

**MANAGEMENT OF THE
DUTCH DEVELOPMENT COOPERATION**

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University of Twente, The Netherlands

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**MANAGEMENT OF THE
DUTCH DEVELOPMENT COOPERATION**

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PREFACE

The reason why I wrote this dissertation is that I care about development cooperation. It is a just cause. People who live in severe poverty, who are sick and hungry, do suffer. They should not. The rich should help the poor, not only to alleviate poverty for now, but permanently. It is right that rich countries spend funds and efforts on development cooperation. I am concerned about the effectiveness of the aid, though. For about 20 years I worked on development cooperation, as a long term and a short term expert and as a team leader, and I was active in project preparation, implementation and evaluation. I worked for the Dutch development cooperation but predominantly for international organisations, and in a variety of fields, e.g. water supply, waste management, renewable energy, and management advice to private companies. In all cases I did my very best to contribute to results that would lead to lasting poverty reduction. Everywhere, I worked together with people from local organisations and with colleague experts, and they always did their very best as well. But over the years I became increasingly disappointed about the results of the aid. Looking back, from all the projects I have been involved in, there was only one of which I am sure that it generated lasting poverty reduction for a considerable number of people. Of all other projects, I do not think they made any lasting difference.

I wanted to know why the results are so limited, so I started to investigate the issue. There is an abundance of literature about development cooperation, there must be hundreds of thousands of reports. I was surprised, though, that very little literature can be found about what causes development cooperation measures to be ineffective. Furthermore, I did not find studies that investigate development cooperation as a management problem. Program and project implementation management yes, but not the question how, from a management perspective, the overall goal, sustainable poverty reduction, is pursued. As management is about achieving goals, I thought the management perspective a promising line of approach, so I started my research on the management of the Dutch development cooperation. During the research I began to understand why development cooperation had not yet been investigated that way: the issue is extremely complex. Yet, I think I found some useful results. They concern first of all the Dutch aid, but many of them are also relevant to international aid. I hope that this research will contribute to a better understanding of how the development cooperation is managed, and of the reasons why the results are so poor. And even more do I hope that my findings lead to a more effective development cooperation, that indeed helps to eradicate poverty.

Megen, December 3rd, 2009, Wiet Janssen

SUMMARY

There is reason for concern about the Dutch development cooperation. A survey of some aid evaluations of the Dutch Ministry of Foreign Affairs (MFA) showed that the aid results are limited and that the goals of the programs are not achieved. Management concerns using an organisation's resources to achieve its goals, so the MFA's management is inadequate. As the MFA is by far the largest Dutch aid organisation and because it also subsidises and therefore strongly influences other Dutch aid organisations, this research examines the MFA's management.

Development is a result of many processes, so it is difficult to attribute examples of development to aid measures, especially when the amount of aid is relatively small, e.g. in case of the Dutch aid. Therefore, first, it was investigated whether the effect of the combined international aid can be detected. It was found that it is not possible. On the contrary, over the past decennia world regions that received much aid per capita generally stagnated, whereas regions of comparable development level that received little aid per capita showed fast economic growth. To estimate the effects of the Dutch aid, a number of evaluations of Dutch aid program were analysed. It was found that, as far as the results could be determined, the goals were generally not achieved, and the contribution to development and poverty reduction was very modest.

Based on the findings of the evaluations, two research questions were formulated: *What is a suitable research model to assess the professional level of the Dutch development cooperation?*, and *How professional is the management of the Dutch development cooperation?* Professional is defined here as: taking care of the relevant management aspects, and in such a way that the main goals of the Dutch development cooperation are achieved. The adopted research strategy comprises an extensive study of literature, discussions with experts, and interviews with people active in the field, i.e. MFA employees and politicians. To arrive at conclusions, sources at different levels of aggregation are applied as much as possible, e.g. statistical data, individual aid programs, and individual cases. The evaluations also showed that the limited results of the aid were not caused by one or two aspects of management, but that twelve aspects played a role in the achievement of the results. Because existing models were unsuitable to describe these twelve management aspects, a new general management model was developed. It accommodates all twelve aspects: the managing entity, goals, strategy, funded partner organisations, aid provision processes, the employees' capabilities, structural organisation, monitoring, intervention measures, evaluation, external conditions, and the application of an appropriate management model. This general model was applied to investigate the typical characteristics of the MFA's internal and external management in more detail.

First, some typical characteristics of the developing countries were analysed. Social capital (e.g. trust, institutions) was found to play an important role in development. In many developing countries corruption is very high but countries with more social capital develop nevertheless. Western aid and trade can have negative effects, because they may disturb local markets. High amounts of aid can affect the exchange rate of the local currency and the competitiveness of local companies and farms

Next, the attainability of the goals of the Dutch development cooperation was analysed. It was found that the results are generally not sustainable, especially because of lack of funds for recurrent costs. Some main goals are very hard to attain or not attainable at all. For example, clean water supply for the poor is intended to bring better health. But it causes more children to be born and to survive, and because food is often scarce, malnourishment increases. Thereby the health gain is lost. Other aid measures aim at changes in the social culture, like improving governance, combating corruption, introducing western democracy, or advancing the position of women, e.g. with respect to sexual and reproductive health and rights. It was found that it is hardly possible to achieve such changes in social culture from the outside in.

Then, the MFA's external and internal management was analysed. It was found that an important aspect of the MFA's strategy is inadequate: the MFA fails to be involved in the aid implementation. It just finances partner organisations (governments, multilateral organisations, non-governmental organisations) that address the Dutch policy themes. As a consequence the MFA has no information about the well functioning of the aid programs, and no means to intervene. Furthermore, the MFA employees lack knowledge about the content of the aid themes, the aid implementation process and the conditions in the developing countries, e.g. the way power is structured ('clientelism'). This hampers their decision making regarding the aid programs. The analysis of the internal management revealed that the MFA focuses very much on administrative procedures and accountability, but less so on aid content, effectiveness and results for the poor. The structural organisation is such that internal communication is inefficient.

The main conclusion is that the basic concept the Dutch aid is based on, is unsuitable. That concept is that poverty is lack of food, water, health care and social organisation, and that the aid should help to make all that available. The real problem is the lack of capacity in the developing countries to generate these products and services. Based on this view, an alternative approach is proposed. A suitable way for the poor to escape poverty is by earning an income. This allows them to buy what they need, e.g. food, water supply, health care and their children's education. Their chances to earn an adequate income depend first of all on the economy of the country, as in a growing economy employment increases and over the years wages go up. Also issues like public

safety and a low inflation play a role. The possibilities to advance these issues through aid are limited, though. But income depends to a considerable extent on poor people's own capabilities as well. The right knowledge and skills enable the poor to get a good job or to run a profitable business (farm, shop, workshop, service) of their own. The aid could help poor people to acquire skills suitable to earn an income. Recommendations were formulated regarding the way aid programs could bring that about. One of these suggestions is that the training of simple, practical skills should be included in the primary school curriculum. Poor children attend no more than a couple of years of primary school and only learn a little reading and writing, which does not help them much to earn an income. The Dutch aid could support such efforts to help poor people to generate an income, the best way to escape poverty.

SAMENVATTING

Er is reden tot zorg ten aanzien van de ontwikkelingssamenwerking. Een analyse van evaluaties van hulp door het Nederlandse Ministerie van Buitenlandse Zaken (BUZA) toonde aan dat de resultaten van de hulp zeer beperkt zijn, en dat de doelen van de programma's niet worden behaald. Management houdt in: gebruik makend van de middelen van een organisatie het realiseren van de doelen ervan, dus het management van BUZA schiet tekort. Omdat BUZA met afstand de grootste hulporganisatie is, en omdat het ook andere hulporganisaties subsidieert en daardoor beïnvloedt, richt dit onderzoek zich op het management van BUZA.

Ontwikkeling is het resultaat van vele processen, en daarom is het moeilijk om vast te stellen of voorbeelden van ontwikkeling het gevolg zijn van hulp, vooral als de hulp relatief gering is, zoals de Nederlandse hulp. Daarom is eerst onderzocht of het effect van de gecombineerde internationale hulp kon worden vastgesteld. Dat bleek niet mogelijk. In tegendeel, in de afgelopen decennia stagneerden de wereld regio's die veel hulp ontvingen, terwijl regio's met een vergelijkbaar ontwikkelingsniveau die weinig hulp ontvingen een sterke economische groei lieten zien. Om het effect van de Nederlandse hulp te bepalen werden een aantal evaluaties van hulpprogramma's geanalyseerd. Daaruit bleek dat, voor zover effecten waren vast te stellen, de doelen in het algemeen niet bereikt waren, en dat de bijdrage aan armoedevermindering zeer gering was.

Op grond van deze bevindingen werden twee onderzoeksvragen geformuleerd: *Wat is een geschikt onderzoeksmodel om het niveau van professionaliteit van de Nederlandse ontwikkelingshulp vast te stellen?*, en *Hoe professioneel is het management van de Nederlandse ontwikkelingshulp?* Professioneel is hier gedefinieerd als: sturing geven op het gebied van die management aspecten die relevant zijn, en op een zodanige wijze dat de hoofddoelen van de Nederlandse ontwikkelingssamenwerking worden bereikt. De gekozen onderzoeksstrategie omvat een uitgebreide literatuurstudie, gesprekken met experts, en interviews met BUZA medewerkers en politici. Om conclusies te kunnen formuleren zijn waar mogelijk bronnen op verschillende aggregatieniveaus gebruikt, b.v. statistische gegevens, individuele hulpprogramma's, en individuele voorbeelden. De evaluaties lieten ook zien dat de beperkte effecten van de hulp niet waren veroorzaakt door een of twee aspecten van management, maar dat twaalf aspecten een rol speelden in het behalen van resultaat. Omdat bestaande modellen ongeschikt waren om deze twaalf aspecten te beschrijven is een nieuw algemeen management model ontwikkeld. Het omvat alle twaalf aspecten: het management team, doelen, strategie, gefinancierde partner organisaties, de processen waarmee de hulp wordt geleverd, de kwalificaties van de medewerkers, structurele organisatie, monitoring, interventie maatregelen, evaluatie,

externe condities, en het gebruik van een geschikt management model. Dit algemene model is gebruikt om de typerende eigenschappen van het interne en het externe management van BUZA vrij gedetailleerd vast te stellen.

Allereerst werden enkele fenomenen onderzocht die typisch zijn voor ontwikkelingslanden. Sociaal kapitaal (bijvoorbeeld vertrouwen, instituties) blijkt een grote rol te spelen in de ontwikkeling. In veel ontwikkelingslanden is de corruptie erg hoog, maar landen met veel sociaal kapitaal ontwikkelen zich desondanks. Westerse hulp en handel kunnen een negatief effect hebben, omdat ze lokale markten kunnen verstoren. Grote hoeveelheden hulp kunnen de koers van de lokale munt opdrijven, en zo het concurrentievermogen van lokale bedrijven en boerderijen verminderen.

Vervolgens is de haalbaarheid van de doelen van de Nederlandse hulp onderzocht. Het bleek dat de resultaten in het algemeen niet duurzaam waren, vooral wegens het gebrek aan fondsen voor lopende kosten. Sommige doelen zijn uiterst moeilijk te realiseren of geheel onhaalbaar. Het doel van schoon drinkwater, bijvoorbeeld, is een betere gezondheid. Maar het leidt ertoe dat meer kinderen worden geboren en overleven, en omdat voedsel vaak schaars is neemt de ondervoeding toe. Het gezondheidseffect wordt daardoor tenietgedaan. Andere hulpmaatregelen zijn gericht op veranderingen in de sociale cultuur, zoals verbetering van het bestuur, corruptiebestrijding, de introductie van een westerse democratie, of verbetering van de positie van vrouwen, bijvoorbeeld op het gebied van seksuele en reproductieve gezondheid en rechten. Het blijkt dat het nauwelijks mogelijk is zulke veranderingen te realiseren van buitenaf.

Daarna is het interne en externe management van BUZA geanalyseerd. Vastgesteld werd dat een belangrijk aspect van BUZA's strategie ondeugdelijk was: BUZA is niet betrokken bij de uitvoering van de hulp. Het financiert slechts partner organisaties (regeringen, multilaterale organisaties, niet-gouvernementele organisaties) die werkzaam zijn op het gebied van de Nederlandse beleidsprioriteiten. Daardoor heeft BUZA geen informatie over het juiste functioneren van de hulpprogramma's, en geen mogelijkheden om in te grijpen. Ook ontbreekt het de BUZA medewerkers aan inhoudelijke kennis van de hulpthema's, het implementatieproces en de omstandigheden in de ontwikkelingslanden, b.v. de manier waarop macht gestructureerd is ('cliëntelisme'). Dat vermindert hun mogelijkheden tot goede besluitvorming ten aanzien van de hulpprogramma's. De analyse van het interne management liet zien dat BUZA zich vooral richt op administratieve procedures en verantwoording, en veel minder op de inhoud van de hulp, de effectiviteit ervan, en de resultaten voor de armen. De structurele organisatie is bovendien zodanig dat de interne communicatie erg inefficiënt is.

De belangrijkste conclusie is dat het basisconcept waarop de Nederlandse hulp is gebaseerd, ondeugdelijk is. Dat concept is dat armoede een gebrek is aan voedsel, water, gezondheidszorg, en sociale organisatie, en dat de hulp ervoor dient te zorgen dat alles beschikbaar te maken. Maar het echte probleem is het gebrek aan capaciteiten in de ontwikkelingslanden om die producten en diensten te genereren. Vanuit dat inzicht is een alternatieve aanpak gepresenteerd. De geëigende weg voor de armen om uit de armoede te ontsnappen is door een inkomen te verdienen. Dat stelt hen in staat te kopen wat ze nodig hebben, zoals voedsel, watervoorziening, gezondheidszorg, en onderwijs voor hun kinderen. De mogelijkheden om een redelijk inkomen te verdienen hangen in de eerste plaats af van de economie van het land, want in een groeiende economie neemt ook de werkgelegenheid toe en op langere termijn gaan tevens de lonen omhoog. Ook zaken als openbare veiligheid en een lage inflatie spelen een rol. De mogelijkheden om die zaken door hulp te verbeteren zijn echter beperkt. Maar inkomen hangt ook voor een groot deel af van de capaciteiten van de armen zelf. De juiste kennis en vaardigheden stellen de armen in staat een goede baan te krijgen, of een winstgevend bedrijfje (boerderij, winkel, werkplaats, dienstverlening) op te zetten. De hulp kan mensen ondersteunen bij het verwerven van geschikte kennis en vaardigheden voor het verdienen van een inkomen. Aanbevelingen zijn geformuleerd voor de manier waarop hulpprogramma's dat kunnen bewerkstelligen. Een daarvan is dat de overdracht van eenvoudige, praktische vaardigheden onderdeel zou moeten zijn van het lagere school programma. Arme kinderen volgen hoogstens een paar jaar lagere school en leren daar een beetje lezen en schrijven, wat ze niet veel helpt een inkomen te verwerven. De Nederlandse ontwikkelingshulp kan ondersteuning geven aan zulke activiteiten die de armen helpen een inkomen te verdienen: de beste manier om aan de armoede te ontsnappen.

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LIST OF ABBREVIATIONS

ACS	Ambassador for international cultural cooperation
ADB, AsDB	Asian Development Bank
AEV Note	Report on development policy, translated as 'Mutual interests, mutual responsibilities', Ministry of Foreign Affairs
AIV	Advisory Council on International Affairs
AMAD	Ambassador at Large
AMBA	Ambassador for combating AIDS
AMDO	Ambassador for sustainable development
AMIO	Ambassador for international organisations
ASC	African Studies Centre
BBC	British Broadcasting Corporation
BRAC	Large NGO in Bangladesh
BSG	Office of the Secretary-General, Ministry of Foreign Affairs
CB	Capacity Building
CBI	Centre for the promotion of imports from developing countries
CDA	Christian Democratic Party
CEO	Chief Executive Officer
CERES	Coordinating body for development oriented research at six Dutch universities
CGD	Center for Global Development
CIA	Central Intelligence Agency, USA
CIS	Commonwealth of Independent States, former Soviet republics
CORDAID	Large Dutch NGO
CPI	Corruption Perception Index
CPIA	Country Policy and Institutional Assessment (World Bank)
CU	Dutch traditional Christian party
DAC	Development Assistance Committee, OECD
DAF	Sub-Saharan Africa Department
DAM	North Africa and Middle East Department
DCO	Cultural Cooperation, Education and Research Department
DEK	Effectiveness and Quality Department
DFID	Department for International Development, UK
DG	Directorate General, Ministry of Foreign Affairs
DGES	Directorate General for European Cooperation
DGIS, DGIC	Directorate General International Cooperation
DGPZ	Directorate General for Political Affairs

DGRC	Directorate General Regional and Consular Affairs
DHS	Demographic and Health Research
DHV	Dwars, Heederik en Verhey, large Dutch consulting engineer
DICC	Director-General for the International Criminal Court
DIE	European Integration Department
DJZ	Legal Affairs Department
DML	Environment and Development Department
DMV	Human Rights and Peace building Department
DMW	Western and Central Europe Department
DVB	Security Policy Department
DVF	United Nations and International Financial Institutions Department
DVL	Information and Communication Department
EC	European Commission
ECDPM	European Centre for Development Policy Management
EFA	Education For All
EPTA	Expanded Programme of Technical Assistance, UN
EU	European Union
FAO	Food and Agriculture Organisation, UN
FDI	Foreign Direct Investments
FEZ	Financial and Economic Department
fl	Dutch guilder; € 1 = fl 2.2037
FM	Financial Management Division
FMO	Dutch entrepreneurial development bank
GDP	Gross Domestic Product
GNI	Gross National Income
GTZ	German federal organisation for development cooperation
HAZ	Malnourishment indicator 'Height for Age'
HBBZ	Handbook Operations Foreign Affairs
HDI	Human Development Index, UN
HDPO	Personnel and Organisation Department
HGIS	Homogeneous Group International Cooperation
HICs	High Income Countries
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
HIVOS	Large Dutch NGO
HRM	Human Resources Management
IBO	Interdepartmental Policy Research
IBRD	International Bank for Reconstruction and Development, WB

ICCO	Large Dutch NGO
ICT	Information and Communication Technology
IDA	International Development Association, WB
IEG	Independent Evaluation Group, WB
IFC	International Financing Corporation, WB
IFI	International Financial Institution
IMD	Dutch Institute for Multi-party Democracy
IMF	International Monetary Fund, WB
IOB	Dutch organisation for evaluation of development cooperation
IRAI	IDA Resource Allocation Index, WB
IS	International Cooperation
ISS	International centre of social science education and research
ITC	International Institute for Geo-Information, Science and Earth Observation
JIN	Joint Implementation Network (evaluation organisation)
LICs	Low Income Countries
LMICs	Lower Medium Income Countries
MASSIF	Fund for venture capital to banks in developing countries
MDF	Management for Development Foundation
MDG	Millennium Development Goal
MFA	Ministry of Foreign Affairs
MFO	Mede-FinancieringsOrganisatie (co-financing organisation)
MILIEV	Environmental and Economic Self-Reliance (Dutch aid programme)
MJSP	Multi-Annual Strategic Plan
MRA	Human Rights Ambassador
NAFTA	North America Free Trade Agreement
NCDO	Organisation to generate public support for development cooperation, MFA
NGO	Non-governmental organisation
NICs	Newly Industrialised Countries
NIKOS	Institute for Knowledge Intensive Entrepreneurship, Twente University
NLG	Dutch Guilders; € 1 = NLG 2.2037
NOVIB	Large Dutch NGO
ODA	Official Development Aid
OECD	Organisation for Economic Cooperation and Development
OO	Education and Developing Countries Division
ORET	Development-relevant Export Transactions
PFM	Public Finance Management
PLAN	International NGO
PPP	Purchasing Power Parity (in relation to GNI or GDP)

PRIF	Peace Research Institute Frankfurt
PRSP	Poverty Reduction Strategy Program
PSO	Dutch NGO for capacity building in civil society organisations in developing countries
PSOM	Program Cooperation Emerging Markets
PUM	Dutch organisation sending out senior experts
PvdA	Dutch Labour party
PWC	PriceWaterhouseCoopers
REER	Real Effective Exchange Rate
RER	Real Exchange Rate
SEOR	Socio-Economic Research Rotterdam
SGACA	Strategic Governance and Corruption Assessment
SMART	Specific, Measurable, Attainable, Relevant and Time-bound
SNV	Netherlands Development Organisation
SRHR	Sexual and Reproductive Health and Rights
SSA	sub-Saharan Africa
TA	Technical Assistance
TB	Tuberculosis
TI	Transparency International
TMF	Thematische Medefinanciering (thematic co-Financing)
TRTA	Trade-Related Technical Assistance, MFA
UK	United Kingdom
UMICs	Upper Medium Income Countries
UN	United Nations
UNAIDS	Programme on HIV/AIDS, UN
UNCTAD	Conference on Trade and Development, UN
UNDP	Development Program, UN
UNESCO	Educational, Scientific and Cultural Organisation, UN
UNHCR	High Commissioner for Refugees, UN
UNICEF	Children's Fund, UN
UNIDO	Industrial Development Organisation, UN
US, USA	United States of America
USAID	United States Agency for International Development
WAZ	Malnourishment indicator 'Weight for Age'
WB	World Bank
WHO	World Health Organisation, UN
WOTRO	Netherlands organisation for development-relevant research
WTO	World Trade Organisation

CHAPTER 1: INTRODUCTION

1.1 The Dutch development cooperation

In the developing countries hundreds of millions of people live in severe poverty. Like most rich countries The Netherlands tries to contribute to poverty alleviation through development cooperation in various fields. But there is reason for concern about the Dutch development cooperation. For a considerable time already, there are signs that it has little effect. In the past decades numerous comprehensive evaluations of Dutch cooperation programmes were carried out, especially by the Ministry's own evaluation service: the Inspectie Ontwikkelingssamenwerking en Beleidsevaluatie (Inspection Development Cooperation and Policy Evaluation), IOB.¹ In some cases also other organisations carry out evaluations. In the preparation phase of this research the following randomly selected program evaluations were investigated more closely:

- Making integrated water resources management work, 2000 (Seminar regarding program evaluations of various aid organisations, Dutch program NLG 2 billion, approximately € 900 million)
- Netherlands-FAO trust fund cooperation 1985-2000, 2003 (Agricultural development, Dutch contribution US\$ 344 million)
- Revue Mali - Pays Bas, 2000 (Water supply, NLG 260 million)
- Trade-Related Technical Assistance, 2005 (€ 110 million)
- Nederland's schuldverlichtingsbeleid 1990-1999 (Dutch debt relief policy), 2002 (NLG 3,2 billion, approximately € 1.5 billion).
- Women and development, 1998 (no separate budget)

All evaluation reports concluded that the results were rather poor: effects on the targeted institutions or sectors were very limited and no effect could be measured on the living conditions of the target groups. In two cases the available information about the programs was insufficient to allow useful conclusions. Some quotes from the evaluation reports listed above:

- Regarding integrated water resources management: 'The overall conclusion ... is that the cumulative effects of Netherlands support to institutional development in the water sector have been disappointing' and 'There were also serious concerns ...

