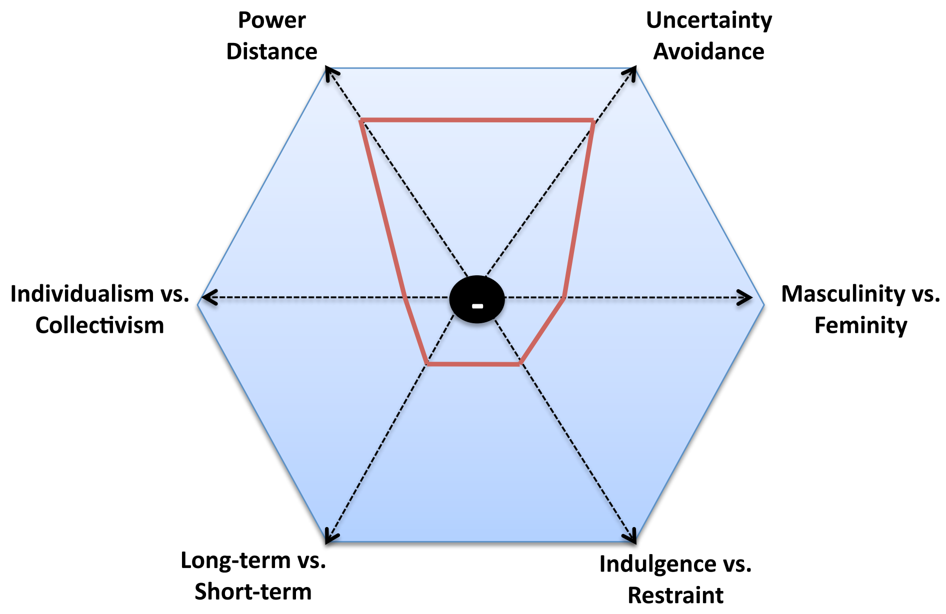
Figure 14: Local Government Authorities Structures