¹ An overview of IOB evaluations can be found at <http://www.minbuza.nl/nl/organisatie/evaluatie/IOB> (07-06-2007)

on the efficiency, effectiveness and sustainability of many investments made' (Clemett, Soussan and Mitchell 2000, p6).

- Regarding agricultural development: 'The sample trust fund projects showed severe shortcomings with respect to economic, financial and institutional sustainability' and 'The four field missions ... found few signs of positive impacts on the beneficiaries' (IOB 2003a, p 2).'
- Regarding water supply in Mali: '... la qualité de l'information faisant parfois défaut' (... the quality of the information being poor at times - LJ), and 'La formulation des recommandations politiques ... n'est pas souhaitable si la base d'analyse pour fonder des conclusions n'est pas solide' (The formulation of recommendations regarding the policy ... is not desirable when the basis of the analysis is not sufficiently sound to state conclusions - LJ) (IOB 2000, Ch 1 and conclusion 5).
- Regarding trade-related technical assistance: 'In the Ethiopian field study no results were found concerning improved negotiating capabilities or any other impact. Other countries showed similarly limited results. The findings of the field studies were almost identical to those of the desk research. The four selected multilateral programmes were neither efficient nor effective in terms of contributing to knowledge, understanding and skills of individual beneficiaries' (IOB 2005, p138).
- Regarding debt remission: 'Combining the provision of new loans for development-relevant (Dutch - LJ) exports ... with remission of debts resulting from previous loans raises questions regarding the consistency of the Dutch policy' and 'The Netherlands ... contributed considerably to the creation of the multilateral debt problem' (IOB 2002b, p 93, 121). Besides, the evaluation of the international debt remission concludes: 'In none of the eight countries (investigated - LJ) did actual debt payments decrease in the 1990s', and 'Debt relief has generally had little impact on economic growth' (IOB 2003b, p 63, 133).

The evaluation of women participation was exclusively based on project documents, that only stated the projects' *objectives* on women participation. The participation itself was not investigated. Consequently, the effects of women participation could not be assessed and no conclusions could be drawn concerning the results of the aid efforts (IOB 1998, section 5.1.3-5,3 and 5.1.6-5,7).

The above preliminary investigation of the evaluations leads to the conclusion that the success of the Dutch development cooperation is often quite modest. The question arises whether the investigated cases are incidents or whether the aid is generally unsuccessful, and if the latter is the case, why that is so.

1.2 The focus on management and on the Ministry of Foreign Affairs

Development cooperation tries to alleviate poverty in the developing countries. Like any other government activity, development cooperation is expected to achieve certain goals. The Dutch government as well as Dutch non-governmental aid entities use financial means and the organised activities of their employees to achieve these goals. By definition 'management' is the art of combining and coordinating an organisation's resources 'with the aim of achieving organisational goals' (Griffin 1990, p 4-6). But in the previous section it was shown that often the goals are not achieved. It can be concluded that there is reason to assume that the management is not effective. Therefore this research focuses on the management of the Dutch development cooperation.

This research focuses on the 'official' aid, i.e. aid provided by the Ministry of Foreign Affairs (MFA), because it is the leading Dutch organisation in the field of development cooperation. Its budget, € 4.8 billion (MFA 2007e, p 19), is 6½ times larger than the combined privately financed aid: € 740 million (Schuyt 2007). Another reason for focusing on the MFA is that its budget concerns tax payers money, and it is in the interest of the whole Dutch society that this money is spent well.

Management comprises a wide array of aspects e.g. strategy, the details of practical measures, the activities of the involved people, the way they cooperate, the processes that guide their work, the structure of the organisation, and peoples motivation. All these aspects have to be taken care of for the management to be successful, and choices have to be made regarding possible solutions. With respect to development cooperation a good understanding of the situation in the developing countries is also important, since the setting has a large influence on the effects of the aid. To determine whether the aid goals are achieved, management comprises the assessment of results as well. If the goals are not achieved, billions of taxpayers' Euros are spent to no avail, and the poor in the developing countries are not helped at all. If the results are there but they remain invisible, political support for the aid may diminish, the aid is reduced and people in distress are left without support.

The evaluations in section 1.1 do not identify particular aspects of management that are the weak links. To assess the suitability of the management it will be necessary to investigate a wide range of relevant management aspects.

1.3 Literature on aid management

In most cases publications on management of development cooperation just advocate the importance of better management as a means to obtain better results (e.g. Robbins 1965). They do not discuss what is wrong with the current management, how the management can be improved, or with what objective it should be improved. Only a few studies could be identified that address management methods and provide recommendations. A number of these studies are discussed below.

In 2003 an 'interdepartmental policy investigation' was carried out by a working group assigned by the Minister of Development Cooperation. It presented a report entitled 'Effectiviteit en coherentie van ontwikkelingssamenwerking' (Effectiveness and coherence of development cooperation, IBO 2003). The report comprised recommendations about goals (e.g. better health care), and guiding principles regarding the aid implementation (e.g. to leave the aid implementation to the recipient country as much as possible) as well as regarding the cooperation among the Dutch ministries and between The Netherlands and other donor countries. But the report did not cover the issue of the goals' attainability and sustainability or the likely effects of the guiding principles, nor did it discuss the processes that should lead to the achievement of the goals.

In 2003, the Joint Implementation Network (JIN), a foundation for policy evaluation, carried out an evaluation of evaluations of the Dutch development cooperation. It focused mainly on the quality of the evaluation process. In addition, it investigated the choice of the channels (i.e. implementing partner organisations), of the recipient countries, of the development themes and of the specific projects and programmes (JIN 2003, p 1, 24). The JIN formulated recommendations to improve the evaluation methods. It also recommended to develop criteria for the various choices, but it did not give suggestions for such criteria.

Several years ago the influential Development Assistance Committee of the OECD, DAC, began to pay more attention to the role of management in development cooperation and to the use of evaluations for its improvement. It established a Working Party on Aid Evaluation, 'an international forum where bilateral and multilateral development evaluation experts meet periodically to share experience to improve evaluation practice and strengthen its use as an instrument for development cooperation policy'. This DAC branch presents a large number of aid evaluation reports on its website (DAC 2007a), as well as reports on the principles of evaluation and of aid management, e.g. 'Effective aid management' (DAC 2008d).

But these reports remain at a very high level of abstraction. 'Effective aid management' only states very general recommendations at political level, e.g. that each donor country should have an aid organisation with a clear responsibility, and with a culture of managing for results. Another example is the DAC report 'Results based management in the development cooperation agencies: a review of experience'. In this study 'results based management' is described as follows: 'Performance management, also referred to as results based management, can be defined as a broad management strategy aimed at achieving important changes in the way government agencies operate, with achieving performance (achieving better results) as the central orientation. (...) A key component of results based management is performance measurement, which is the process of objectively measuring how well an agency is meeting its stated goals or objectives' (Binnendijk 2000, par 2). This does not present new insights, though. All management textbooks define management in terms of steering an organisation in order to achieve its goals (Griffin 1990, p 4-7; Stoner and Wankel 1986, p 3, 4). A similar example is the DAC's report 'Review of the DAC Principles for evaluation of development assistance' (DAC 1998). It just stresses the importance of formulating goals and carrying out evaluations. It does not discuss how suitable aid goals should be selected or how aid activities should be assessed.

During recent years some improvements in the management of development cooperation organisations did take place, though. Whereas in the past all organisations provided aid independently, nowadays many cooperate with each other and with the recipient countries. Goals and aid programs are often commonly agreed upon and specified in so called Poverty Reduction Strategy Papers, or PRSPs, per country. An example is the PRSP for Cameroon (World Bank 2003). It specifies for instance the targeted goals with respect to the children's enrolment rate in primary education as a result of the combined aid efforts. But, in the PRSPs the attainability and sustainability of the goals are generally not discussed.

It can be concluded that the available literature on aid management does not adequately analyse the problems of aid management, nor does it present useful recommendations.

1.4 Preliminary focus

The findings in section 1.1 give reason to assume that the management of the international development aid as well as the Dutch aid is unsatisfactory. Important goals of the Dutch aid are not achieved. Management concerns using the organisation's resources to achieve its goals, so the management of the Dutch development cooperation is inadequate. To find out in what respect it is inadequate, in this research

the management of the Dutch development cooperation is investigated. Because the MFA is by far the largest and most influential Dutch aid organisation, the investigation focuses on the MFA.

At this point, the nature of the problem is still unclear. It is not known what the key aspects are that determine the success of the aid, so it is not very well possible to determine the research strategy. To obtain more insight in the nature of the problem, a preliminary investigation is made. The few cases investigated in section 1.1 show that the goals of the aid are often not achieved. To find out how the management problems can be investigated, the preliminary investigation focuses on the results of the development cooperation and the problems encountered in their achievement. The results of the aid are difficult to determine, though. Other influences have an effect on development too, e.g. fluctuations of oil and food prices, and the policies of other donors and of the recipient countries. The Dutch aid is relatively small, and its results may be hard to distinguish among all other effects. Improvements in poverty parameters and economic development cannot be attributed directly to the aid.

But when there is a clear effect of international aid on development, it should be possible to detect it statistically among other influences affecting development. If the effect cannot be found, it will always remain uncertain whether there is any effect at all. Where Dutch aid efforts are similar to international ones and are implemented under similar conditions, it can be expected that their effectiveness will be similar too. That means that international aid can provide information about the likeliness of success of Dutch aid. Therefore, first, the international aid is analysed under the preliminary investigation. In addition, the contributions of the Dutch aid to development is investigated through detailed analyses of evaluations of individual aid programs. The analysis of these aid programs will also shed some light on the kind of management problems encountered during the aid implementation. So, the evaluations can be expected to enable the identification of the key management aspects that determine the success of the aid. When the key management aspects are known, the way the MFA deals with them can be analysed, and the professional level of the management of the Dutch development cooperation can be assessed.

Based on these considerations, the following questions are formulated to guide the preliminary investigation:

1. *What are the goals and results of the international development cooperation?*
2. *What are the goals and results of the Dutch development cooperation, and what are the key management aspects that play a role in their achievement?*

The investigation is carried out along the following steps. In the analysis of the international aid, the main goals per aspect of poverty are investigated, the total funds spent per world region and per year, the measured improvements with respect to the poverty parameters per world region, and the degree to which these improvements can be attributed to the aid.

With respect to the Dutch aid, the investigation comprises the main and intermediate goals per theme, the yearly funds per theme, and the main implementation principles. In addition, a number of evaluations of Dutch aid programs are analysed in detail to assess the intermediate results of the aid and, as far as possible, also the final results. Furthermore, the type of problems encountered are investigated, and the key management aspects that play a role in the realisation of the results are identified.

CHAPTER 2: THE INTERNATIONAL DEVELOPMENT COOPERATION

2.1 Introduction

The question to be answered in this chapter is: *What are the goals and results of the international development cooperation?* The overall goal of the international development cooperation is sustainable poverty reduction. It is investigated what poverty means in practice and how it is interpreted by aid organisations. Because changes in poverty also depend on many other influences, it is not possible to attribute improvements in the poverty indicators directly to aid efforts. Therefore the goals and the volumes of the aid, as well as the changes in the poverty indicators are assessed, and the correlation between aid efforts and poverty alleviation is analysed. Also causes of poverty alleviation other than aid are discussed, e.g. economic growth in countries that receive little aid. In this chapter the investigation remains at a high level of aggregation. The focus is on general trends per world region, and therefore differences in the situation per country are averaged out. The mechanisms that determine the effects of the aid on poverty, and of other influences on poverty, are not investigated in this chapter. The interpretation of the data is complicated by the fact that data is often quite unreliable, and therefore an estimate is made of the degree of data reliability.

2.2 The overall goal: poverty reduction

In his speech in Nairobi in 1973, McNamara, president of the World Bank, declared 'absolute poverty' to be the main issue in development policy (Spangler and Wolff 2003, p 13). With respect to its overall goal, the World Bank states that: 'The Bank's mission is sustainable poverty reduction.' (World Bank 2004, p 1). At its web site the World Bank devotes a special sub-site to the phenomenon of poverty. It presents an ostensive definition of poverty that stresses the miserable living conditions that poverty implies: 'Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom' (World Bank 2006e).

In most literature on development cooperation 'poverty' is used in this meaning. This definition deviates from the common meaning of poverty, the state of being poor, i.e.

lacking adequate money or means to live comfortably (The Concise Oxford Dictionary 1995). This often creates confusion, and the term 'income poverty' has been introduced to denote 'poverty' in its common meaning. The donor organisations use the World Bank's definition of poverty, sustainable poverty reduction in the wider sense is their overall goal. In this context 'sustainable' means that the effects shall be lasting, also after the aid has stopped. Therefore, the aid should be 'designed to achieve broad impact and sustainability, and hence to increase the economic and social self-reliance of the beneficiaries' (Weidnitzer 1996, Section 2.1). What severe poverty means in practice was the topic of an article in the Dutch newspaper NRC in September 2005. It contains a detailed description of the daily life in a remote village in Malawi: Dickson (Wittenberg and Banning 2005). It is summarised in box 2.1. The example illustrates the practical effects of poverty on people's lives.

Box 2.1: Poverty in Dickson, Malawi, 2005 (NRC)

There had been little rain in Dickson that year and the harvest was poor, many people had hardly any food left and no money whatsoever. As a result of the harsh living conditions (no clean water, no sanitation, malnutrition) many people were ill. A couple of kilometres away was a medical post, but the people could not pay the 0,50 € for the consult, and besides the post had very little medicines. In the weeks before the visit of the journalist several people had died. Various people said they expected to die that season too, as their food stock would not last much longer. The reporter interviewed 27 women who, together, had borne 223 children, an average of 8,25 each. Of these children 92 had died, a child mortality of about 40%. Only a small percentage of the villagers had completed primary school, but also those who did could not find a job in the small cities in the vicinity. There are no jobs for people who can only read and write.

2.3 Data on poverty

2.3.1 The World Bank

To measure poverty and progress in poverty reduction, indicators are defined, their value is determined at intervals of several years, and they are compared with values in the past. The most authoritative organisations regarding information on poverty status and change are the World Bank and the United Nations ². The World Bank's most comprehensive document is the yearly report World Development Indicators. It lists several hundreds of parameters for some 160 countries and also per world region (World Bank 2008b). Because the data collection and interpretation process takes some

² Officially the World Bank is part of the UN, but the World Bank is directly financed and controlled by its member countries, so it functions independently

time, the report of a particular year presents data from two years earlier. Examples of main themes are those under the Millennium Development Goals (MDGs) like income, health and education; agricultural inputs and outputs; urban services; government finances; and trade and tariffs. Per theme various aspects are investigated. Probably the most commonly applied indicator to measure poverty is GNI expressed as purchasing power parity per capita, GNI PPP/cap. The buying power of \$ 1 in the US is used as a reference ³. It is not possible to determine it very precisely, because in many cases the poorest people's 'income' consists of the food they grow and consume themselves. In addition, the kind of goods a poor person buys in a developing country deviates considerably from what an American buys in the US. But it is the best available parameter to compare income, price level and standards of living in different parts of the world.

The Bank also makes special compilations on specific themes, for instance on environmental degradation (deforestation, over-exploitation of water resources), which often poses a threat to the poor. An example is *The Little Green Data Book* (World Bank 2005c) that calculates the net capital formation in each country, taking into account all its natural resources, because of their value for future development.

2.3.2 The United Nations

The United Nations (UN) focuses more on the social aspects of poverty. Its most comprehensive publication is the yearly Human Development Report. There is some overlap with the World Development Indicators. Because sources and statistical methods deviate from the World Bank's, data on the same issue may slightly differ. The UN report provides more information on issues like births attended by skilled health workers; share of infants with low birth weight; condom use; spending on research and development; prison population; and number of seats in parliament occupied by women. In addition, to express poverty in one parameter the UN developed the Human Development Index' (HDI), combining various aspects of poverty:

- a long and healthy life, as measured by life expectancy at birth;
- knowledge, as measured by the adult literacy rate and the combined gross enrolment ratio for primary, secondary and tertiary education; and
- a decent standard of living, as measured by GDP/cap. PPP (UN 2008b, table 1).

The HDI and its constituent parameters are presented in table 2.1.

³ \$ 1 PPP corresponds to an amount of local currency that can buy the same amount of goods that \$ 1,08 of 1993 can buy in the US. In 2008 the definition was adapted to accommodate new insights in measuring purchasing power.

Table 2.1: The Human Development Indicators per world region (UN)

Human Development Indicators UN Human Development Report 2007-8 Data from 2005	Life expectancy at birth (years)	Adult literacy rate (% ages 15 and above)	Combined gross enrolment ratio, primary, secondary & tertiary education (%)	GDP per capita PPP/yr (purchasing power) US\$	Human development index (HDI)
Sub-Saharan Africa	49.6	60.3	50.6	1,998	0.493
South Asia	63.8	59.5	60.3	3,416	0.611
Arab States	67.5	70.3	65.5	6,716	0.699
East Asia and the Pacific	71.7	90.7	69.4	6,604	0.771
Latin America & Caribbean	72.8	90.3	81.2	8,417	0.803
Central, Eastern Europe & CIS	68.6	99.0	83.5	9,527	0.808
High-income OECD	79.4	...	93.5	33,831	0.947

The table shows that there is a strong correlation between the different parameters. The richer the region (higher PPP/cap.), the higher the life expectancy, the adult literacy rate, and the gross enrolment ratio in education. It can be seen that sub-Saharan Africa (SSA) is the poorest region. The SSA indicators would be worse still if it did not include the Republic of South Africa: adult literacy rate of 82,4%, GDP/cap PPP of \$ 11,110/cap and overall HDI of 0.674 (UN 2008b, table 1).

But the HDI has a serious disadvantage: it combines incompatible characteristics. It comprises aspects of poor living conditions: life expectancy and income, but also factors that may *contribute to achieve* better living conditions: literacy, and enrolment in education. An increase of the HDI suggests that living conditions improved, whereas it could be that only the enrolment rate increased and living conditions remained just as poor as they were. This is confusing and therefore in this research the HDI will not be used as an indicator of poverty any further.

2.3.3 Other data

Next to the World Bank and the UN, many other organisations provide development or poverty related data as well. In this chapter, especially data from the Development Assistance Committee (DAC) are used. They concern the aid flows by donor, theme and recipient country, for each year. Throughout this research, also data are used from the World Health Organisation (WHO), the Food and Agriculture Organisation (FAO), the

United Nations Development Program (UNDP), the United Nations Educational, Scientific and Cultural Organisation (UNESCO), and many others.

2.4 Data reliability

In many cases country data on aspects of poverty are incomplete or unreliable. According to the report 'Social statistics in the World Bank' of the UN Statistics Division (UNSD) 'Most data are collected through ... the infrastructure -human, physical, and organisational- of the national statistical system' (UN 2003b, p 2-4). Note that with 'national statistical system' the system of the developing countries is meant. The report concludes that 'Many (national statistical-LJ) systems cannot provide the basic information needed to monitor progress toward the ... goals and targets.' It estimates that in 20 - 40% of the countries no reliable data is available for the parameters 'under 5 mortality', 'maternal mortality', 'primary school completion' and 'gender equality in education', and in more than 50% of the countries for 'malnutrition' and 'HIV infection'. Another example of insufficient data: according to UNICEF, 71% of annual births are not registered in sub-Sahara Africa, and 63% in South Asia (UN 2001b), see figure 2.1.

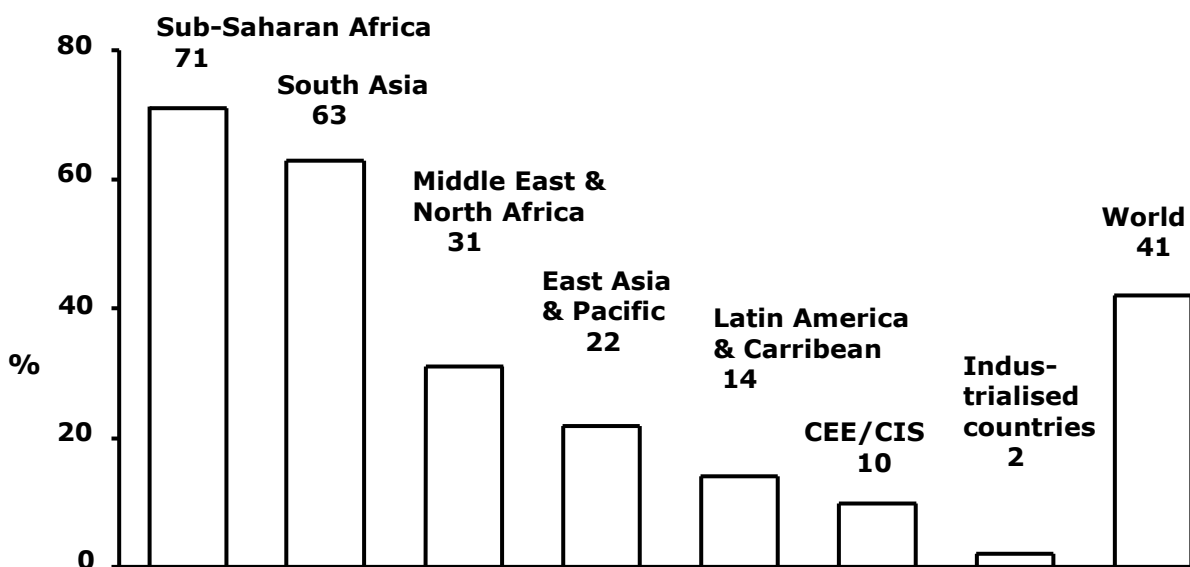


Figure 2.1: Percentage of annual births not registered (UNICEF)

As a consequence of the defective birth registration the population data of many countries are estimates only. This is illustrated by the difference between the population of sub-Saharan Africa according to the UN and the World Bank: the UN Human

Development Report 2005 states a population of 723 million (UN 2008b, table 5), whereas the World Bank's World Development Indicators 2008 presents 782 million people (World Bank 2008b, table 1.1). Obviously, it is not possible to provide reliable statistics on health status and other poverty relevant indicators for a country or region if the number of people and the demographic composition are not known.

In the World Development Indicators 2008 the World Bank had to revise many of its data. In extensive surveys in 2005 it was found that previously presented numbers were often not correct, especially regarding the economies in the developing countries (World Bank 2008b, p 1). GNI/cap. PPP in 2006 was corrected downward considerably, compared to 2005 (World Bank 2008b, table 1.1 and World Bank 2007c, table 1.1). In table 2.2 for some regions 2005 and 2006 data is compared.

Table 2.2: Examples of corrections of income PPP (WB)

Region	GNI/cap PPP 2005 \$	growth/cap 2005-06 %	GNI/cap PPP '06 \$ expected	GNI/cap PPP '06 \$ revised	correction factor
SSA *	2004	3.0	2064	1681	0.81
South Asia	3142	7.0	3362	2289	0.68
East Asia	5914	8.6	6423	4359	0.74
Latin America	8116	4.2	8457	8682	1.03
High income	32550	2.2	33266	34933	1.05

* sub-Saharan Africa

It can be observed that, on average, people in SSA are assumed to be about 20% poorer now than previously thought, in South Asia about 30%, and in East Asia 25%. Another indicator that was substantially corrected is child stunting (short for age because of malnourishment) in SSA: 39.2 % in 2005 (World Bank 2007b, table 2.17), and 44.5% in 2006 (World Bank 2008b, table 2.18). The World Bank explains the large corrections by the fact that most of the Bank's previous surveys were from 1993, and since then data had been extrapolated based on information provided by the countries concerned.

An important reason of data being often unreliable is that politicians like to see progress, so the officials are tempted to produce optimistic data. The World Bank's downward correction of the incomes in many developing countries illustrates this effect. Education enrolment rates are over-reported too. Financial rewards may also play a role in this case, as the amount of government funds a school receives depends on its number of pupils (see section 7.4.2). The guidelines of the UN's statistical division for national

statistics organisations show that the UNSD is well aware of the risk of data being varnished over. The guidelines stress that 'To maintain the trust in international statistics, their production is to be impartial.' They also request to ensure 'that decisions on ... standards are free from conflicts of interest, and are perceived to be so' (UN 1999). Sometimes data is unreliable because the assessment is very difficult. As mentioned, where people live from subsistence farming and grow and consume their own food, it is hardly possible to assess their 'income'. It can be expected that under the poorest people the registration rate is the lowest and that for that reason the official data will underestimate poverty. This is confirmed by various authors, e.g. Dashtseren (2002), Regmi and Dangol (2002), and Arudo (2003, p 30-37). Arudo found that in rural areas in Kenya official child mortality was at least twice under-reported. This effect explains why the reporter in the randomly selected village of Dickson, Malawi (section 2.2.2) found a child mortality of 41% and a fertility rate of 8%, whereas the official mortality rate for the poorest 20% of Malawi's population in that year was only 23.1%, and the fertility rate 6.1% (UN 2005b p 245). Sometimes, also definitions and statistical methods vary among surveying organisations, and the data cannot very well be compared.

It can be observed that data on development indicators often has a very large margin of error: 10 – 20% of the presented value or more is not uncommon. The numbers should be considered as a fair estimate at best. Small changes in these indicators between years, and small differences between countries are generally not significant. This complicates the assessment of the aid results.

2.5 The goals of international aid

2.5.1 DAC's 'capabilities'

The DAC 'Guidelines on poverty reduction' comprise recommendations concerning the development policy of member countries, that were highly influential. Poverty is defined according to five 'dimensions of deprivation', also called (failing) 'capabilities' (DAC 2001a p. 25-27, summarised):

- Economic capabilities, i.e. the ability to earn an income, consume and have assets, (...), and secure access to productive, financial and physical resources: land, implements and animals, forests and fishing waters, credit and decent employment.
- Human capabilities: health, education, nutrition, clean water and shelter (...). Disease and illiteracy are barriers to productive work. Reading and writing are crucial in social and political participation.

- Political capabilities: include human rights, a voice and some influence over public policies and political priorities (...).
- Socio-cultural capabilities i.e. the ability to participate as a valued member of a community (and achieve-LJ) social status and dignity (...).
- Protective capabilities should enable people to withstand economic and external shocks. (...). Hunger and food insecurity are core concerns along with (...) illness, crime, war and destitution.'

In addition, gender and environment are considered cross-cutting facets of sustainable development:

- Gender inequality: Cultures often involve deep rooted prejudices and discrimination against women.
- Environment: Environmental degradation, in both rural and urban areas, affects poor people the most (...).

To reduce poverty, the DAC recommends 'policy actions' in the field of:

- Pro-poor economic growth
- Empowerment, rights and pro-poor government, e.g. democratic governance, human rights
- Basic social services
- Human security: reducing vulnerability and managing shocks
- Mainstreaming gender and enhancing gender equality
- Mainstreaming environmental sustainability (DAC 2001a, p. 35-37).

2.5.2 The Millennium Development Goals

In an effort to formulate more tangible goals, the member states agreed upon the United Nations Millennium Declaration at the Millennium Summit in 2000 (UN 2000) Eight goals were specified: the Millennium Development Goals (MDGs) (UN 2001a, p 56), the most influential directives for development co-operation at present, see box 2.2. A comprehensive overview of the targets and indicators of the Millennium Development Goals is presented in the World Development Indicators 2006 World Bank (2006a, p 18, 19). More detailed targets and the past progress are shown in appendix 1. It can be observed that the MDGs are in line with the DAC recommendations and define measurable targets on income, health, education, gender equality and living conditions (e.g. water supply) to be reached in 2015. The MDGs also specify a general objective concerning international co-operation towards free trade and economic development.

Box 2.2: The Millennium Development Goals (MDGs), summarised (WB data)

The Millennium Development Goals, targets for 2015

1. Halve extreme poverty (PPP < 1 \$/day, cap) and hunger
2. Universal primary education for all boys and girls
3. Gender equality, equal enrolment in primary education (by 2005)
4. Reduce child mortality by 2/3
5. Reduce maternal mortality by 3/4
6. Reduce HIV/AIDS, malaria and other major diseases
7. Ensure environmental sustainability, reduce % of people without access to safe drinking water with 50%, improve the lives of slum dwellers
8. Develop a global partnership for development to achieve
 - *Open trading and financial system,*
 - *Good governance*
 - *Debt reduction*
 - *Employment for youth*
 - *Affordable drugs*
 - *Availability of new technologies, especially for information and communication*

The MDGs are widely accepted, and all donors refer to them in their policies. On the other hand a number of important issues mentioned by the DAC are not included in the MDGs, like the establishment of democratic governance and the protection of human rights.

2.5.3 Differences between donors

Nearly all donors pursue the MDGs. Furthermore, many donors also support issues under the DAC's 'capabilities', e.g. a number of issues often mentioned by poor people themselves: '*corruption, violence, powerlessness, and insecure livelihood*' (ELDIS 2001). The UN focuses on public services. It also actively promotes maintaining the rule of law and guaranteeing public safety (UN 2005d, p 10). The World Bank concentrates on economic growth as a means to achieve higher incomes, also for the poor (World Bank 2005b). Various (branches of) donor organisations target specific issues, e.g. UNICEF aims at supporting children. Regularly, international conferences are held to enable a structured debate on development co-operation, international relations, international trade et cetera. Examples are the Conference on Financing for Development in Monterrey (UN 2002), on world trade in Doha (WTO 2001) and Cancún (WTO 2003), and on micro financing in New York (UN 2005c). Often these conferences lead to new initiatives and additional aid goals.

Some of the agreed goals are hardly pursued by the donors. An example is the DAC goal 'social capabilities', e.g. to participate as a valued member of a community. Probably, that is because it is very difficult to design and carry out practical measures to achieve such a goal. Also, the attainability of the goals or the sustainability of results (e.g. in the field of health care and water supply) do not seem to play a role in adopting them. Furthermore, little effort is devoted to the question how the goals should be realised. When the MDGs were agreed upon, no plan was established for their realisation, e.g. a cost calculation, or activities and targets per donor.

It can be observed that there is no single set of goals, equally pursued by all donors. Certain goals are generally supported, e.g. most of the MDGs, but the priorities differ per donor. When agreeing on the aid goals, the donor countries and organisations did not make efforts to determine whether the goals could be realised, and how.

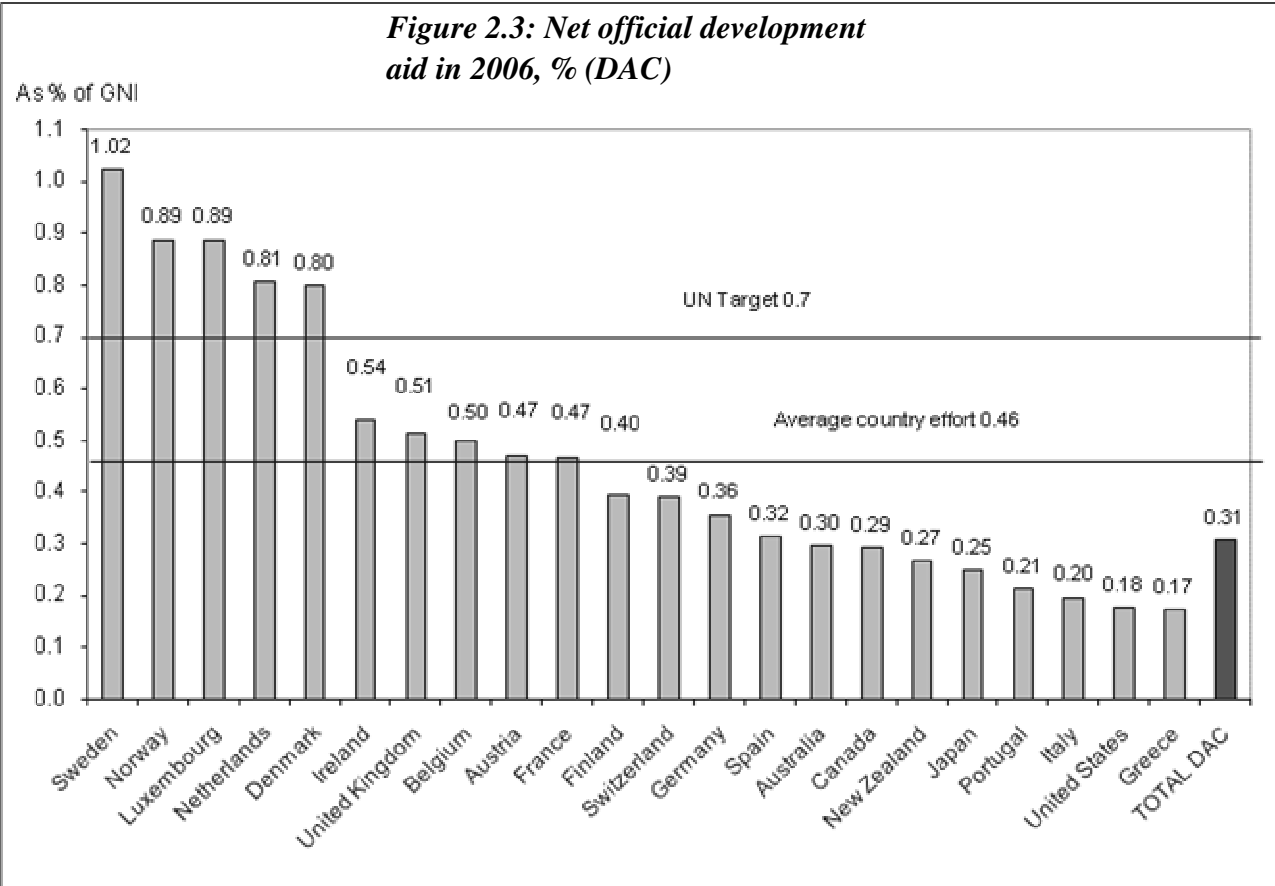
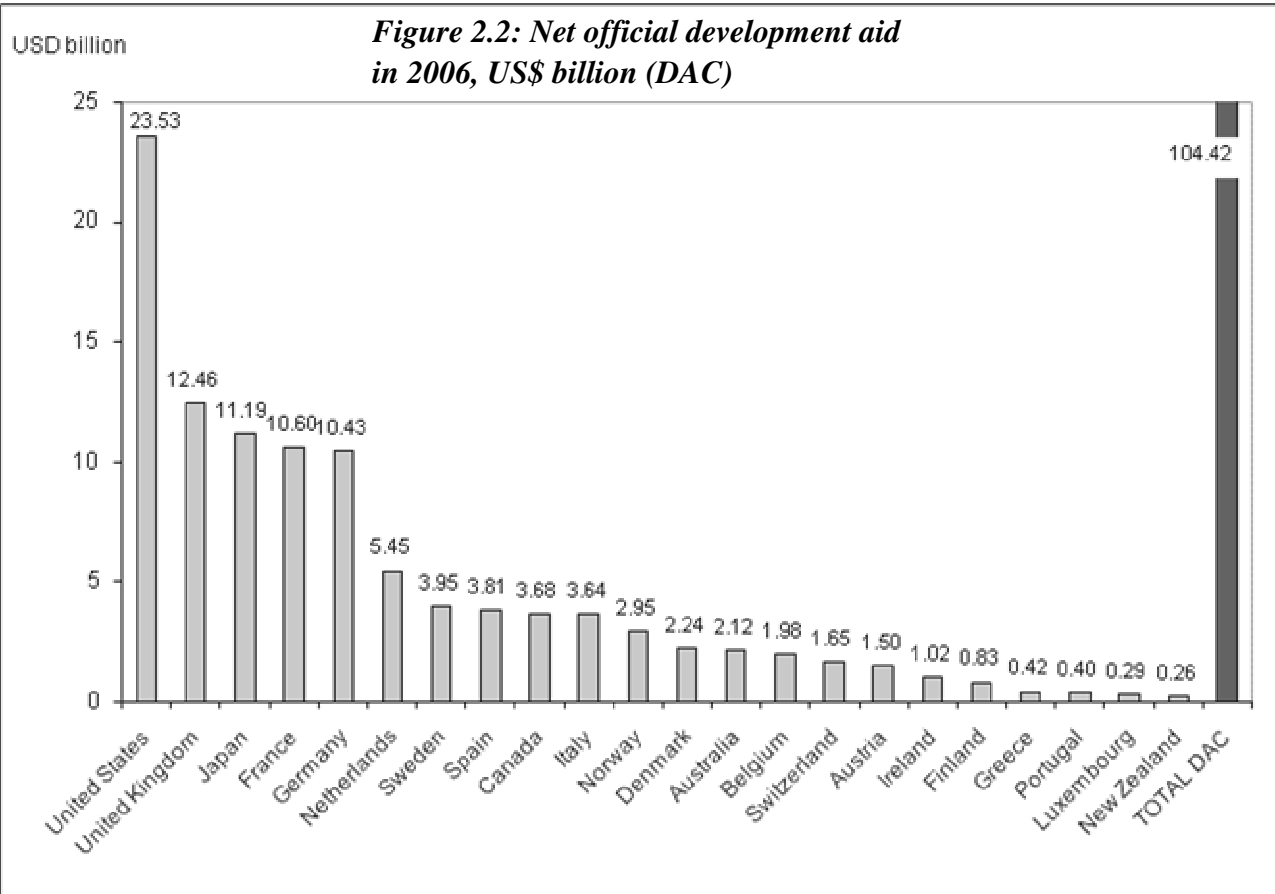
2.6 Available aid funds

2.6.1 Present aid levels

The results of the aid can be expected to be related to the volume. The DAC publishes many documents on aid flows (DAC 2005b). Frequently quoted are the yearly Development Cooperation Report and the statistics in its appendix (DAC 2005b, DAC 2007b). Furthermore, the DAC carries out peer reviews on aid management and effectiveness among the DAC member countries, and it formulates suggestions for improvements in aid strategy, implementation and evaluation. To allow a comparison of aid per donor, the DAC has stipulated a definition of official development aid: 'Official development assistance (ODA) is defined as those flows to countries on Part I of the DAC List (DAC 2008a) and to multilateral institutions for flows to Part I aid recipients which are (DAC 2008e, quote):

- i. provided by official agencies, including state and local governments, or by their executive agencies; and
- ii. each transaction of which:
 - a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
 - b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).

Donor countries' aid contributions for 2006 are presented in figure 2.2 and 2.3 in 2006 dollars (DAC 2007c).



Note that the presented figures are net ODA, repayments on loans are subtracted. The diagrams show that the aid varies considerably among donor countries. The US provides the highest amount in \$ but scores low in terms of % of GNI. The Scandinavian countries and The Netherlands donate the highest percentage, about five times the US'. Most countries do not match the internationally agreed 0,7 % of GNI. Note that the DAC counts 23 member countries (DAC 2008f), but those not included in the diagram give only very little aid. Furthermore, the figure is restricted to DAC countries. Aid from other countries is not included, but it concerns small amounts. Only Saudi Arabia's aid fund is quite large, but its aid consists for a major part of loans, the share of grants is not known.