Source: SNV Tanzania, 2002

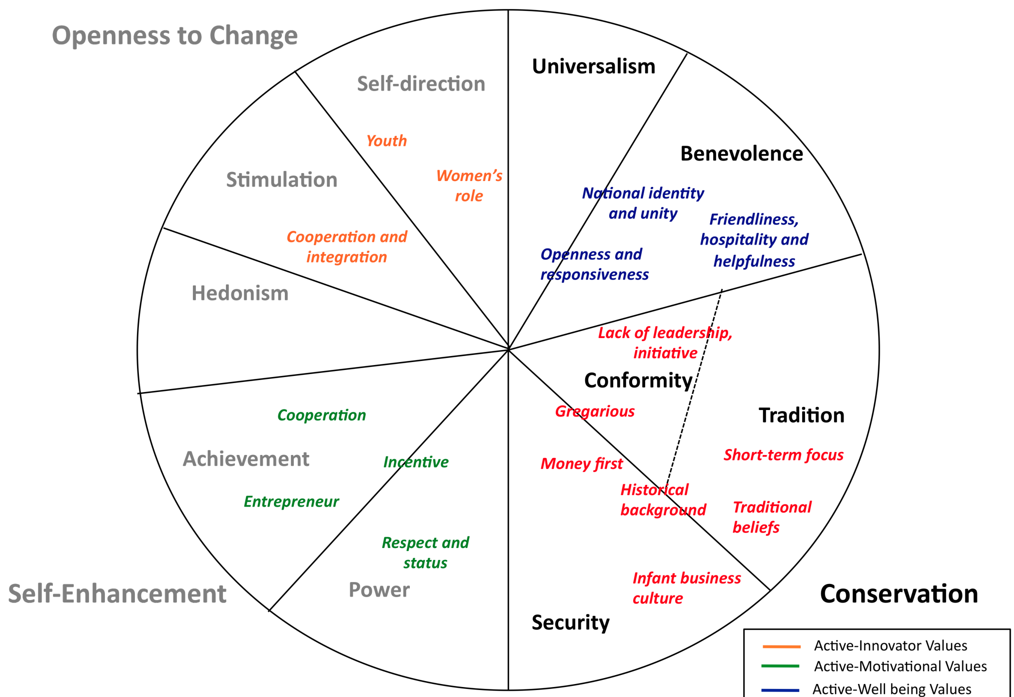
Table 5: Analysis of Formal Institutions for Development in Dodoma			
Stakeholders	**Interests and role**	**Capacity and motivation to bring about change**	**Possible actions to address their interests**
LGAs	Facilitating of procedures and permits. Contact and access to the locals.	Existing structure and role. Possibility to optimize efforts more effectively and efficiently.	Collaboration with other stakeholders that show the development leadership. Flexibilization of procedures.
NGOs/CBOs	Implementation of development projects. Coordination with other stakeholders.	Funding, human resources and local know how. Possibility to increase aid effectiveness.	Networking and cooperation with other stakeholders. Specialization and optimization of efforts.
SACCOS	Credit and savings service provider. Facilitation of networks and infrastructure to reach the locals.	Wide network reaching the villages and visibility. Possibility to expand the membership and increase the savings rate.	Injection of financial and human resources, organization modernization and collaboration with microfinance and training institutions.
TCCIA	Improve the business environment. Creating a pro-entrepreneur ecosystem	Contacts and networking. Links with the Central office. New business opportunities in a supportive environment.	Injection of financial and human resources, organization modernization and collaboration with other stakeholders.
CG	Supporting and funding the development initiatives with strong leadership and visibility.	Funding and facilitation of bureaucratic procedures and processes. Possibility to take a lead and become a referent in local development.	Orientations and design of policies prioritizing local development. Dissemination of impact information. Design of pro-local development strategies.
DPs	Funding and overseeing. Generation of impact information.	Funding and capacity to disseminate development projects with local impact. Enhancing international ties and expanding international cooperation.	Redefining the framework support of aid delivery methods. Policy implementation prioritizing endogenous development strategies and initiatives. Empowering CG and local institutions and organizations.
UDOM	Contributing to local and community development of Dodoma. Providing education, training, knowledge and research. Leadership and coordination among the government and private organizations.	Human resources, national and international networks, research capacity and local know how. Possibility to make a substantial contribution as an authentic leader and catalyst of development and innovation. Visibility.	Setting up formal procedures of cooperation to development. Internal training in development and leadership, enhancing ties with the local community, the LGAs and private organizations. Taking advantage of international cooperation.
Source: own			

Figure 15: Hofstede's Cultural Dimensions in Dodoma region



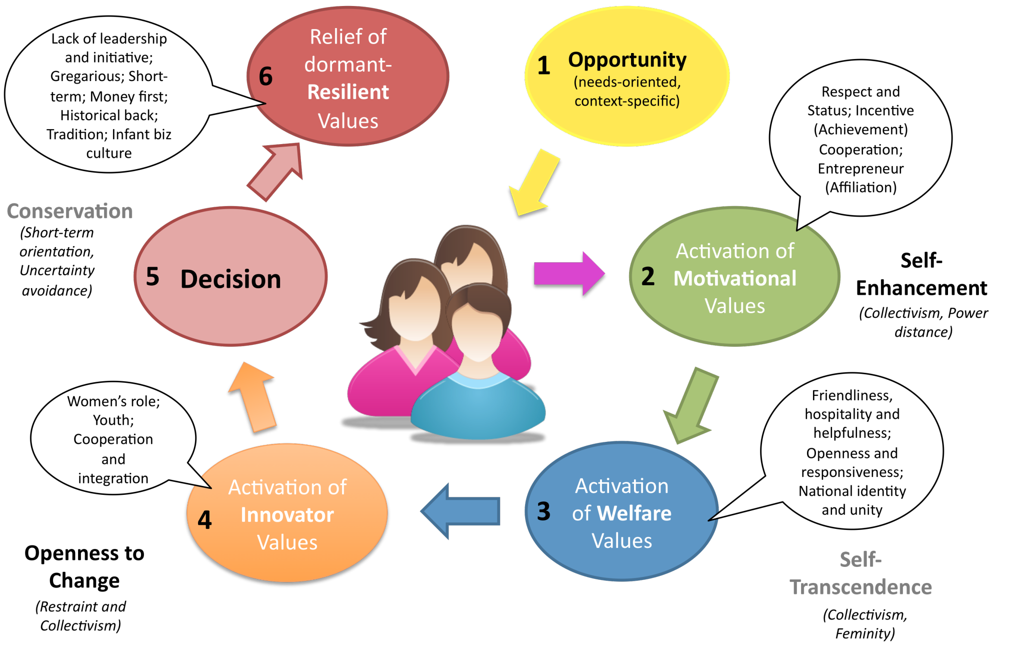
Source: Adapted from Hofstede (2001) and own findings of the study area