2.6.2 Aid receipts per world region

Table 2.3 shows the aid receipts per world region in 2005 (World Bank 2006f, 2007b). The regions are listed according to increasing development level.

Table 2.3: Aid receipts 2005, in 2005 \$ (World Bank)

Net ODA Receipts	Net ODA received US\$ mln	ODA/ cap US\$	ODA/ GNI %	Pop. < \$ 1/day PPP * mln, 2004	ODA/ poor person
Sub-Saharan Africa	32620	44	5.5	298	109
South Asia	9260	6	0.9	462	20
Middle East and N. Africa	26946	88	3.9	4	**
East Asia & Pacific	9497	5	0.3	169	56
Latin America & Carib.	6309	11	0.3	47	134
E. Europe, Central Asia, CIS	5731	11	0.2	4	1433
India	1724	2	0.1	375	5
China	1757	1	0.1	128	14

* World Development Indicators 2007, table 2.1, 2.6 and World Development Indicators 2006, table 2.1, 2.7

** The average is meaningless because of the extremely high contribution to Iraq

The high aid level for the region Middle East and N. Africa is solely caused by the aid to Iraq, related to the post-war situation: \$ 21654 million. The next highest contribution is to SSA: absolute, per capita as well as in percentage of GNI. Only in the region Eastern Europe, Central Asia and CIS aid per poor person is higher, but in relation to the region's GNI it is relatively low. SSA is the poorest region, with the highest percentage of people living on less than \$ 1/day PPP. Large numbers of poor people also live in South and East Asia, but there aid per cap, per GNI and per person is considerably lower. The main share of the people in these regions live in the two largest

countries in terms of population: India and China. For both, according to all parameters aid is relatively low, compared to SSA as well as to their region average.

2.6.3 Aid trends and expectations

In order to estimate whether future aid goals are feasible, e.g. the MDGs, also expected aid in the coming years is investigated. The past and expected aid in constant dollars of 2006 (corrected for exchange rate changes and inflation) since 1990 is presented in figure 2.4 (DAC 2008b).

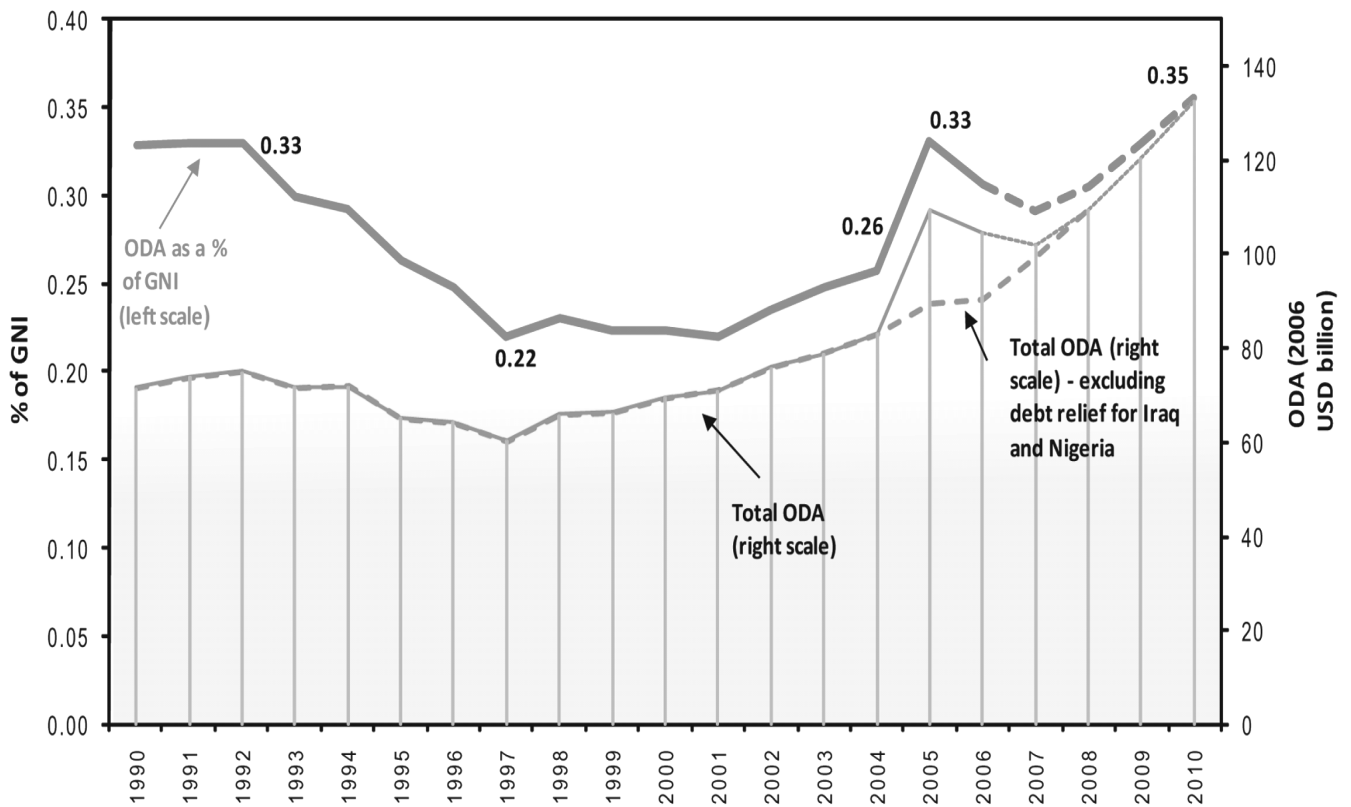


Figure 2.4: ODA as percentage of donor GNI over the years, in 2006 US \$ (DAC)

The figure shows that aid as a percentage of donor GNI has dropped substantially during the 1990s but since then it went up again: from about 0.22% of GNI in 2001 to 0.33% in 2005, the highest level since the early 1990s. In 2005 nearly all donor countries increased their aid considerably (DAC 2006a, table 8). But the aid in that year comprised unusually high debt relief, US \$ 22.7 billion, mostly to Nigeria and Iraq (DAC 2007b, p2). Many DAC member states were of the opinion that this should not be counted as aid because the goal was not development. The relief to Nigeria concerned commercial loans, and to Iraq it aimed at stabilisation of the country. In addition, high

amounts of bilateral aid were given to Afghanistan, for the purpose of stabilisation and humanitarian aid, not pursuing development either. Not counting these components and corrected for inflation, the 2005 ODA remained constant compared to previous years (DAC 2007b, p 15). Compared to 2005, in 2006 aid diminished with 5 % (corrected for inflation), the first fall since 1997. And, according to preliminary data, in 2007 it further diminished with 8.5 % compared to 2006, to 0.28% of GNI (DAC 2009, table 1). But in the coming years the DAC assumes the aid to increase in terms of % of GNI, on top of the increase with 2% /yr, in line with the expected economic growth in the OECD countries. This 2% growth is about equal to the population increase in the poorer developing countries (UN 2006, p 300). Including some additional growth, the aid should reach 0.36% of GNI in 2010, see figure 2.4. Because of the deteriorating world economy in 2008 the DAC's expectations may not come true.

The assumed long term trend for aid to Africa is presented in figure 2.5, in constant \$ of 2004 (DAC 2007b).

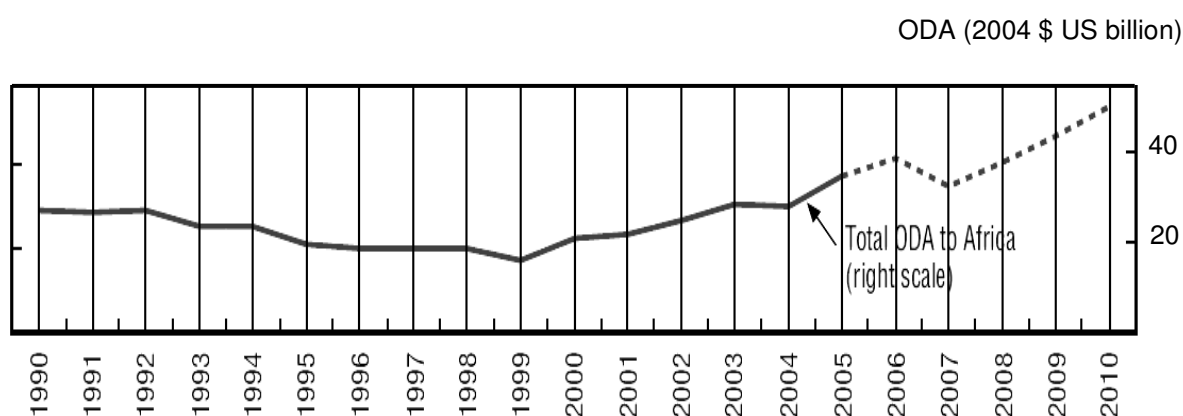


Figure 2.5: ODA to Africa over time (DAC)

It can be observed that over the years aid to Africa followed the general trend. After reducing with about a third during the 1990s, it increased again and it surpassed the 1990 value (in constant dollars) in 2004. Also for aid to Africa, the DAC expects a firm increase, which seems quite optimistic as well. Received aid by world region related to recipient country GDP is presented in table 2.4 for 1990 en 2005. The figure shows that aid to SSA was considerably higher than to the other regions in 1990 already. Aid to India and China was modest at that time too, and relative to GDP it reduced even further (UN 2008b, table 18). Note that when the the large economy of Republic of South Africa is left out, aid as % of GNI in Africa is more than 1½ times higher.

Table 2.4: Aid receipts per world region as % of GDP, over time (UN)

Region	Aid as % of GDP	
	1990	2005
Sub-Saharan Africa	5.7	5.1
South Asia	1.2	0.8
<i>India</i>	<i>0.4</i>	<i>0.2</i>
Middle East, N. Africa	2.9	3.0
East Asia	0.8	0.2
<i>China</i>	<i>0.6</i>	<i>0.1</i>
Latin America, Caribbean	0.5	0.3
Central & E. Europe, CIS	...	0.3
Developing countries	1.4	0.9

2.7 Measured poverty reduction

2.7.1 Changes in income

Over the past decades, in most developing countries the development indicators improved. This concerned social issues like access to clean drinking water and health care, as well as economic development and income. Economic growth in purchasing power since 1975 is shown in table 2.5 (UN 2008b, table 14).

Table 2.5: Growth over time, purchasing power

Region	Annual growth, PPP/capita, %		
	1975-2005 (UN)	1990-2005 (UN)	2005-2006 (WB)
Sub-Saharan Africa	- 0.5	0.5	3.0
South Asia	2.6	3.4	7.0
Arab States	0.7	2.3	3.3
East Asia and the Pacific	6.1	5.8	8.6
Latin America and the Caribbean	0.7	1.2	4.2
Central and Eastern Europe and CIS	1.4	1.4	6.7
High-income OECD	2.1	1.8	2.2

The table shows that high growth/cap was achieved in East Asia and the Pacific, and in recent years also in South Asia. In SSA, since 1975 the situation hardly changed but in

the last years there was some improvement. The tables 2.6 - 2.7. show the number and percentage of people living on less than \$ 1/day PPP (World Bank 2007b, table 2.6).

Table 2.6: People living on less than \$1 a day in millions, PPP (WB)

Region	1981	1984	1987	1990	1993	1996	1999	2002	2004
Sub-Saharan Africa	168	200	223	240	252	286	296	296	298
South Asia	473	457	469	479	440	459	475	485	462
Middle East & North Afr.	9	7	6	5	5	4	6	5	4
East Asia & Pacific	796	564	429	476	420	279	277	227	169
<i>China</i>	634	425	310	374	334	211	223	177	128
Latin America & Carib.	39	51	50	45	39	43	49	48	47
Europe & Central Asia	3	2	2	2	17	21	18	6	4
Total	1489	1281	1179	1247	1172	1093	1120	1067	986
Excluding China	855	856	868	873	838	881	897	890	857

Table 2.7: Share of people living on less than \$1 a day in %, PPP (WB)

Region	1981	1984	1987	1990	1993	1996	1999	2002	2004
Sub-Saharan Africa	42.3	46.2	47.2	46.7	45.5	47.7	45.8	42.8	41.1
South Asia	51.6	46.6	44.9	43.0	37.1	36.6	35.8	34.7	32.0
Middle East & North Afr.	5.1	3.8	3.1	2.3	1.9	1.7	2.1	1.7	1.5
East Asia & Pacific	57.7	39.0	28.2	29.8	25.2	16.1	15.5	12.3	9.0
<i>China</i>	63.8	41.0	28.6	33.0	28.4	17.4	17.8	13.8	9.9
Latin America & Carib.	10.8	13.1	12.1	10.2	8.4	8.9	9.7	9.1	8.6
Europe & Central Asia	0.7	0.5	0.4	0.5	3.6	4.4	3.8	1.3	0.9
Total	40.6	33.0	28.7	28.7	25.6	22.7	22.3	20.4	18.4
Excluding China	32.0	30.1	28.7	27.1	24.6	24.6	23.8	22.6	21.1

The numbers show that, overall, in East Asia and the Pacific a large decrease in income poverty occurred, both in numbers and in percentage. Because of its large population and strong growth, especially the development in China has a large influence on the statistics. In most other regions poverty is reducing as well, although at a slower rate. Only in sub-Saharan Africa poverty hardly diminished, and the number of very poor people continues to increase. In recent years the percentage reduced somewhat.

2.7.2 *Changes in social indicators*

Table 2.8 shows the change in three important poverty relevant indicators, as presented in the World Development Indicators 2008: life expectancy at birth, the share of the population undernourished, and access to an improved water source (World Bank 2008b table 2.16, 2.18, 2.21). These three indicators reflect living conditions and are reasonably well measurable. The table shows that according to all three indicators poverty reduced and life became better in all regions of the world. But in sub-Saharan Africa only the provision of services like drinking water supply improved. Life expectancy remained constant and the percentage of people under-nourished as well. The increase in under-nourishment from 29% to 30% is too small to be statistically significant. In the region Eastern Europe and Central Asia the situation did not change either. But after the disintegration of the Soviet Union the situation first deteriorated. In 1999-2001 malnourishment was 9% and since then it improved, to 6% in 2002-2004.

Table 2.8: Trends in human development indicators, per region (WB)

Human development indicators	Life expectation at birth		Population undernourished		Population with access to an improved water source	
	%		%		%	
Region / year	1990	2006	1990/92	2002/04	1990	2006
Sub-Saharan Africa	50	50	29	30	49	56
South Asia	59	64	26	21	71	84
Middle East & N. Africa	64	70	6	7	88	89
East Asia and the Pacific	67	71	17	12	72	79
Latin America, Caribbean	68	73	13	10	83	91
E. Europe, Centr. Asia	69	69	6	6	92	92
High income	76	79	3	3	100	100

2.7.3 *Progress towards the Millennium Development Goals*

The UN report 'Investing in development: a practical plan to achieve the Millennium Development Goals' (the 'Sachs report', Sachs 2005) presents a detailed overview of the progress towards the Goals about half way the period to achieve them (1990-2015), see appendix 1. The table presents the results for 10 world regions and for the 20 sub-goals for which quantitative targets were formulated. From these 200 fields 8 fields do not provide information because of lack of data or because the issue is not relevant (e.g. 'reverse loss of forest' in desert countries). 73 of the remaining 192 fields indicate that the sub-goal is 'met' or that progress is 'on track', or that the score is acceptable because

in that region it was quite good already. The other 119 fields are indicated as unsatisfactory, e.g. 'lagging', 'no change' and 'high' (e.g. child mortality). The positive score is 73 out of 192, or 38 %. As an average over the regions (not weighted), more than 60% the goals are expected not to be achieved. The latest reports regarding the MDGs confirm the overall pattern, but with one exception: the scores for Eastern Asia improve faster than anticipated. Eastern Asia is now 'on track' also on reducing hunger, girls equal enrolment in both primary and secondary education, reducing child mortality, reversing the spread of TB, and halving the proportion of people without safe drinking water in both rural and urban areas (World Bank 2006f; UN 2007d). That means a positive score for 13 out of 20 of the goals instead of 6 out of 18. This brings the world wide score on 80 out of 194, or 41%. The share per region of goals 'on target' is presented in table 2.9. It should be noted that there is no generally accepted list of definitions and targets regarding the MDGs. The aid organisations all have their own interpretation.

Table 2.9: Share of Millennium Goals expected to be achieved (UN)

Region	Goals 'on track'
Northern Africa	12 out of 18
CIS (former USSR) in Europe	11 out of 20
Idem, in Asia	11 out of 20
Latin America & Caribbean	10 out of 20
South-Eastern Asia	9 out of 20
Eastern Asia	13 out of 20
Southern Asia	4 out of 20
Western Asia	5 out of 18
Oceania	5 out of 18
Sub-Saharan Africa	0 out of 20
Total score	80 out of 194

* not weighted, data from 2001-2002, for East Asia from 2004 and 2005

Because of the high population in Eastern Asia, the score would improve somewhat further still if the scores are weighted for population. Yet, the overall result is rather poor. It is highly unlikely that, by 2015, the Millennium Development Goals will be met. Most of the goals concern infrastructure and services and, especially in the poorer countries, their achievement depends for a major part on donor funding. The funding is insufficient to achieve the goals.

2.8 The contribution of aid to poverty reduction

2.8.1 Methodological difficulties to trace the effect of aid

One way to investigate the effect of aid is through the mechanism according to which specific aid measures affect poverty related issues in individual countries. For instance, the effect of health programs on the health care system and on health status can be analysed. But that is quite difficult. There are several problems to deal with:

- attribution: separating the influence of a specific measure from all the other influences and linking (part of) a result to that very measure (Späth B. 2004, p 5);
- aggregation: determining how various development efforts of a different nature together bring about a specific effect (Späth B. 2004, p 24);
- fungibility: development aid in a certain area causing the recipient government to spend less in that area and use the saved funds for something else, e.g. weapons (Molund and Schill 2004);
- (poor) traceability: aid funds disappearing in the total amount of government funds e.g. budget support (EU 2003);
- insignificance: a donor intervention not reaching the threshold to generate a discernible effect (Esser 2003, p 51);
- (poor) sustainability: results that do not last because they require long term financial, technical or organisational support in the recipient country that is not forthcoming (EU 2007a).

Because of these difficulties, the effects of the aid are generally hard to detect. Therefore, policy makers and evaluators are usually satisfied if the relation between aid measure and effect can be made plausible by showing a convincing chain of causes and effects between measure and final result (DFID 2003, p 4, 19, 21). But if the aid measures really bring the assumed effects then, overall, there should be a clear correlation between aid and development, e.g. in terms of per capita economic growth and in progress towards the millennium goals. The findings in section 2.7 suggest that there is little correlation, though. The large amounts of aid/capita to SSA did not bring development, other regions performed much better (table 2.4-2.9) In the next sections the overall relation between aid and development is further investigated.

2.8.2 The statistical relation between aid and development world wide

The findings in the previous sections show a strong correlation between economic growth and poverty reduction. It can be assumed that the relation is causal and that economic growth causes poverty reduction, because when people are less poor, they can afford sufficient food, adequate medicines and safe drinking water. This cause-effect

relation implies that, if economic growth can be brought about by aid, then aid would also contribute to poverty reduction. Whether aid causes economic development was extensively investigated by Easterly (2003). Figure 2.6. shows the long term correlation between aid volume as percentage of recipient's countries' GDP and growth of GDP per capita, for African countries.