Figure 16: Motivational Structure and Relations of Values in Dodoma region



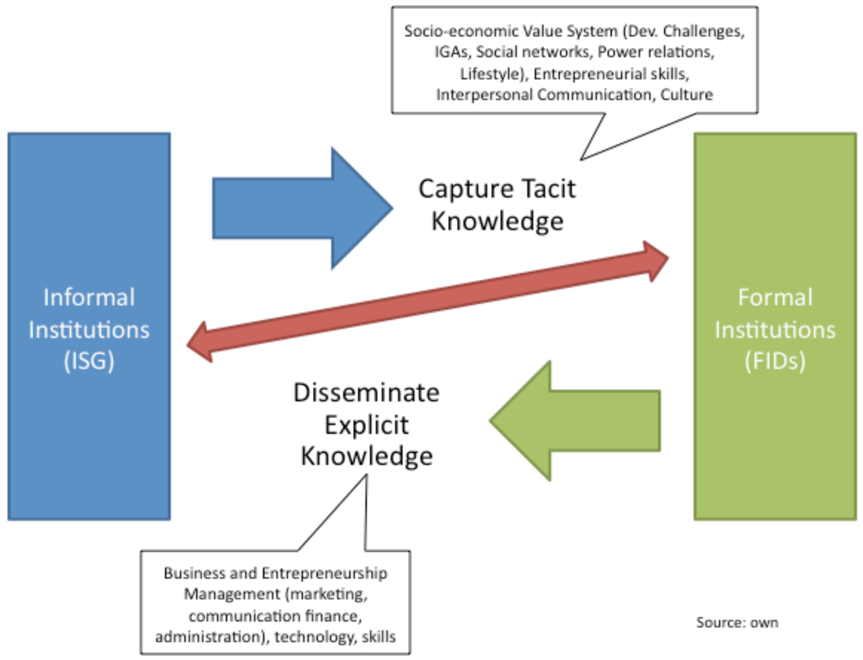
Source: own adaptation from Schwartz's Value Theory according to findings

Figure 17: Value Activation Process for Decision-making in Dodoma



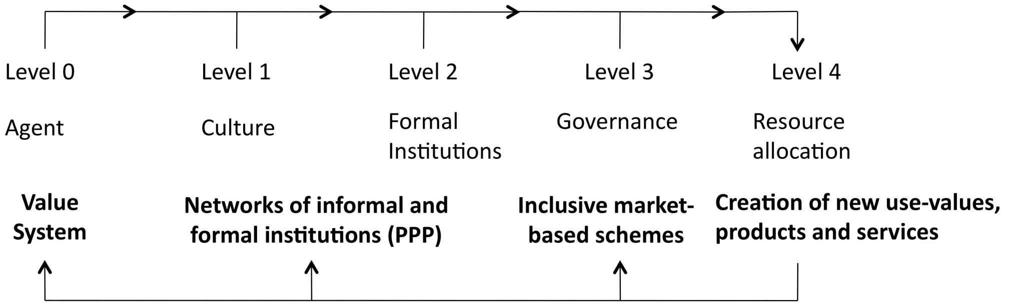
Source: own

Figure 18: Lateral Communication: the Process of Knowledge Transfer



Source: own

Figure 19: From Culture as Preferences to Innovation Environment in the Endogenous Development Model: Theoretical Framework



L0: Evolutionary mechanisms of the state of mind of the individual

L1: Embeddedness: Informal institutions, customs, traditions, norms, religions

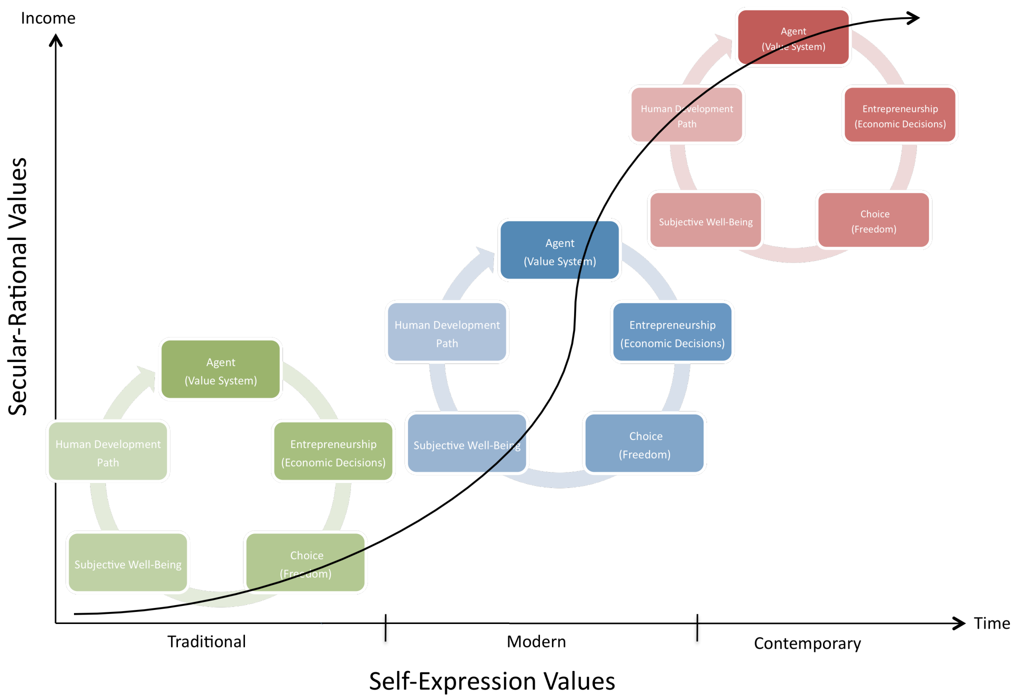
L2: Institutional environment: formal rules of the game – especially property (polity, judiciary, bureaucracy)

L3: Governance: play of the game – especially contract (aligning governance structures with transactions)

L4: Resource allocation and employment (prices and quantities; incentive alignment)

Source: Adapted from Williamson (2000) and De Jong (2009)

Figure 20: Evolutionary Dynamics of the EDM: linkages on Values, Entrepreneurship and Development



Source: own, adapted from Marini (2004) and Welzel (2006)

Table 6: Comparative Profile of Survival versus Thriving Entrepreneur

Survival Entrepreneur [Open-minded, Innovators, Risk-takers]	Thriving Entrepreneur
Collectivist (membership, unity) -Collective action -Social networks as function of security (SHG) and entrepreneurial activity -Motivation emphasis on Affiliation -Oral communication (Tacit knowledge)	**Individualistic** -Individual action -Autonomy, flexibility and hedonism as functions of entrepreneurial activity -Motivation emphasis on Achievement -Written and Visual communication (Explicit kn.)
Feminity -Cooperation -Altruism -Social Welfare (caring for others) -Quality of life	**Masculinity** -Competition -Egocentrism -Individual Welfare -Wealth
Higher Power Distance -Vertical institutional hierarchy -Difficult access to networks -Tough life circumstances -Informal economy (infant private sector)	**Lower Power Distance** -Horizontal institutional setting -Accessibility to networks -Free life circumstances -Formal economy (mature private sector)
Shorter-term Orientation -Constraint -Biz opportunity tomorrow	**Longer-term Orientation** -Choice -Biz planning
Higher Uncertainty Avoidance -Stress for survival -Reactive upon external forces (powerlessness)	**Lower Uncertainty Avoidance** -Stress to thrive -Proactive upon external forces (power)