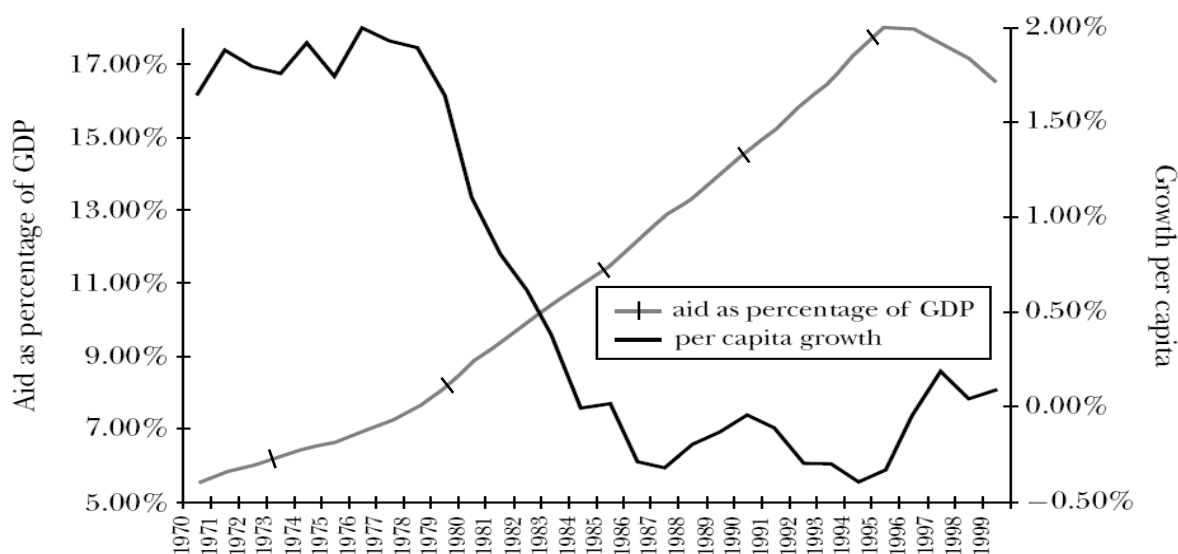


Figure 2.6: Statistical relation between the amount of aid to SSA countries as percentage of recipients' GDP and growth of per capita GDP (Easterly, WB data)

It can be observed that the statistical correlation between aid and economic development is reverse. Because many factors affect development, that does not prove that aid cannot possibly support economic development. The correlation concerns only aid in general, and it is quite possible that in certain circumstances aid of a specific kind does contribute to development. But in the macro-economic data, for the developing countries combined, a correlation between aid and development cannot be found. A positive effect of aid on economic growth cannot be detected.

2.8.3 Relation between aid and poverty reduction per world region

If aid advances growth and poverty reduction then, on average, the world regions that receive the highest aid should show the strongest development and the fastest improvements in the poverty indicators. But the tables 2.4 – 2.9 show that there is no relation between aid received and development. This is illustrated by the development in SSA and Asia. In 1981 East and South Asia were the poorest regions of the world (2.7.1), but aid was always very low (2.6). Yet, economic growth was very strong, the number of very poor people diminished considerably, and life expectation and malnourishment improved substantially as well (2.7). In contrast, in SSA, the third

poorest region in 1981, aid/cap and as % of GNI has always been relatively high (2.6). But poverty remained at a constant high level, and it is the poorest region in the world for many years already. Life expectancy and malnourishment did not improve, and the percentage of very poor people (less than \$ 1/day PPP) hardly changed (2.7). The conclusion is that, per world region, aid does not predict for growth or for poverty reduction.

2.8.4 Aid and the recent growth in Africa

The 3% growth in GNI/cap PPP in sub-Saharan Africa in 2006 could be interpreted as a sign that aid finally achieves results. But the underlying causes of the growth show that there is little reason to assume that aid played a major role. The UNCTAD (UN 2008a) investigated economic development in Africa, especially its export. Export is an important indicator of competitiveness, and a condition for sustainable growth. The UNCTAD found that export value increased indeed during recent years, but it concludes that 'it is only the rising prices of fuels, minerals and other primary commodities since 2002 that have maintained African export value growth at a level comparable with that in other developing regions' (UN 2008a, p 27-28). Economic growth was especially strong in the oil exporting countries, because of the high oil price increase (p 18). Agricultural production modestly increased (32) but not as a result of improved productivity (45). Illustrative is the yield per hectare of cereals in SSA since 1960, compared to other world regions, see figure 2.7.

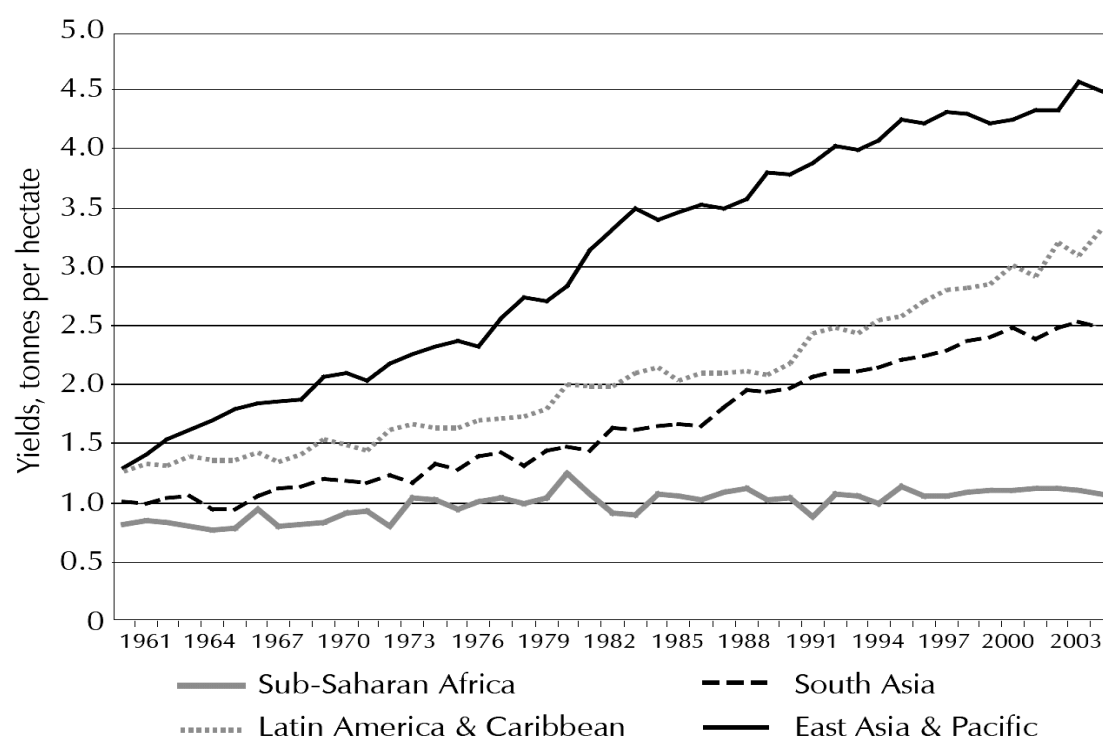


Figure 2.7: Cereal yields, sub-Saharan Africa, other developing regions (UNCTAD)

Most poor people are subsistence farmers and live on cereals. Whereas in all regions of the World productivity in terms of ton/ha increased over the years, in SSA it remained at a constant, very low level. Furthermore, growth in higher value crops was very modest: 'Much of Africa continues to be dependent on traditional bulk agricultural commodities for a major share of its export earnings'. (But:) 'African countries have been losing market share to other developing countries even in exports of these commodities' (51). Also manufacturing exports remained very small: In the period 1999-2006, 'Sub-Saharan Africa accounted for about 0.5 per cent of world trade in manufactured products, but the share was only 0.23 per cent if South Africa was excluded (57, 60)'.

Some SSA countries show economic growth as well as improving poverty indicators over many years, though. According to the IMF's Regional Economic Outlook for SSA (IMF 2008b, p 2), these countries 'avoided major policy failures', and 'pursued sound economic policies'. In this way, they 'achieved macro-economic stability, including stable and low inflation and debt sustainability'. Furthermore, foreign direct investments (FDI) played an important role in the achieved growth, they increased not only because of the high prices of oil, but also of the non-oil commodities (p 6). But when these prices fall again, FDI will drop too. The high prices have a negative effect as well. Nearly all SSA countries depend on imports for their staple food. Poor people in the cities and landless labourers in the rural areas cannot afford the higher prices and will increasingly suffer from hunger. Therefore, in spite of the economic growth, poverty may actually increase (11, 12).

Neither the UNCTAD nor the IMF mentions aid as a main driving force in the achieved growth. The IMF states that aid may contribute to growth when it is used for 'productivity enhancing investments' (2). But world wide, only very little aid is spent on the productive sectors: according to the DAC's online statistics less than 5% (\$ 4.6 billion out of a total of \$ 106.7 in 2005), for all productive sectors (OECD 2005). The conclusion is that the recent growth in SSA is mainly an effect of higher prices, not of increasing productivity. This is illustrated by figure 2.7, which shows the stagnating soil productivity in SSA. According to UNCTAD, an important reason is that African farmers lack the capabilities to match EU standards in agriculture, and it stresses the importance of capacity building (50, 83).

In summary, the recent economic growth in SSA is predominantly the direct and indirect result of increased world market prices of fuel and other commodities. In some countries improved economic policies played a role too. But many poor people may actually suffer from the increased food prices, and hunger may increase. A significant contribution of aid to the achieved growth could not be found.

2.9 Conclusions

A fair share of the world population is quite poor and lives in miserable conditions. 1 billion people live on less than 1 \$ /day PPP, have hardly access to health care, have a short life expectancy, and generally suffer from hunger. 300 million of them live in SSA (2004), large numbers also live in S. and E. Asia.

The rich countries provide aid to the developing countries to support development and reduce poverty, about \$ 100 billion in 2006. Their main goals are the DAC's human 'capabilities' that concentrate on social issues, and the UN's Millennium Development Goals that focus predominantly on public services and comprise measurable targets to be achieved in 2015. Especially in poor regions the aid constitutes a substantial share of the funds available in the developing countries and of government spending. It generally amounts to several percent of GDP. The aid is especially high in SSA: over 5 % of GNP, and 44 \$ per capita. Per very poor person (< \$ 1/day PPP), SSA receives \$ 109, 20 times more than India that counts 25% more very poor people (data 2005).

In most world regions poverty reduces, but there are large differences. In China, since 1981 the number of very poor people (living on less than \$ 1/day purchasing power) reduced from 64% to 10%, whereas in SSA the number remained high, about 44%. In recent years it reduced a few percent, but the improvement is caused by the high commodity prices and cannot be attributed to the aid. In addition, world wide life expectancy improved and malnourishment reduced almost everywhere, except in SSA. It can be observed that there is a strong correlation between economic growth and poverty reduction. The substantial poverty reduction in the fast growing regions East and South Asia illustrates this. The relation can be assumed to be causal: richer people can afford adequate food, medicines and clean water. But the tangible goals of the aid, the MDGs, cannot be expected to be met. The amount of donor funds is too low, and if the present trend continues, in the ten world regions, on average (unweighted) 40% of the sub-goals will be met (table 2.9).

Furthermore, although overall poverty reduces there is no evidence that, in general, aid plays a significant role. Regions that hardly received any aid, e.g. East and South Asia, developed very well and in the region that received most aid, SSA, development stagnated and living conditions did not improve: life expectation did not increase, malnourishment did not diminish. The economic growth in SSA in recent years was the result of price increases of oil and other commodities, not of aid. Furthermore, in 2007 and 2008 in SSA poverty and hunger aggravated because of the high food prices. The long term statistical correlation between aid and development world wide is even

reverse. A clear relation between aid and development cannot be detected. That does not prove that aid has no effect, but it does show that the effect is insufficient to stand out among other influences that affect growth and poverty reduction.

The overall conclusion is that, based on the available data on development aid and on poverty per world region, a significant result of aid with regard to poverty cannot be detected. During the past 25 years SSA received the highest amounts of aid per capita and remained very poor, whereas East Asia received very little aid per capita, and developed fast. Other factors play a more important role.

This implies that the Dutch development cooperation cannot be assumed to be successful on the argument that it gives development aid just like others donors do. Also if it gives more aid (in % of GNI) than other donors do, there is still no reason to assume that it will have an effect. On the other hand, there is no proof that the Dutch aid cannot possibly be successful. It could be that the Dutch programs (or some) are better designed and/or implemented and do achieve results. In the next chapter it is investigated to what extent the Dutch aid achieved the desired results, and if these were not achieved, what kind of management problems played a role.

CHAPTER 3: GOALS AND RESULTS OF THE DUTCH DEVELOPMENT COOPERATION

3.1 Introduction

The question to be answered in this chapter is:

What are the goals and results of the Dutch development cooperation, and what are the key management aspects that play a role in their achievement?

To answer the question, the main and intermediate goals and final and intermediate results of the Dutch aid are analysed. Also the way the results were pursued is analysed, as that provides insights in the reasons why some results are achieved and others are not. The reasons why results are achieved or not, enable the identification of the management aspects that play a role in the success of the aid.

The investigation consists of two main sections. The first one focuses on the goals. The history of the Dutch aid policy is briefly investigated to illustrate the development of the ideas behind the choices. Next, the influence on the goals of advisory committees and ministers of development cooperation in recent years is analysed. Certain guiding principles have an effect on the results too, and they are analysed as well, e.g. guidelines regarding the division of the funds over the themes, and regarding the nature of the cooperation with Dutch funded partner organisations. The second section concerns the aid efforts to achieve the goals, the results achieved and the reasons why. Whereas in the previous chapter the analysis focused on world regions, in this chapter the analysis is at a lower level of aggregation. Individual aid programs (sets of projects concerning the same theme) and sub-programs are investigated, each targeting several countries. In some cases the cost-benefit relation is investigated too. Based on these investigations, the key types of management aspects that play a role in the success of the Dutch aid are identified.

3.2 A brief history of the Dutch aid policy

The history of Dutch development assistance started in 1949. In response to the establishment of the UN Expanded Programme of Technical Assistance (EPTA), in October 1949 the Dutch government decided to donate it a contribution of 1.5 million guilders (Beurden and Gewalt 2004, p 15). In 1964 the Directoraat-Generaal voor Internationale Samenwerking (Directorate General for in International Cooperation) was founded, which since then coordinates the major part of the Dutch aid. The first

Minister without Portfolio for development cooperation was appointed in 1965. In these days the Ministry of Economic Affairs played an important role. It was responsible for financing projects initiated by trade and industry, that constituted a major part of the programme. Also the bilateral financial aid programme came under its responsibility (Hoebink 1996, Paragraph 1.2). In 1973 minister Pronk became responsible for all aid. He declared that development aid was to be 'for the poor, as much and as directly as possible'. To that end 'a modification in production structures needs to take place and a change in the distribution of incomes is to be brought about, ... (also,) besides nation-building ... a more equal division of power has to be pursued ... (and) social mobility and emancipation has to be reached' (Nijzink 1984, p 45). When in 1989 Pronk became minister for development cooperation for the second time, he added as aid objectives the improvement of human rights, the protection of the natural environment, and alleviating problems caused by developments on the world market. The central goal became sustainable poverty reduction. The aid should aim at investment in people, the provision of basic needs, broadening poor people's participation in political decision-making, growth of production and equitable distribution. A couple of years later he added the objective '...to support peace enforcement and peace keeping' (Hoebink 1996, section 1.3). In 1965 the development budget of the Netherlands was about 200 million guilders. It achieved 4.6 billion guilders (€ 2.1 billion) in 1985 (Hoebink 1988, pp. 51, 56, 61, 64, 72). In 1996 it was fixed at 0.8% of GDP. The development of the amount between 1985 and 2001 is presented in figure 3.1 (IOB 2002b, par. 2.2.1). The amount of aid in more recent years is discussed in section 3.3.6. It can be observed that, over the years, the Dutch development cooperation evolved from an aspect of economic foreign policy to a comprehensive development policy with a substantial budget.

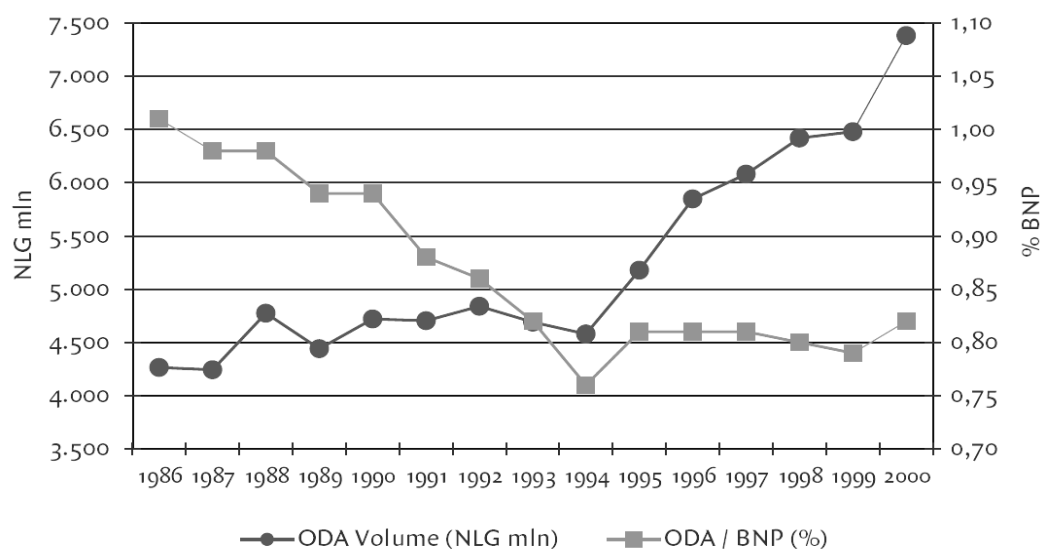


Figure 3.1: Dutch ODA over the years (IOB)

3.3 The goals of the Dutch aid: a review of policy documents

3.3.1 *Report Effectiveness and coherence of development cooperation*

In 2003 a committee of politicians and experts presented the report 'Effectiveness and coherence of development cooperation' (Werkgroep Effectiviteit en Coherentie 2003), comprising an array of recommendations. The Millennium Development Goals should be leading (p 5). Because good governance is strongly correlated with economic growth and poverty reduction, the aid should concentrate on well-governed countries. Low inflation, modest government consumption, a well developed financial sector, and a good education system, both quantitatively and qualitatively should be supported to achieve 'pro poor growth', i.e. the incomes of the poor increasing faster than average (Werkgroep Effectiviteit en Coherentie p 19, referring to Burnside and Dollar 1997, Ravallion 2001, and Ghura and Leite 2002). Also aid addressing the other goals should be continued, e.g. regarding social services (p 6), environment, gender equality (7), debt relief (8), institutional development and good governance (40). Coherence in foreign and domestic policy (e.g. the rich countries' trade policy taking into account the interest of the developing countries as well) should be advanced. The economic benefits of 50% reduction in policy incoherence would amount to 120 billion US\$ for the developed countries and 160 billion for the developing countries (Bouwmeester, Burger and Stolwijk, p 12). The most important coherence- related recommendations of the committee were:

- To reduce market protection in the OECD countries for products from developing countries, by lower quota and tariffs and less subsidies on OECD produce.
- To facilitate temporary migration of labourers from developing countries (Bouwmeester, Burger and Stolwijk p 12-14)
- To achieve coherence between the policies of all donors, the Netherlands should advocate its views in international organisations like the World Bank, UN and EU, and on international conferences.
- The 'channel' (bilateral, multilateral, NGOs, private companies): Because of easier coordination and available experience multilateral aid should be increased.
- NGOs: The aid to large Dutch NGOs should be made performance-dependent.
- Private sector: To boost economic growth, aid for private sector development should be increased, e.g. doubled.
- Selected recipient countries: In order to achieve the highest effectiveness aid should be concentrated on a smaller number of well-governed countries.
- The financing mode: Rather than per project, aid should be given in the form of budget support (per sector or 'macro') as much as possible, as it allows the recipient

government to exert full control over its disbursement and will feel more responsible for its use ('ownership').

- Untied versus tied aid: As procurement in the donor country negatively affects the price-performance relation, the share of 'tied aid' (goods to be bought in the donor country) should be reduced.
- Input targets (financial volumes): Instead of input targets the spending of the funds should depend on the expected effect on poverty reduction of the financed organisations and activities.
- Monitoring and evaluation: The evaluations should assess the effect on poverty reduction caused by the financed organisations and activities, and the effects of different approaches (Joint Implementation Network 2003, p 5-8).

Reflection on the report Effectiveness and coherence

The report presents a list of recommendations about the way the Dutch aid process should be organised. But it does not comment on the Dutch aid goals, nor on the situation in the developing countries and the processes that should take place there to achieve poverty reduction. Furthermore, it is not clear whether the formulated recommendations are based on evidence about effectiveness. Increased coherence can indeed be expected to lead to more efficiency, but it is no guarantee that it leads to aid efforts that bring about desirable results. For instance, opening up the OECD markets is intended to help the poor farmers in SSA, but these may be unable to compete with large, modern estates in Argentina and Brazil. The proposed temporary migration of labourers could result in large scale permanent migration to the Netherlands, resulting in brain drain from the developing countries and social tensions in the Netherlands. The assumed higher effectiveness of the multilateral organisations is not checked, no reference is made to past performance. All in all, the contribution of the recommended measures to poverty reduction is questionable.