Source: own

ANNEX 5 – LIST OF INTERVIEWEES IN TANZANIA

Table 1: Focus Group with Experts in Dodoma, October/November 2009

Name	Position	Organization
Dr. Joshua Madumulla	Dean of School of Humanities	University of Dodoma
Dr. Davis Mwamfupe	Dean of School of Social Sciences	University of Dodoma
Dr. Kaswammira	Head of Department of Geography and Environmental Studies	University of Dodoma
Mr. Daniel Nyato	Assistant Lecturer, School of Social Sciences	University of Dodoma
Ms. Jane Ndanga	Assistant Lecturer, School of Social Sciences	University of Dodoma
Ms. Zuhura Badru	Tutorial Assistant, School of Humanities	University of Dodoma
Mr. Ajali Mustafa	Assistant Lecturer, School of Social Sciences	University of Dodoma
Dr. Sinda	Head of Economics Department	University of Dodoma

Table 2: List of Experts' Interviews held in Dodoma – October/November 2009

Name	Position	Organization
Dr. Joshua Madumulla	Dean of School of Humanities	University of Dodoma
Dr. Ludovick D.B Kinabo	Deputy Vice-Chancellor	University of Dodoma
Dr. Davis Mwamfupe	Dean of School of Social Sciences	University of Dodoma
Dr. Kaswammira	Head of Department of Geography and Environmental Studies	University of Dodoma
Dr. Albino John Tenge	Director for Research and Publication	University of Dodoma
Dr. Adalbertus Akamanzi	Lecturer at Department of Development Studies	University of Dodoma

Table 3: List of Development Organizations' Interviews, Dodoma - October/November 2009		
Name	**Position**	**Organization**
Mr. Fred Azaria	Executive Officer – Dodoma Branch	Tanzania Chamber of Commerce, Industry and Agriculture
Mr. Mutalemua G. Lushaju	President – Dodoma Branch	Tanzania Chamber of Commerce, Industry and Agriculture
Ms. Germana Orota	Chief Economist	Regional Commissioner's Office, Dodoma
Mr. Hamsi A.L Sunzita	Assistant Administrative Secretary	Regional Commissioner's Office, Dodoma
Mr. Hasan Mahomud	Chief Officer	Bangladesh Rural Advanced Committee (BRAC)
Mr. Sosthenes Maganja	Program Coordinator	Action Aid
Mr. Charles Ogutu	Chief Executive Officer	Rural Livelihood and Development Company
Mr. Heini Conrad	Advisor	Rural Livelihood and Development Company
Mr. Mussa Muganda	Regional Statistical Manager	National Bureau of Statistics
Mr. Onesmus Ngowi	Owner and CEO	Mandika Enterprises
Mr. Kessy Kimwaga	Managing Director	K.Motors Works Co.Ltd
Mr. Onesmo Kusekwa	Office Manager	Savings and Credit Cooperatives Organizations (SACCOS)
Mr. Hallah	Executive Officer	Manado
Mr. David Peter	Microfinance Program Manager	CRDB Bank
Ms. Sarah	SMEs Program Manager	CRDB Bank
Ms. Fortunata Makafu	Program Manager	Women Wake Up
Mr. Muhammad Hassan	Program Coordinator	Women Wake Up
Father Vincent	Founding Manager	The Village of Hope
Mr. Cato	Executive Manager	Wine Cellar Dodoma

Table 4: List of Donors and GoT Interviews, Dar es Salaam, November 2009		
Name	**Position**	**Organization**
Mr. Enrico Strampelli	Head of Cooperation	EC Delegation
Mr. Marcos Sampablo	Trade Attaché	EC Delegation
Ms. Sherri Archondo	Senior Private Sector Specialist	World Bank Country Office
Mr. Ernest Salla	Assistant Resident Representative	United Nations Development Program
Mr. Mario de Zamaroczy	Coordinator of East Africa Regional Technical Assistance Center	International Monetary Fund Regional Representative Office
Ms. Carin Salerno	Head of Cooperation	Swiss Development Cooperation Country Office
Ms. Katharina Jenny	Deputy Head of Cooperation	Swiss Development Cooperation Country Office
Dr. Markus Schneider	Researcher	Swiss College of Agriculture / Swiss Development Cooperation Country Office
Mr. Victor P. Mwainyekule	Assistant Director	Division of Poverty Eradication and Economic Empowerment, Ministry of Finance and Economic Affairs of Tanzania

Table 5: List of Participants to the Workshop held in Dodoma, July 2011

Name	Position	Organization
Dr. C. Rubagumya	Principal, School of Humanities and Social Sciences	University of Dodoma
Dr. Joshua Madumulla	Dean of School of Humanities	University of Dodoma
Mr. Daniel Nyato	Assistant Lecturer, School of Social Sciences	University of Dodoma
Ms. Jane Ndanga	Assistant Lecturer, School of Social Sciences	University of Dodoma
Mr. Ajali Mustafa	Assistant Lecturer, School of Social Sciences	University of Dodoma
Dr. Sinda	Head of Economics Department	University of Dodoma
Dr. Michael Baha	Lecturer, Department of Economics	University of Dodoma
Mr. Fred Azaria	Executive Officer – Dodoma Branch	Tanzania Chamber of Commerce, Industry and Agriculture
Mr. Onesmos Ngowi	Office Manager	Savings and Credit Cooperatives Organizations (SACCOS)
Mr. Hasan Mahomud	Chief Officer	Bangladesh Rural Advanced Committee (BRAC)
Ms. Zadia Serin	Training Program Coordinator	Bangladesh Rural Advanced Committee (BRAC)
Mr. Emmanuel Nyankweli	Program Coordinator	Institute for Rural Development and Planning
Mr. Benjamin Mwangwala	Program Manager	Ministry of Agriculture, Cooperative Unit
Mr. David Peter	Microfinance Program Manager	CRDB Bank
Dr. Jordi Bacaria	Professor, Department of Applied Economics	Autonomous University of Barcelona
Dr. Felicity Hand	Professor, Faculty of Humanities	Autonomous University of Barcelona
Mr. Josep Maria Coll	Researcher	Autonomous University of Barcelona

ANNEX 6

FOCUS GROUP DISCUSSIONS GUIDE

1. How do people make their living? (women and men)
   - ✓ What are the most important sources of income?
     - o What are possible threats to these sources of income? (e.g. drought or disease)
   - ✓ What are the patterns of expenditures?
     - o How do women's expenditures compare with men's?

2. How do the livelihood systems of different socio-economic groups? (youth v/s adult, rich v/s poor)

3. Are there households or individuals unable to meet their basic needs? If no why? If yes how?

4. What do you understand by development? Probe key issues or patterns important for understanding the development context?

5. What are the patterns for use and control of key resources? (i.e. access, control, duties, management, distribution and right to resources). Probe by gender and by socio-economic group?

6. What are the attributes of highly respected person in the community? Probe: men and women.

7. What are the most pressing developmental problems in your community? Probe: for women? Men? For different socio-economic groups?

8. What are the major supports and constraints for development in the community? Why those? How do they affect? Probe: environmental, social, institutional and economic supports and constraints.

9. What is the influence of culture on people's daily activities? How does the component culture influence these activities (taboos, beliefs, education, reputation/ status). Probe on the environmental, economic, social and institutional patterns.

10. Are there local groups organized in this village? Probe around environmental issues (e.g. forest users group, water users group), economic issues (e.g. credit, agriculture production), social issues (e.g. health, literacy, religion).

11. What are the bases of those social groups? (Probe: family, clan, neighborhood, interest, e.t.c.)

12. Are there any groups that exclusive of others? Which ones? Who are excluded? Why? What do the excluded groups lose due to their lack of participation?

13. What are the links between local groups or organizations and outside institutions? e.g. NGOs, political parties, government institutions.

14. Is it possible for all members of these social groups to elect or be elected in leadership positions? If yes/ no, then why?