3.3.2 Policy Note of minister Van Ardenne

Based on the report analysed above the Dutch minister for development cooperation, Mrs. Van Ardenne, presented her Policy Note 'Aan Elkaar Verplicht, Ontwikkelings-samenwerking op weg naar 2015' (Mutual Interest, Mutual Responsibilities, Development Cooperation Heading for 2015 - MFA 2003a), also referred to as 'the AEV Note'. The Millennium Development Goals (MDGs) are leading. The *main aims* are:

- Increasing everybody's active involvement in the realisation of the MDGs in 2015;
- Improving the quality and effectiveness of development cooperation;
- Making the efforts and the results of the Dutch development cooperation more manifest (MFA 2003a, p 3).

Ten *main points* of the Dutch development cooperation policy are mentioned (MFA 2003a, p 3-5, 14):

- Concentration: For several themes input targets are applied: the overall aid volume will be 0.8% of GDP; 15% of the budget is spent on literacy, basic education and vocational training; and 0.1% of GDP is spent on environment and water. Other *main themes* are combating AIDS and improving reproductive health. To increase efficiency the number of countries receiving bilateral aid is reduced from 49 to 36, see Appendix 2.1 (MFA 2003a), the number of sectors per country to two or three.
- Result oriented: For all aid measures their expected contribution to education, environmental protection, water, reproductive health and combating AIDS will be determined in advance.
- Partnership: Cooperation is sought with Dutch and local partners e.g. civilians, companies, knowledge institutes, organisations and governments.
- Bilateral policy: Long term aid is provided through budget support as much as possible. Private companies and civil society organisations will be more involved. The own poverty reduction strategy of the recipient country will be leading. *Important issues* are good governance, human rights, institution building, business climate, fighting corruption, the financial sector, trade capacity and the macro-economic position.
- Regional policy: At least 50% of bilateral aid is destined for sub-Saharan Africa and is to be used for poverty reduction and economic growth, environmental protection and water supply. In the regions Horn of Africa and Big Lakes the focus is on stability and safety enhancement, in the Balkan on stability and economic development.
- Integrated policy: The Dutch policy will comprise diplomacy, political dialogue and pressure, safety policy, trade, market access for the developing countries and development aid, both in the Hague and at the embassies.
- Stability fund: A stability fund will be established in cooperation between the ministers of Foreign Affairs and Development Cooperation to carry out activities on short notice in the field of peace, safety and stability in developing countries.
- Coherence: will be enhanced, including the policy with respect to the international trade and investment system. The companies of the developing countries should be supported to compete effectively on the international market.
- AIDS and reproductive health: The Dutch policy will comprise cooperation with new partners, enhancement of political engagement in the developing countries and international organisations, prevention and treatment, reduction of the effects of loss of human capacity in the society and sex education and contraceptives.
- Multilateral organisations: The Netherlands will remain an important donor of the multilateral organisations, the Dutch contribution will focus on the MDGs and on

quality, effectiveness and results. The EU too will be incited to improve efficiency, effectiveness, cooperation and complementarity.

Furthermore the minister mentions the following *priority issues* (MFA 2003a, p 13):

- Integrated aid, i.e. taking into account the relations between issues like poverty, safety, human rights, international legal order, and between aid, diplomacy, political dialogue and pressure, safety policy, fair trade and market access;
- The typical problems in Africa;
- A regional approach, concentrating on groups of countries sharing specific problems, e.g. regarding conflicts and environmental degradation.

In addition, the minister's Policy Note comprises various *guiding principles, important issues, points to focus on*, and many other priorities.

Reflection on the AEV Note

It can be observed that the policy is quite comprehensive, it encompasses a multitude of priorities and issues to be addressed, e.g. main aims, main points, priority issues, guiding principles, et cetera. But this causes the policy to be fragmented, it is difficult to discern a clear strategy. The intention that for all aid measure the results should be determined in advance seems unrealistic, often it is not even possible to determine the results after completion (2.8.1). Like the report 'Effectiveness and coherence', the intentions concern mainly organisational aspects of the Dutch own aid process, e.g. an internally coherent, integrated policy, and cooperation with multilateral organisations. But it does not comment on the goals to be achieved with respect to poverty, nor on the processes in the developing countries to achieve these goals. Consequently, the relation between the topics in the report and poverty reduction remains unclear. Furthermore, all objectives mentioned in the report are rather meaningless if indeed 'ownership' is taken seriously and 'the own poverty reduction strategy of the recipient country will be leading'. Because that would imply that the recipient country decides whether for instance good governance, human rights, fighting corruption are 'important issues', and how much the aid on education and environment should be. The minister's Note seems practical for internal decision making but the implications for the aid content are unclear.

3.3.3 Policy Note of minister Koenders

The new minister Koenders assumed office in February 2007 and presented his Policy Note: 'Een zaak van iedereen, investeren in ontwikkeling in een veranderende wereld' ('Everyone's business, investing in development in a changing world') in October 2007 (Koenders 2007). All in all, minister Koenders maintains the basic principles of the past aid policy, e.g. regarding the main goals and the cooperation with the partner

organisation. He too mentions a very large number of goals and topics that should be addressed, without specifying clear priorities. A new issue is that the partner countries are grouped in three categories:

- The poorest countries, that will be supported mainly in realising the MDGs
- Countries where conflicts threaten public safety: the aid aims at conflict prevention, mitigation, governance reinforcement and infrastructure reconstruction, e.g. in Burundi, Colombia, Pakistan and Sudan (some are 'new' partner countries)
- Somewhat more developed countries: these will receive support in specific fields but the development cooperation will be gradually terminated, e.g. Bosnia Herzegovina, Cape Verde and Sri Lanka (p 32).

Mr. Koenders also shifts the focus somewhat. More efforts will be made regarding conflict prevention, mitigation and post-conflict reconstruction (p 16). The Note stresses the importance of more political debate in the developing countries, with participation of 'trade unions, employers organisations, science institutes, civil society organisations, the media, women's organisations and civil rights groups' (23, 36). The country's population should be involved in the determination of the priorities and should control the implementation of the agreed policy (13). The Note also stresses the importance of private sector development and growth, which should be advanced by 'a macro and sector policy aiming at distribution, labour rights, society friendly entrepreneurship and employment' (22). The benefits for the poor should be guaranteed through 'distribution of growth and income' (39) and by giving the poor 'access to the means of production' (24). Health Insurance Funds should be set up to improve access to health care for the poor, e.g. in Tanzania (25). Child labour will be combated and the position of women improved, e.g. in Egypt (39). Furthermore, 'all women and men, boys and girls shall be able to decide themselves about what they do in the field of procreation' (26). The climate change is addressed by large scale biomass production for fuel, e.g. through palm oil plantations in Indonesia, access to clean energy in SSA, and by forest protection in the Congo and Amazon basins (30, 31).

Reflection on the Note Everyone's business

It can be observed that in Minister Koenders' Note is largely in line with the policy in the previous years. It is also similar with respect to the main goals and the focus on the Dutch own aid process. But it introduces a number of ambitious new objectives that reflect the ideas of minister Pronk in the 1970s (section 3.2). Many of these issues do not match the social culture and the political system of the developing countries, though. For instance, the proposed freedom for boys and girls in the field of procreation will be unacceptable in many countries. The distribution of growth and income to benefit the poor assumes a general willingness of the richer population to voluntarily share their wealth with the poor, but there is little evidence for such willingness in

developing countries. Furthermore, because of the hierarchical way power is executed in most developing countries, the involvement of the whole population in the determination and implementation of the government policy will not be feasible either. Minister Koenders' new initiatives are interesting, but they cannot be expected to be feasible.

3.3.4 Explanatory Memoranda to the Budget

Policy issues, operational goals, and pursued results

The official title for the Explanatory Memorandum is 'Vaststelling van de begrotingsstaat van het Ministerie van Buitenlandse Zaken (V) voor het jaar ... , Memorie van Toelichting' (Determination of the Budget of the Ministry of Foreign Affairs (V) for the year ... , Explanatory Memorandum). It is further referred to as the 'Explanatory Memorandum', or the 'Memorandum' (MFA 2002b). It describes the ministry's foreign policy for the year to come, not only for development cooperation but for the foreign policy in general. Here the Memoranda for the 2003 budget prepared under minister Herfkens and the one for 2006 prepared under minister Van Ardenne are analysed.

The present minister, Koenders, was responsible for the Memorandum for 2008, but it does not deviate very much from the previous ones. Several new goals in his Policy Note (section 3.3.3), e.g. the improved access for the poor to the means of production or combating child labour, were not included in the Memorandum. Others were mentioned, e.g. a fairer distribution of income (MFA 2002b p 76; MFA 2007b), and an income insurance system, but no measures were formulated to realise them. Only the increased focus on conflicts (prevention, mitigation and post-conflict reconstruction, p 45-49) and the support to health insurance funds (p 78, 81) were operationalised.

Also the structure of the Memoranda hardly changed. The 2003 issue comprised fifteen 'beleidsartikelen' (policy issues), corresponding to the main themes in the policy documents. They are divided into many 'geöperationaliseerde doelstellingen en instrumenten' (operational objectives and instruments), further sub-divided in 'na streven resultaten' (pursued results) per policy issue, as well as the budget per (sub-) policy issue. In the 2006 and the 2008 Memoranda the operational goals are grouped together under eight policy issues but the same main themes are addressed. In the 2008 Memorandum the 'pursued results' are called 'intended policy effects'. It can be observed that the Memoranda largely reflect the ministers' Policy Notes, though not all intentions in the Policy Notes are adopted in the Memorandum. The Memoranda show that since 2003 only minor changes in the policy took place.

3.3.5 Goals and objectives in cause - effect diagrams

For a better assessment of the goals, and of the relation between main goals, intermediate and immediate objectives, a visual presentation of the main aid objectives was made. To appreciate the changes over the years, the data of 2003 and 2006 are compared. All goals and objectives of the 2003 and 2006 Memoranda are presented in logical framework-like cause-effect diagrams (fig. 3.2 and 3.3), which makes their causal relations and their contribution to the overall goal, poverty reduction, easy to detect (MFA 2007b). But especially for the 2003 Memorandum the diagram was difficult to accomplish. Often, the Memorandum's 'operational goals' are not really operational, as they are not specific and because they do not concern concrete effects contributing to the 'policy issues', i.e. main goals per theme. Some examples of these 'operational goals' illustrate this:

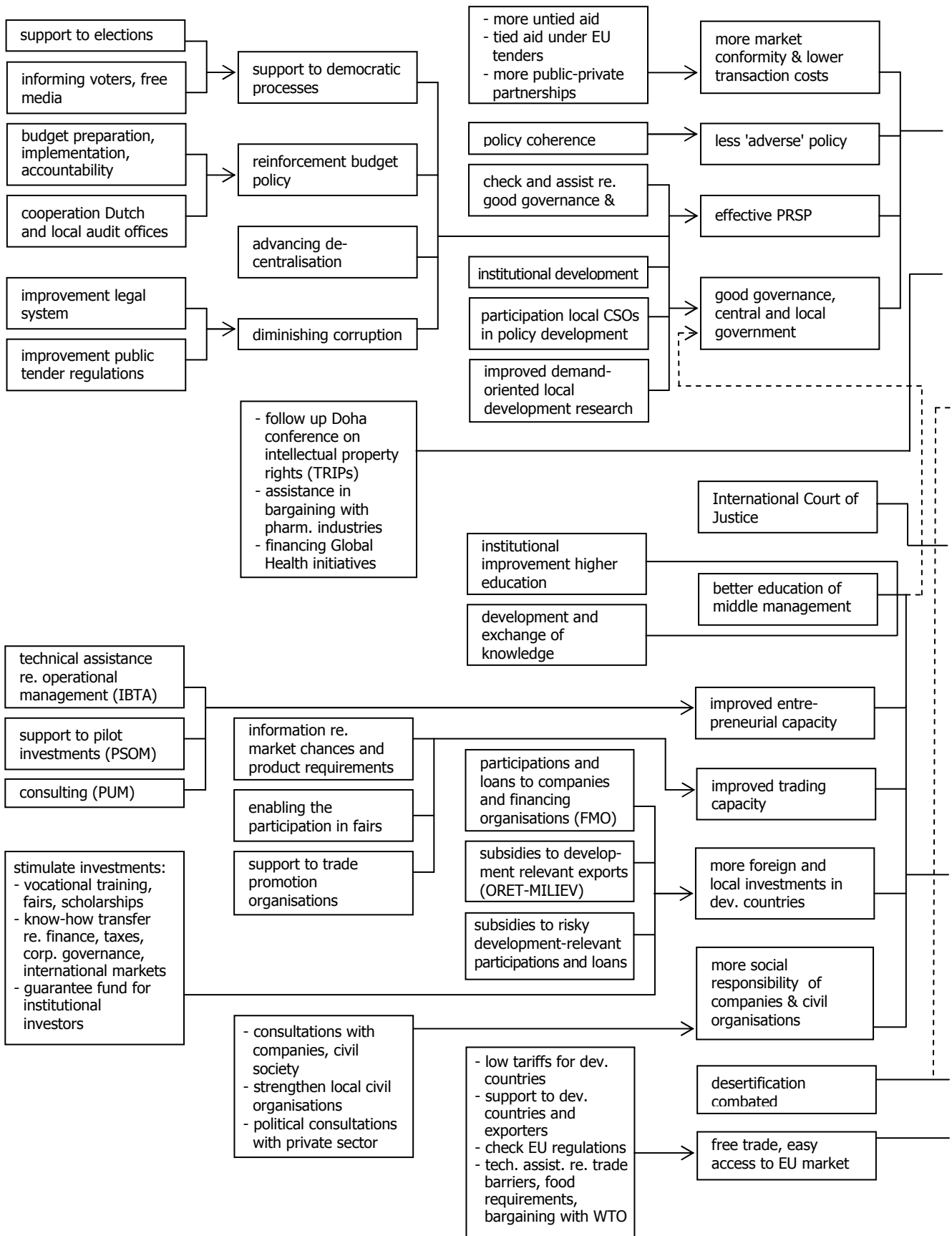
- With respect to human rights: 'Integration of human rights in the development cooperation policy' (p 74); 'Further reinforcement of the policy relation between human rights and conflicts' (p 75);
- Good governance: 'Support to democratic processes' (p 75); 'Reinforcement of the budgeting policy in the partner countries' (p 76);
- Bilateral development cooperation: 'Concentration of the structural bilateral aid on a limited number of poor developing countries' (p 99).

These intermediate goals do not commit to any concrete results. For the poor nothing is changed when 'human rights are integrated in the development cooperation policy'. Often, the 'pursued results' are not operational either:

- With respect to human rights: 'Worked-out policy regarding the relation between the development and human rights policy' (p 74); 'Support to initiatives against impunity' (p 75);
- Good governance: 'Intensified dialogue with a number of developing countries about combating corruption' (p77);
- Reduction of the number of partner countries for bilateral aid: 'Better visibility of the effects of poverty reduction and gender equality' (p 105).

Also in this case the 'pursued results' are not operational, they are quite vague and do not call for specific development efforts. Fortunately, throughout the text of the Memorandum many other intentions and objectives were found that could be classified as activities, intermediate objectives or final goals and their cause-effect relations could be determined. It should be noted that for the 2003 diagram the causal relations are often the author's interpretation. The cause-effect diagrams are presented in the figures 3.2 and 3.3.

Figure 3.2 : Objectives of the Dutch development cooperation, 2003



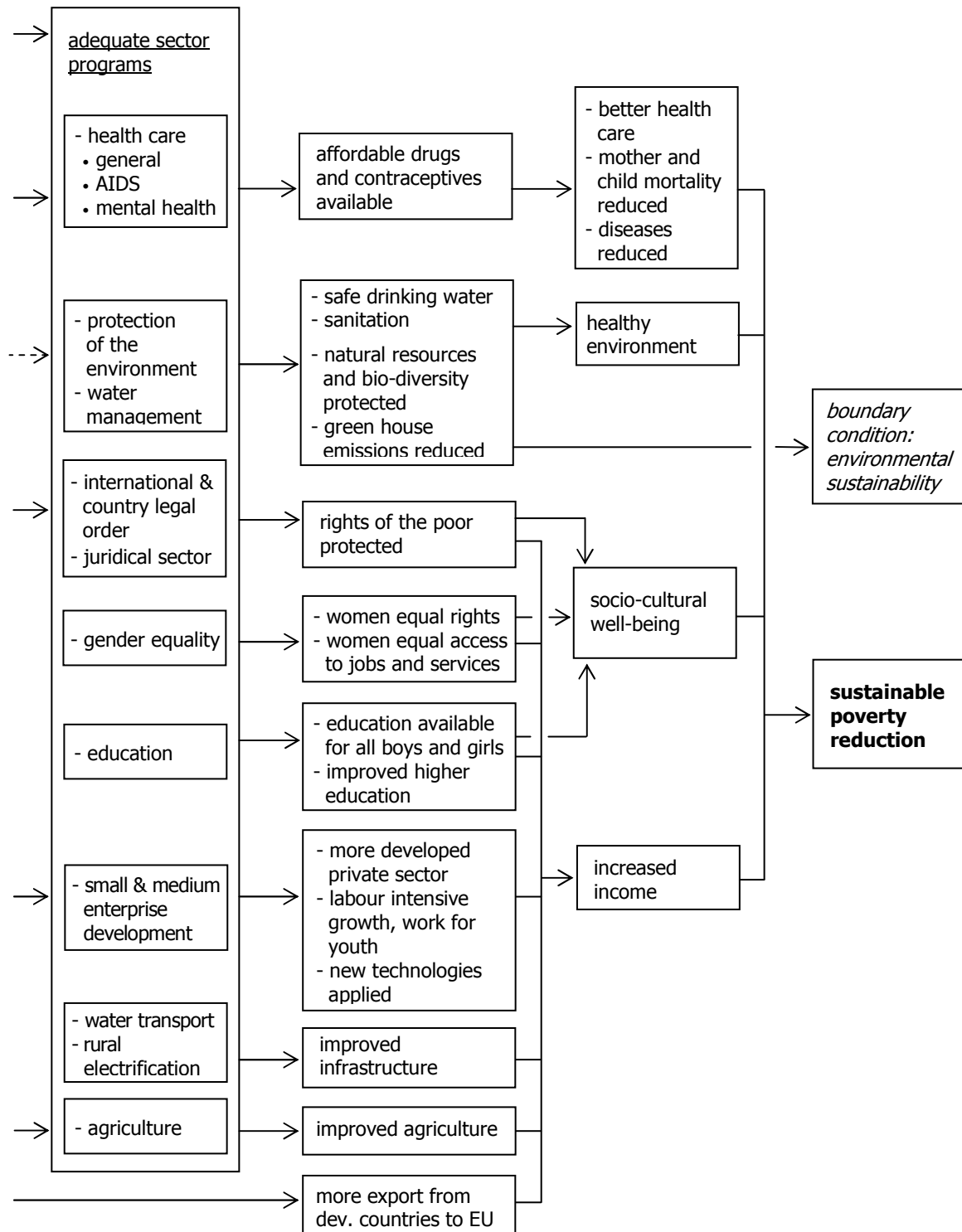
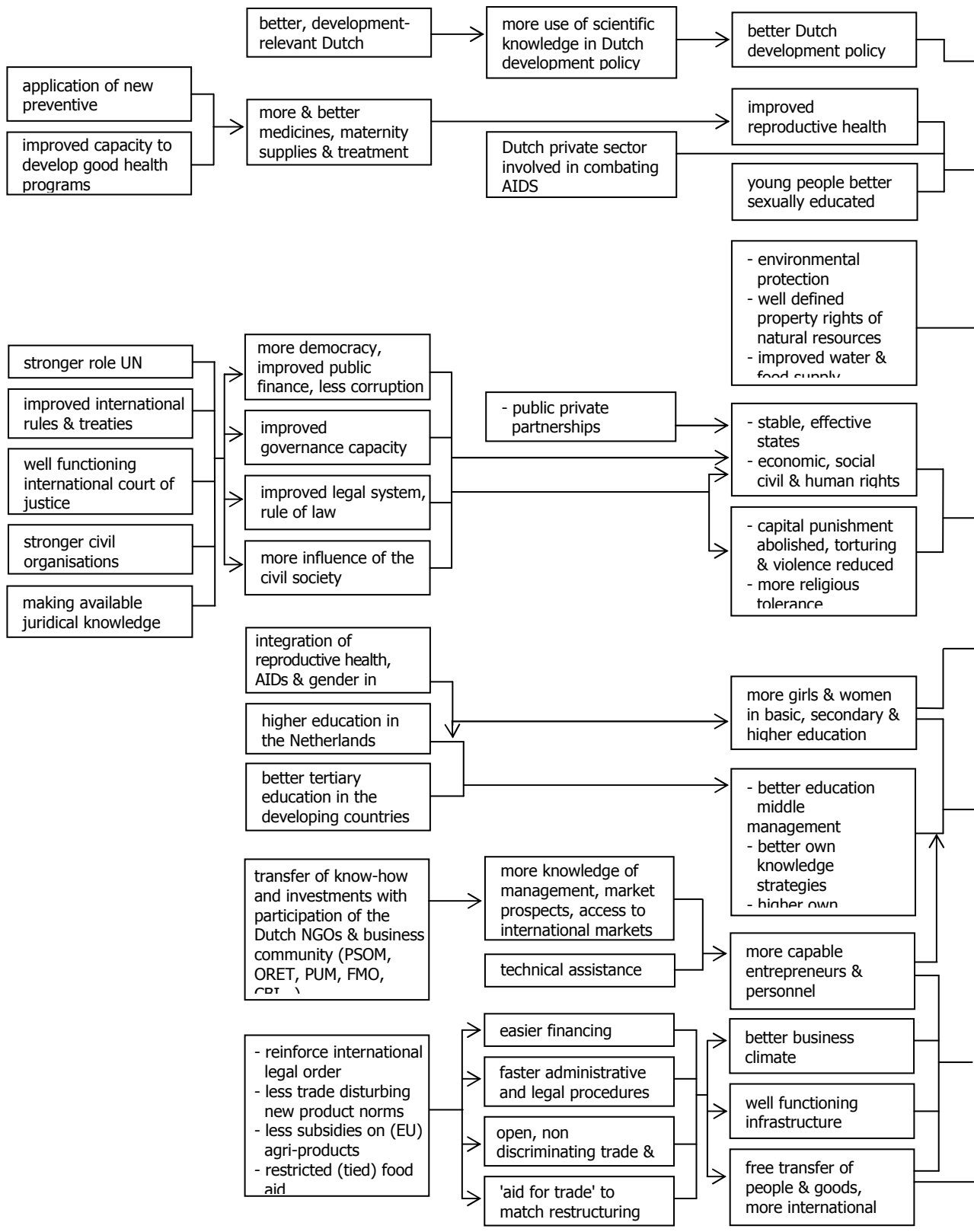
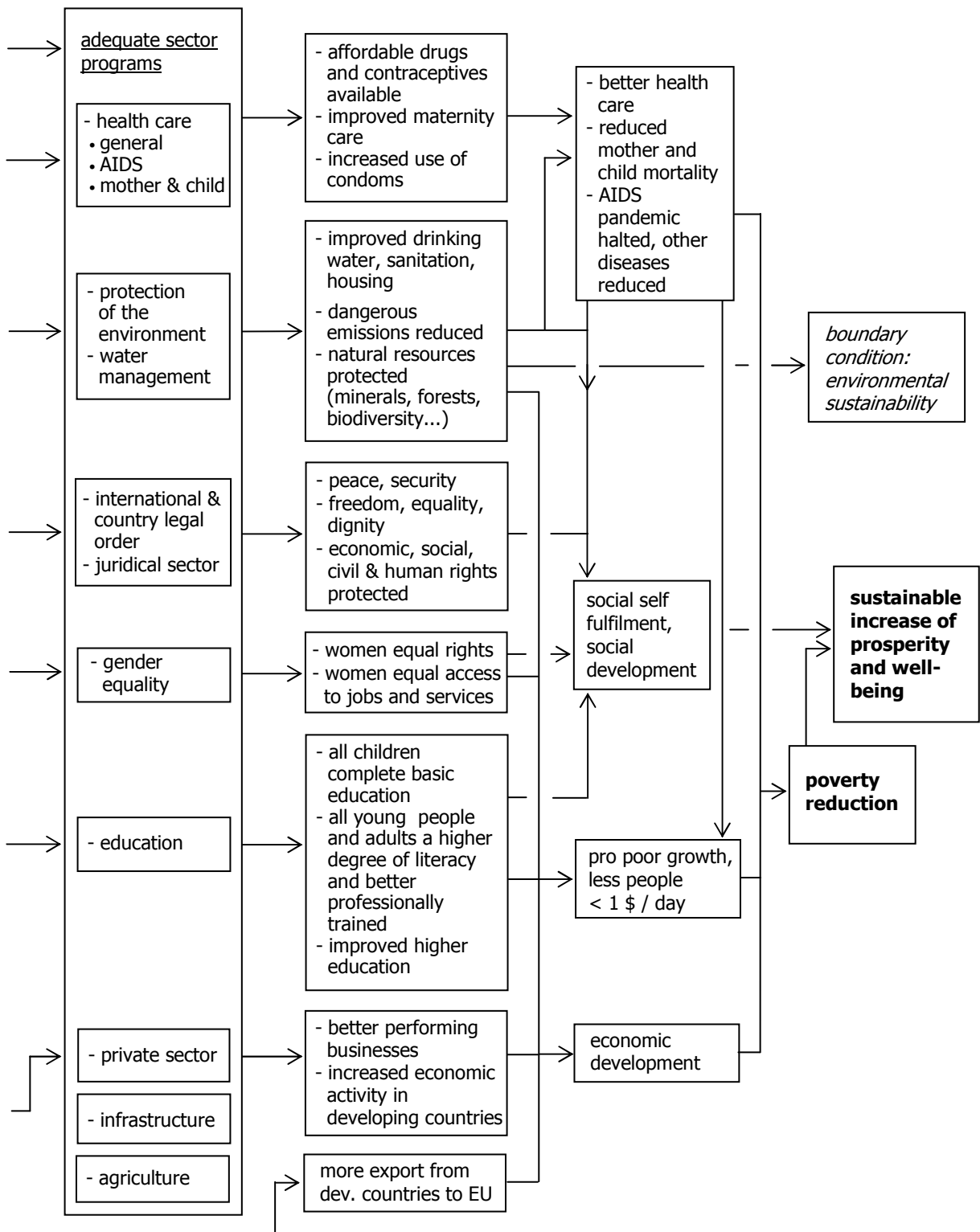