15. Do women occupy leadership positions in any of the local institutions? If so, which women? Which institutions?

16. Which institutions do you think contributes in meeting community development needs? Why and how?

17. Why do you understand by happiness in your community? What do you do to achieve happiness?

18. How do you imagine your community in future?

19. Any further information you would like to share?

ANNEX 7

IN-DEPTH INTERVIEW GUIDE

PART I: GENERAL INFORMATION

Date of Interview: ______________________

Region: ______________________

District: ______________________

Division: ______________________

Ward: ______________________

Village: ______________________

PART II: SOCIO-DEMOGRAPHIC INFORMATION

Name of Respondent: ______________________

Age: ______________________

Sex: ______________________

Religion: ______________________

Tribe: ______________________

Level of Education: ______________________

Marital Status: ______________________

Size of Household: ______________________

PART III: LIVELIHOOD, VULNERABILITY, POWER RELATIONS AND DEVELOPMENT

1. How do you make your living?
   - ✓ What are the most important sources of your income? What are possible threats to these sources of your income? (e.g. drought or diseases)
   - ✓ What are the patterns of your expenditures?

2. Are you able/ unable to meet your basic needs? If unable, why? If able how?

3. What do you understand by development? What are the key issues or patterns important for understanding the development context?

4. How do you use and control key resources in your household? and why? Probe: access, control, duties, management, distribution and right to resources.

5. What are the attributes of highly respected person in the community (men and women)?

6. What are the most pressing developmental problems in your household? (Rank in order of importance)

7. What are the major supports and constraints for your development? Why those? How do they affect? Probe: environmental, social, institutional and economic supports and constraints.

8. What is the influence of culture in your daily activities? How does the component of culture influence these activities (taboos, beliefs, education, reputation/ status)? Probe on the environmental, economic, social and institutional patterns.

9. Are there local groups organized in your place/ village? Probe around environmental issues (e.g. forest users group, water users group), economic issues (e.g. credit, agriculture production), social issues (e.g. health, literacy, religion).

10. What are the bases of those social groups? Probe: family, clan, neighborhood, interests e.t.c).

11. Do you have membership in any of social groups in you community? If yes, which ones? If no why? What do non-members lose due to their lack of participation?

12. What are the links between your local group and outside institutions? e.g. NGOs, political parties, government institutions.

13. Is it possible for you to occupy leadership position in the social group that you belong to? If not/ yes, why? Can you occupy leadership positions in any of the local institutions? If yes/ no, why? and in which institutions?

14. In your opinion, which institutions do you think that contribute in meeting community development needs? Why? How?

15. In your opinion, what is happiness? What do you do to achieve happiness?

16. How do you imagine yourself in the future?

17. Do you have any further information you would like to share?

ANNEX 8

DEVELOPMENT ORGANIZATIONS INTERVIEW GUIDE

Date and Place	
Organization	
Name	
Position	
Contact	

Part I: Organizational Issues

1. What is the main role/activity of your organization?
2. Who are you trying to help?
3. How do you reach them?
4. What is the approach of doing your work?
5. What are the sources of funding of your organization?
6. Where do you work (geographical scope)?
7. What are the results achieved?
8. Do you have evaluation systems or procedures? How do you assess your work?
9. Do you coordinate with other development partners or organizations (networking)?
10. Do you receive any support from the Tanzanian central or local government?

Part II: Developmental Issues

11. What are the main constraints for the development of the area/people (your target)?
12. What are the resources the people have/don't have?
13. What are the factors that contribute to their development (and non-development)?
14. What are their main sources of income?

Part III: Socio-cultural Issues

15. What is the role of culture in the development process in your work?
16. How does culture influence the work you are doing?
17. What are the values and behaviors that matters more for the development of your target (and less)?
18. What is the role of informal social groups?

ANNEX 9

EXPERTS INTERVIEW GUIDE

Name: ____________________________

Field: _____________________________

Position: __________________________

Semi-structured Interview

1. What are the main constraints to the development of Tanzania?

2. What are the critical factors for development?

3. What are the socio-cultural values that define Tanzanian people (rural vs. urban)? In other words, how are Tanzanian people?

4. What/How is the Tanzanian people's behavior?

5. Is there a "Tanzanian Way" of development?

6. Which approach / methodology would you recommend for the development of Tanzania?

7. There are two main external approaches to development:

    a. Western development aid
    b. Chinese Private Sector investment

    → What is your opinion about them?