Figure 3.3 : Objectives of the Dutch development cooperation, 2006





The dotted lines in figure 3.2 show obvious relations between objectives that are not mentioned in the 2003 Memorandum and were added by the author. The 2006 Memorandum is structured more systematically and most objectives are reasonably concrete. With some exceptions the causal relations were easily derived. In line with the focus of the research (section 1.8), only those issues are included that directly aim at development and sustainable poverty reduction. E.g. diplomatic efforts and cooperation with other donors are given a lot of attention in the Memoranda, but are beyond the focus of the research and not included in the diagrams.

Reflection on the Memoranda and the diagrams

The diagrams give quite some information about the objectives of the Dutch development cooperation. Generally, the causal relations are clear. But one would expect the classification of the objectives to be congruent to the one applied in aid evaluations by all donors, i.e. according to input, output, outcome and impact (section 8.15, 8.16). Apparently in the Dutch aid there is no such relation between setting goals and evaluating them. Furthermore, in general the two Memoranda cover the same sector goals, basically consisting of the Millennium Goals plus good governance, human rights and private sector development. A notable deviation from the 2003 Memorandum is the overall goal in the 2006 one: 'increased prosperity and well-being' (p 53), instead of just 'poverty reduction'. Reasons for this change, or any other changes, are not given. Apparently the new goal is adopted to emphasise the role of private sector development. In previous years, 'Poverty reduction' was predominantly interpreted in terms of social indicators, e.g. basic education, better water supply and health care, whereas private sector development hardly played a role. Another new objective in the 2006 Memorandum is 'professional education for all'. Furthermore, the measures in the 2003 Memorandum to advance good governance disappeared in the 2006 version, e.g. support to elections, and cooperation between Dutch and local audit offices.

The relations between the immediate, intermediate and main goals are not always complete or logical. The 2003 Memorandum comprises several sector goals without efforts to achieve them, e.g. gender equality; basic education; and rural electrification and water transport; which is rather strange. In the 2006 Memorandum efforts are formulated for each goal, though. Both Memoranda comprise objectives with respect to environmental protection, but not all objectives are relevant to poverty reduction. The protection of fertile land and water resources certainly is, but the poverty relevance of the conservation of pristine forests and biodiversity or the reduction of CO₂ emissions, though valuable goals, is questionable. On the other hand, development efforts should not be detrimental to the environment. In the diagrams environmental protection is included as a development goal as well as a boundary condition.

3.3.6 *The Note Homogeneous Group International Cooperation*

The yearly 'Nota Homogene Groep Internationale Samenwerking' (Note Homogeneous Group International Cooperation) or HGIS Note, comprises all Dutch efforts in the field of international cooperation (also non-ODA). It includes the aid contributions of all Dutch ministries, as well as the budgets per operational goal and per type of partner organisation. The aid is categorised according to themes and sub-divided according to the operational goals. The Note also shows the changes in the budgets per main goal over the years (MFA 2006i, p 9). Because it comprises all these contributions, the ODA budget in the HGIS Note is the most accurate and the most detailed. But it does not present aid by individual partner organisation, or according to other categories. In table 3.1 a general overview of ODA per policy issue is presented in current Euros for the years 2004 - 2008.

Table 3.1: Dutch ODA per policy issue, current € (HGIS Notes 2004 - 2008)

Expenses per policy issue (million €)	2004	2005	2006	2007	2008
1. International legal order, human rights	29	28	25	27	35
2. Peace, security, conflict management	468	704	601	642	633
3. Reinforcing European cooperation	308	359	364	384	460
4. More prosperity and less poverty	1277	1209	1185	1211	1216
5. Human and social development	1264	1281	1466	1682	1797
6. Better protected environment	277	309	341	367	411
7. Dutch citizens in the exterior	98	103	108	90	76
8. Culture, image of the Netherlands	27	33	34	45	49
9. Other expenses	194	197	199	200	206
Total	3943	4222	4323	4648	4883

The data is corrected according to the budget debates in the House of Commons, and also according to actual disbursement, so different versions of the Note for the same year may show slightly different numbers. In line with the Dutch economic growth and the inflation, the total budget tends to increase over the years: about 5.5% /yr over the period 2004-2008. Also the distribution of the funds over the themes changed somewhat over the years. The budget for 'human & social development' grew faster than average: 8.8% /yr, and for 'environment' too: 10.4%. But the budget for 'prosperity & less poverty' remained constant, and taking into account inflation it decreased. Apparently, 'human & social development' and 'environment' are considered more important than 'more prosperity and less poverty'.

In table 3.1 nine aid categories ('policy issues') are distinguished,⁴ but although all activities under the categories satisfy the definition of ODA, they are not all relevant to development. Even if the overall goal is 'poverty reduction', is understood to comprise goals like human rights and gender equality, only a few of the categories can be expected to contribute to that goal. Relevant ones are the EU's ODA under 'Reinforced European Cooperation', (policy issue 3); 'More prosperity & less poverty' (4); 'Human & social development' (5); and part of the efforts in the field of 'Environmental protection', (6), i.e. those that aim at the conservation of productive resources valuable for the poor. The other categories concern other goals, valuable ones but not poverty reduction. For instance, the budget for 'International legal order' goes mainly to the International Court of Justice in the Hague. If it is assumed that half the efforts for environment concern the conservation of productive resources, the total amount of ODA aiming at 'real' poverty reduction is € 3219 million in 2008. So, only 75% of total Dutch ODA is poverty relevant.

3.3.7 DAC's statistical data on disbursement

The Development Assistance Committee of the OECD (DAC) presents quite some information about the member countries' aid disbursement according to various criteria, for instance in the statistical annex to its yearly Development cooperation report (DAC 2008c, table 13). It should be noted that the DAC's allocation of aid flows to a certain category is somewhat arbitrary and that the classification differs between countries, and therefore the DAC's numbers may deviate from the MFA's own data. But the data shows that a fair share of Dutch aid consists of debt relief: 6 % of ODA in 2006. Furthermore, it can be seen that net ODA is not the dominating Dutch financial contribution, non-ODA flows (e.g. non-ODA government flows, private sector flows) are four times higher (see Appendix A.2.2). For all DAC countries the non-ODA flows are three times ODA. The importance of aid seems to be overestimated.

3.3.8 Conclusions regarding the goals of the Dutch aid

The main goals of the Dutch development cooperation are in line with the international development cooperation and comprise world-wide poverty reduction through the realisation of the Millennium Development Goals (MDGs) and the 'capabilities' formulated by the DAC. These goals are quite commendable. Some goals classified under ODA do not aim at poverty reduction, though, e.g. 'International legal order' (which concerns the International Court of Justice) and 'Supporting Dutch citizens in the exterior'. Therefore, about three quarters of the ODA budget is actually relevant to poverty reduction, even if the word 'poverty' is assumed to comprise also issues like human rights, gender, and public safety.

⁴ The names of these categories may change somewhat over the years

To realise these main goals the Dutch aid policy comprises a large variety of other goals, e.g. main points, main themes, input targets, and guiding principles. But clear priorities are missing. On the other hand, one of the guiding principles is that the recipient country's policy should be leading. But if that principle is adhered to, all these Dutch goals are rather pointless. Furthermore, the relation between immediate, intermediate and main goals is not always clear. For instance, no arguments are presented why bio-diversity conservation and CO2 emission reduction should contribute to poverty reduction in the foreseeable future. Arguments are also missing for the changes between years of immediate and intermediate objectives. Often, the only argument for a new objective is that the issue is 'important'⁵. Last year's objectives, apparently no longer important, are not explicitly dropped, they just silently disappear.

With few exceptions the goals are not specific, not measurable and not time bound. Often, only intentions regarding cooperation with other parties are formulated. Output targets are formulated in only a few cases, e.g. for water supply. But the contribution to poverty reduction of the presented objectives is never specified. Because the goals are formulated so general it is hardly possible to assess their realisation. Furthermore, no arguments are presented why the goals should be attainable. Evidence about their feasibility is not presented, no reference is made to past performance. Of several goals the attainability is unlikely because they do not match the social culture and the power system in the developing countries. This concerns for instance re-distribution of income towards the poor in the developing countries, and participation of the population in policy formulation and implementation.

The Dutch aid policy is more specific with respect to its own aid process. The goals concern choices regarding the problems to deal with, and the amount and the division of the funds. As a percentage of GNI, Dutch aid is relatively high (2.6.1). Furthermore, the cooperation with partner organisations is extensively discussed in the Memoranda. But tangible results are not specified, the detailed requirements regarding the MFA's own operation seems to replace results in the developing countries. Furthermore, the importance of the aid seems to be overestimated, the private financial flows are several times larger than ODA.

The overall conclusion regarding the goals of the Dutch development cooperation is that they are commendable. But they are insufficiently specific to provide much guidance for the elaboration of aid measures, and little arguments are presented for their attainability. As a consequence, based on the goals it is impossible to estimate what the Dutch aid is expected to bring about.

⁵ In the Explanatory Memorandum 2006 the word 'important' is used 57 times but it is not explained why the issue is considered important, and what consequence that has.

3.4 Results of the Dutch aid

3.4.1 Selection of evaluation reports

The results of the Dutch aid are regularly evaluated. Evaluations investigating aid programs with respect to implementation and effects are periodically carried out by contracted consulting companies and by the MFA's Policy and Operations Evaluation Department, IOB. The typical IOB evaluation includes extensive field studies and takes two or three years to complete, and the report may count several hundreds of pages. The IOB evaluations generally dig deeper and are more critical than those of contracted consultants. As a part of the ministry the IOB does not have to worry about the cost when the investigations take longer or about maintaining a good relation with its client. The IOB enjoys a considerable independence thanks to protection from the House of Commons (IOB 2005, see also 8.16.1) ⁶. Consulting companies are not so independent and sometimes adapt paragraphs in their reports that the MFA considers too critical. It happens that their evaluations are banned from publication altogether.⁷ IOB evaluations do not face these problems. Therefore, this analysis focuses on IOB evaluations, with one exception: an Ecorys evaluation of the second period of a program running over a longer period. (The evaluation method is analysed in section 8.15 and 8.16.)

Six evaluations of large programs were analysed, published between 2002 and 2006. Criteria for the selection were that they run over many years, covered different poverty relevant themes and were sufficiently comprehensive to provide insight in the degree of success and the reasons behind it. Apart from these criteria the selection was at random. The selected evaluations comprise the themes:

- Trade-Related Technical Assistance (TRTA)
- Development-relevant Export Transactions
- Support to the Health Sector
- Agricultural Development
- Debt Relief
- Basic education

A short description of each program and findings from the evaluation reports are presented in the next sections.

⁶ Interview with Mr. A. J. Boekestijn, member of the House of Commons, 22-08-2007

⁷ In a meeting with prof. L.B.M. Mennes, 29-12-2007, he revealed that in 2006 the MFA blocked the publication of Ecorys' rather critical evaluation of the Dutch semi-governmental organisation SNV

3.4.2 Evaluation Trade-Related Technical Assistance (TRTA)

The program

The IOB evaluation 'Aid for Trade? An Evaluation of Trade-Related Technical Assistance' (TRTA), concerns the Dutch efforts to advance export from developing countries by improving the developing countries' negotiating capacity, national trade policy, and capacity to trade (IOB 2005, p 10). In the period 1992-2002 the Dutch Ministry of Foreign Affairs spent a total of € 109.9 million to support 91 activities in the field of trade policy and regulation. Most of the efforts were carried out in a multilateral context, the Netherlands cooperated with the WTO, ITC, UNCTAD, UNDP, IMF, and the World Bank, and also with some NGOs. A fair share of the Dutch funds was used to finance activities of these partner organisations (p 4, 70, 81). During the implementation period the MFA made changes in the kind of support, the countries to focus on, and the partner to subsidise. Because of the multilateral context the evaluation started with an investigation of the activities of all partners and then concentrated on the Dutch contribution. The activities selected in the evaluation to assess the results amounted to € 30.7 million, 27.9 percent of the Dutch contribution of € 109.9 million (10).

Findings from the evaluation

The program's goal: to transfer know-how in order to advance developing countries' export is commendable because it should lead to economic growth and poverty reduction. The evaluation was quite comprehensive, but the assessment was hampered by a lack of useful data, especially regarding outputs and quantified results. In the project reports inputs were often mistaken for results and objectives were not specified. Apparently, none of the implementing organisations experienced it as a problem, as the practice continued till the end of the program.

The know-how transfer approach of most partners was ineffective. Nevertheless, the MFA continued to finance them. For instance, UNCTAD continued its scientific approach with Dutch financial contributions during the entire period, in spite of lack of any visible results. NGOs applying a more successful approach received only little support. Only during the last years of the program the MFA began to finance the more effective, demand driven single-issue NGOs. The local officials did not assume ownership of the program. The reason was that they lacked knowledge of the issue and did not know what kind of knowledge they should ask for.

With only a few exceptions (functional, single-issue know-how transfer), the Dutch supported activities did not lead to the objective: improved capacity in trade policy formulation and negotiating. The evaluation did not investigate whether the training led

to more export. Consequently, it is not known whether the export led to economic development and poverty reduction. But because the training was so ineffective, the effect on trade, economic development and on poverty can only have been very small.

It can be observed that in this program the ownership approach was not effective. Ownership implies demand-based aid, which pre-supposes that the recipient party has some knowledge of the issue. This evaluation illustrates that without such knowledge the ownership approach will not work.

3.4.3 Evaluation Development-Relevant Export Transactions

The program

Development-relevant export transactions are supported under various programs, the largest being ORET/MILIEV. This is an instrument of the Ministries of Foreign Affairs and Economic Affairs. It enables developing countries to buy investment goods or services in the Netherlands for development relevant, commercially non-viable projects. The program should create employment in the developing countries as well as in the Netherlands. It is also meant to advance the export by Dutch companies. Furthermore, the programs should not harm the position of women. MILIEV projects should advance the protection of the environment. The first evaluation covered the period 1994-1999 and was published in 1999 (IOB 1999). The investigated activities contained a grant element between 35 - 60 % of total investments (the amount and the conditions changed over time). Total grant volume over this period was fl. 1 billion = € 0.45 billion ⁸.

Findings from the evaluation

The goals of this program are to contribute to economic development and create employment. These goals are commendable, as they should lead to more income and to poverty reduction. The evaluation of the first period, 1994-1999 was hampered by failing data because the progress reports failed or were incomplete. With respect to the most important objective, employment creation, the evaluation found that indeed both local and Dutch jobs were created. But the costs were way too high to justify the subsidies (calculation by the author based on data in the evaluation, appendix 3).

In the calculation it is assumed that the program subsidies are 50/50 divided between the creation of local and Dutch jobs and that local employees are paid the official minimum wage, on average € 430/yr (1997, current € in the years concerned, see appendix 3). In the first period local jobs comprised 1,750 permanent plus 3,600 temporary ones, created at a cost of € 42,400/job, or about 100 man-years minimum wage. Employment

⁸ At that time the Dutch currency was the guilder, fl. The Euro was introduced at 01-01-1999, € 1 = fl. 2.2037 <http://www.europasite.net/euro.htm> (08-01-2008)

created in the Netherlands, 1770 person-years, cost € 32,600/person-year, more than twice modal Dutch wage in the 1990s. The created employment was prohibitively costly, especially in the developing countries. Large savings would have been achieved if the projects were not carried out at all, and the Dutch and local employees were paid their wages while staying at home.

The other objective of the program was to realise economic development effects. But the programme did not comprise a clear description of what sort of an effect would classify as a development effect. Many projects concerned investments in drinking water, energy and other kinds of infrastructure, that may provide development and poverty reduction. But the evaluation did not make efforts to determine the number of people benefiting, and therefore the development effects of the projects are not known. But because the installed facilities were not economically viable -a condition for subsidy-, it is unlikely that they can be replaced without subsidy after their service life. This implies that, where development effects were achieved, they are not sustainable.

For the next period, 1999 - 2004, an evaluation was carried out by a consortium of three Dutch consulting companies (SEOR, Berenschot and Ecolas 2006). The conditions and objectives were somewhat different. For instance, the emphasis shifted to economic development and as from 2002 employment generation was no longer a criterion. But the evaluation concerned finished projects and most of these started when employment generation was still a condition for subsidy. Also in this second period the projects created some employment but again at very high costs (calculations by the author based on data in the evaluation, see appendix 3). In this period the cost of permanent jobs created in the developing countries was € 35,400 / permanent job, equal to some 80 man-years minimum wage. The cost of temporary jobs amounted to € 84,100 / job, 185 man-years minimum wage. If the evaluation would not exclude the projects that created negative or zero employment, the cost per job would be higher still. In 8 out of 22 investigated projects also jobs were created in the Netherlands. The costs were € 7,830/man-month, or € 94,000 per man-year, more than three times modal Dutch wage at that time. Also in this second phase costs/job were extremely high.

The evaluation found that in most projects the business climate can be expected to have improved. For instance, investments in public transport enable people to take jobs at a larger distance from home so they have more chance to find a job. Reportedly, in several cases the investments in infrastructure generated more economic activity (51). But the evaluation did not gather data that allows an estimation of quantitative effects, nor did it investigate the role of other external factors, like other donors' activities, the government's economic policy and international trade. Therefore it is not possible to attribute increased economic activity to the Dutch efforts. Furthermore, there were no

signs of expansion of Dutch exports. In some cases a Dutch company obtained a repeat ORET project (p 55, 56).

Most projects did not generate sufficient income to be economically viable. This means that, generally, the facilities' replacement at the end of their service life will not be feasible, and both the generated services and the employment effects are unsustainable. In addition, the aid may reward low productivity, and it may cause unfair competition, to other Dutch companies as well as companies in developing countries. As a consequence there will be negative employment effects somewhere else.

As a method to create large scale employment this program is way too expensive. A rough estimate was made of the cost to lift 100 million people (10% of all people living on less than \$ 1/day PPP, 2.7.1) out of extreme poverty through ORET/MILIEV projects. It was assumed that all people achieve a purchasing power of 1 \$/day PPP, which means that one person earning the average minimum wage can support a family of 5.25 persons, himself included (table A.3.2). In that case 19 million jobs would have to be created. In 2004, assuming the cost/job estimated under the second phase of the evaluated program, total cost would amount to € 670 billion (Euros of 2004). As was found above, the jobs are not sustainable. It is obvious that this is no option.

All in all, the program did not achieve employment against reasonable costs. The development results and economic effects could only be roughly estimated but they seem limited and not sustainable. It should be noted that, for unknown reasons, the second evaluation cannot be found at the evaluation pages of the MFA's website (IOB 2008b).

3.4.4 Evaluation Support to the Health Sector

The program

This comprehensive evaluation concerning the Dutch institutional support in the field of health, nutrition and population (i.e. family planning) in the period 1995 - 1999 was carried out by the IOB (2002a). The general goal of this program was to improve the health systems in several countries. Seven programs were investigated in three countries: Burkina Faso, Mozambique and Yemen. The programs took place in the 1980s and 1990s, they covered the fields health, nutrition and population, and concentrated on the areas primary health care, disease control, essential drugs, HIV/AIDS prevention and control, reproductive health, nutrition, and health system support. Within the country programs several sub-programs were carried out in various fields. During the investigated period, 1995-1999, the total volume of Dutch aid to these programs was about € 650 million.

Findings from the evaluation

The general goal, improving the health system, is commendable as it should contribute to better health status and so to poverty reduction. From the available information it can be derived that the health service did not work very well in the investigated countries. Common problems were lack of capacity and sub-standard care and services. Also, services were often underutilised, for instance because people lived too far away; the services were too expensive for the poor; only part of the services were available; or because there were no drugs.

The main objective under the general goal was institutional strengthening, i.e. improvements in organisational structures, processes and tasks, as well as changes in priorities, e.g. health centres for poor people, and malnourishment. It was achieved in only one of six sub-programs in this field, though. Improvements regarding mother and child care, depending very much on institutional strengthening as well, were also realised in one of the sub-programs only. In many cases, institutional improvements show lasting effects long after the donor funds have come to a halt. That means that they tend to be reasonably sustainable. It is, therefore, extra regrettable that this part of the programs was unsuccessful. Another main objective was to improve the availability of the drugs. 50% of the Dutch budget was spent on drugs supply. But in various cases they were not accessible as they were too expensive for the poor, or because as a result of corruption the drugs did not reach the health centres. The goals nutrition and population were hardly addressed. The health centres did not give advice regarding malnutrition. Advice on family planning was given only after the husband's permission.

The health effects of the Dutch efforts could not be determined, though. Baseline and final health status data were missing. Furthermore, health status also depends on health behaviour, like clean drinking water, hygiene, nutrition, et cetera. Activities of the governments and of other donors play a role as well. But neither the health programs nor the evaluation paid attention to these external factors. The missing information makes it impossible to attribute the Dutch efforts to effects on health status.

During the investigated period the Dutch aid policy was changed and the sector-wide approach was adopted, meaning that the implementation of the aid was left to the partner organisations. This explains why during implementation poor performing program components were not corrected. But the most important shortcoming of the program was that the results achieved cannot be expected to be sustainable. Improvements in the quality of, and in the access to the health care system cannot be expected to last, as the governments lack resources (or do not consider it a priority) to finance the additional efforts. The only sub-program with potentially lasting effects,

institution building, was achieved in one out of six cases. The conclusion is that the health results of the health programs can only have been very limited. (Whether health care can lead to better health where food is scarce is discussed in section 7.3.)

3.4.5 Evaluation Agricultural Development

The program

The evaluation 'Netherlands-FAO trust fund cooperation 1985-2000' was carried out by the IOB (2003a). It concerned the Dutch funding of FAO projects to support agricultural development in Africa, Asia and Latin-America. During this period the Netherlands contributed US\$ 344 million to a Trust Fund for use in projects to introduce better agricultural techniques. The projects, 168 in total, covered fields like pest management, forests and forestry, institutional development, agricultural policy and production, and food security and nutrition.

Findings from the evaluation

The goal of the program, agricultural know-how transfer, is commendable as it can be expected to increase food production and to generate income. The assessment of the results was very difficult because project files were incomplete, crucial documents could not be traced and pre-1996 files were often completely lost. The evaluation concluded that the cooperation with the FAO was not successful as the goals were not achieved. Out of the investigated nineteen projects two had a positive effect in the sense that technology transfer had taken place. But the evaluation found that 'the sample trust fund projects showed severe shortcomings with respect to economic, financial and institutional sustainability'. Furthermore: 'The four field missions ... found few signs of positive impacts on beneficiaries from the 19 projects investigated'. The main reason was that with few exceptions the demonstrated techniques did not generate a profit, and therefore the farmers were not interested. The MFA officials were not sufficiently aware of that, and the program continued for 15 years, with hardly any result.

This does not mean that this kind of programs cannot be successful, though. An example of a successful program supported by the MFA is the one regarding irrigated rice fields in Mali, in the period 1982-2003. Reportedly, the productivity increased substantially and the incomes of the farmers improved as well (IOB 2007b, p 279-282). Furthermore, the author participated in a successful agricultural project in the South of Peru in the early 1980s. Such examples show that it is quite possible to achieve poverty reduction through aid.

3.4.6 Evaluation Dutch and international debt relief

There are two evaluation reports about debt relief, both by the IOB, one titled 'Nederland's schuldverlichtingsbeleid' (The Netherlands' debt relief policy, IOB 2002b) and the other 'Results of international debt relief' (IOB 2003b). They both cover the period 1990-1999. The reason for having two reports is that, though the Dutch inputs concerning debt relief can be analysed separately from those of other countries and institutions, the effects cannot. Changes in the debt situation are the result of the combined inputs of many countries and institutions. Though the investigated period ended several years ago, debt remission is still an important component of the Dutch aid, in 2006 it concerned \$ 327 million (DAC 2008c, table 34). The conclusions of the evaluation are still relevant to the present policy. Also in the Explanatory Memorandum 2009 a transparent policy regarding debt remission fails (MFA 2008b).

Report 1: The Dutch debt relief policy

Over the investigated period, total ODA spent on debt remission amounted to 3,2 billion guilders or € 1.45 billion. All financial data under the Dutch debt relief is in Dutch guilders (fl.) because the Euro was introduced after the evaluation period ⁹. The MFA applied debt relief for various types of debts: bilateral debts, multilateral debts, bilateral export debts, and commercial debts. It should be noted that, because of the agreed maximum ODA level of 0.8% of GNP, more spending on debt relief means less on other ODA themes. Only the contribution of the Ministry of Finance (fl. 440 million out of 3.2 billion) was additional.

Findings from the evaluations

The goal: the reduction of developing countries' debts, is commendable, as it allows the borrowing countries to save on interests and repayments (debt service), and spend more funds on development and poverty reduction. The evaluation of the Dutch debt relief policy is combined with an evaluation of international debt relief. This allows a much better assessment than an evaluation of the Dutch efforts in isolation. The role of the recipient governments, that also have a large influence on the results of debt relief, are hardly described, though. Furthermore, the evaluation was hampered by lack of data. Often, files were incomplete and data was not recorded, and therefore details of debt transactions were not available.

On average Dutch spending on debt relief was relatively high compared to other countries. The Dutch policy was not very clear, though, it was inconsistent, it lacked motives, goals and criteria. After 1996 multilateral debt relief was provided according to

⁹ € 1 = fl. 2.2037

the policy under the HIPC initiative and the IDA's Debt Reduction Facility, which also guided Dutch multilateral debt relief. But the Dutch bilateral debt policy remained unclear. The evaluation criticises the Dutch policy because on the one hand bilateral loans were remitted very easily, whereas on the other hand the MFA contributed considerably to the accommodation of new loans, both bilaterally and multilaterally.

The MFA hardly tried to recover its bilateral loans. It even happened that the MFA paid back instalments already forwarded by the borrowing countries. The evaluation concludes that the Dutch bilateral loans were not really loans but were intended as grants right away. This explains the lack of a clearly specified policy and the failing interest in repayment of the debts. Debt relief was politically attractive as it was a hot item in the 1990s and many NGOs were calling for more debt relief. The debt relief was not additional to other ODA, it was simply increased by labelling 'budget support' as 'debt relief'.

Furthermore, the MFA's various disbursement objectives played a role: to achieve the agreed level of ODA of 0.8 % of GNI; to avoid under-spending in country and sector programmes; to adjust country allocations when the budgets did not represent the Dutch priorities; and to prevent 'negative ODA' through repayments towards the Netherlands. The MFA also applied an incorrectly calculated (too high) remission of commercial loans, ignoring the exporters' insurance premia and own risk. A disadvantage of the unusually lenient application of debt relief was that it may have undermined the local governments' moral obligation to pay back loans in general ('moral risk'). This effect was not further investigated under the evaluation, though.

All in all, the MFA applied debt relief was merely an instrument to achieve the MFA's own disbursement goals and to appease the debt relief lobby. The MFA did not use debt level as a criterion, and intentions or results on achieved debt reduction were not stated. Because development goals were not pursued, the achievement of such goals could not be evaluated. Nevertheless, it is possible that the MFA's debt relief contributed to debt reduction and to poverty reduction. This is investigated in the second evaluation.

Report 2: The international debt relief efforts

The evaluation is mainly based on eight country studies: Bolivia, Jamaica, Nicaragua and Peru in Latin America, and Mozambique, Tanzania, Uganda and Zambia in Africa. Evaluations of Asian Countries were not carried out, because they did not have major debt problems during the evaluation period.

Comments and conclusions concerning the international debt relief

Especially in the early 1990s, in the international debt remission policy the goals, the process to achieve them and the indicators were not specified. The mechanism how debt relief should lead to economic growth and poverty reduction was not clear either. The reasoning comprised financial aspects only. The failing goals and the unclear development mechanism hampered the implementation of the policy, as well as the evaluation of the results.

During the investigated period, large amounts of debt relief were provided. But debt stock and debt service did not reduce, on the contrary: the debts continued to increase and in none of the countries the debt became sustainable. Data for 1990 and 2002 show that only in Nicaragua the debt stock diminished (UN 2008b, table 4). The countries did not become more attractive for foreign investors either. The evaluation report does not comment on a relation between debt reduction and economic growth. Only one country, Uganda, managed to attract a constant flow of foreign investments, but it is not clear whether that was caused by the debt relief or by Uganda's sound economic and trade policy and the resulting economic growth. All in all, the international debt policy failed in the sense that it did not solve the debt problems.

The evaluation report states that the debt problem was mistaken for a liquidity problem (short term lack of cash) whereas in fact it was a solvency problem (not being able to redeem all debts). But the problem was even more serious than that. Because in the poor developing countries the governments collect only limited taxes, they lack a source of income that allows them to pay back the debts. That means that the problem concerned a lack of earning capacity, and therefore solvency could not be achieved.

The evaluation shows that the international financing institutes (IFIs) as well as the evaluators themselves applied an inadequate development concept. The reasoning behind the IFIs' loans is that increased public investment and social spending bring economic development. In other words, the IFIs' policy is based on the assumption that money (hard currency loans) brings economic growth. This is quite questionable as it ignores numerous other factors known to affect economic development, e.g. competitive companies and a reliable legal system that protects property. The one-sided focus on financing explains why the IFIs continued their generous lending. In 1992 already, an internal World Bank review, the 'Wapenhans Report', warned against a 'pervasive culture of approval' for loans, whereby Bank staff members perceive the appraisal process as merely a 'marketing device for securing loan approval', and 'pressure to lend overwhelms all other considerations' (Hunter and Udall 1994). Apart from the HIPC initiative it did not lead to a change in policy.

Furthermore, little was done to stimulate economic growth. The countries' poverty reduction strategy programs (PRSPs) did not comprise an economic growth strategy. Somehow the IFIs assumed the debtor countries to be able to pay back the loans, either from current taxes or from economic growth and consequent higher tax flows in the future. But the IFIs did not actively support the economic development necessary to make that possible. This confirms that the IFIs assumed economic growth to take place automatically, as a result of investments and public spending. The evaluation report analysed the effects of debt relief on the economic development of the eight countries under the evaluation. It concluded that 'debt relief probably had little effect on economic growth in all eight countries' (IOB 2003b, p102). Not until after the evaluation period the IFIs' lending policy gradually became more prudent ¹⁰.

All in all, the IFIs debt remission policy did not lead to a reduction of debt stock and debt service, nor were there signs that it led to economic development. The Dutch multilateral policy uncritically followed the ineffective policy of the IFIs. Though the MFA generously forgave debts it equally generously contributed to the accommodation of new loans, both bilateral and multilateral. No relation could be detected between the Dutch efforts in the field of debt relief and results with respect to any development goal. It can be concluded that the Dutch policy did not contribute to poverty reduction.

3.4.7 Evaluation Basic Education

The program

In the education sector the donors often cooperate to finance a comprehensive government plan. Therefore, the Dutch IOB participated in a combined evaluation of external support to basic education, named: *'Joint evaluation of external support to basic education in developing countries'*, together with thirteen other international and national funding and technical assistance organisations. The evaluation concerns the period 1990 - 2002 and was led by the Association of Universities and Colleges of Canada. The IOB was one of the participants. The evaluation concerned Bolivia, Burkina Faso, Uganda and Zambia. In this research the evaluation was analysed based on the reports 'Document Review', 'Final Report', 'Zambia', and 'Bolivia' (Freeman and Dohoo Faure 2003).

Findings from the evaluation

Also in this evaluation not only the efforts of the MFA but also those of other donors were analysed. This should allow a better estimation of the results of the Dutch aid.

¹⁰ Interview with MFA employee 11, 25-11-2005

Basic education is certainly a commendable goal, as it can help pupils to develop themselves, earn an income and advance in life. Whether the goals of the aid were achieved is difficult to assess, though. The evaluation was hampered by a lack of reliable data with respect to financial flows (Burkina Faso) and enrolment ratio (Zambia). Data on educational quality were missing altogether.

With regard to the goals: the internationally agreed overall goal is 'education for all' (see MDGs). But it is not clear what targets were pursued by the aid programs subject to the evaluation, for instance in terms of additional enrolment or higher completion rates. The evaluation found that enrolment increased considerably in the evaluated countries, but a large part of the children still do not attend school or leave early. The total available funds are insufficient to achieve 'education for all', also in the involved countries. The Dutch contribution is relatively high, but the combined international aid falls short.

The evaluation one-sidedly emphasises the problems in the field of cooperation among donors, as well as between donors, local governments and other parties. This is in line with the focus of the evaluation: 'effective partnership'. But that does not explain why the evaluation ignores other aspects, for instance quality issues. The evaluation only states that little attention is paid to quality, but it does not specify it any further. It does not discuss issues like curriculum, the teaching of teachers, education methods and textbooks. The evaluation questions whether the primary education is sufficiently relevant to the future needs of the children, though. As the evaluation calls it, the primary education does not transfer to the children the skills required for the 'working world'. This is also an aspect of quality, but it is not further analysed in the evaluation. Whether donors and local governments make efforts to improve the education quality is not investigated. The question to what extent basic education leads to poverty reduction is not addressed, so no conclusions can be drawn regarding poverty relevance.

The increased enrolment is mainly financed by the donors. But that implies that the improvements are not sustainable. It is not likely that the recipient governments have sufficient funds to keep financing the expanded education system if the aid stops.

Summarising, the main result in the field of basic education is the higher enrolment, but precisely that is not sustainable. Furthermore, the aid quality is insufficient, and the children do not learn the skills for the 'working world'. That means that the education is not expected to help the children in their future lives. All in all, the results of the aid are quite unsatisfactory. The evaluation does not try to find out what is wrong with respect to the aid quality, nor does it address the question to what extent basic education affects poverty.

3.4.8 Conclusions regarding the results of the Dutch aid

The evaluations are all suffering from missing baseline and progress data. Often it was not very well possible to assess whether the results were achieved, or even whether the aid had made a difference. Furthermore, most evaluations were restricted to an analysis of the effects of the Dutch efforts only. But the results depend on many other influences as well, e.g. other donors, the recipient government, and developments in society. The effects of these other influences were not evaluated. This means that it is usually not possible to attribute assessed improvements to the Dutch efforts.

All evaluations concluded that little results were realised. The immediate effect, the output, was generally achieved, but the intermediate objective, the outcome, was not or only partly achieved. Therefore, it is unlikely that the intended effect on poverty reduction, the impact, was achieved. Where an impact was achieved, it was usually not sustainable because of lack of funds for recurrent costs and replacement. But in most cases it was not possible to assess the impact because of missing data, or because the impact could not be distinguished between the effects of other influences. In some cases a goal in terms of poverty effects was not described.

For instance, in the debt reduction program, the debts in the evaluated countries were let off to a large extent, but as a result of new loans the debt stock did not diminish. Clear goals concerning the impact were not formulated, and positive effects were not observed. The countries did not become more attractive for foreign investors, and there are no signs that on average economic development was stronger than in other countries. Debt stock did not reduce, apparently the borrowing governments continued to spend more than the taxes they collected and the aid they received. This means that the debt relief was not sustainable. In the education program, the enrolment in primary education increased, but the education quality remained poor. The intended effect of the education on poverty was not formulated, but because the curriculum was not geared towards the 'working world' it is questionable whether the expanded education contributed to less poverty. In addition, the results in education are not sustainable because the recipient governments and the poor people themselves lack the funds for the recurrent costs. Main objectives in the health care program were institutional development and improving the availability of drugs. But institutional development was realised in only one of the six countries. A considerable share of the drugs disappeared through corruption, and where they were available in many cases the poor people could not afford them. Concrete health targets were not formulated and the effects on health could not be determined because of missing data. Because the main program objectives were not achieved, it is unlikely that the expected impact was realised. In addition, the recipient government and the poor people lack the funds to continue to finance the

improved health system and the large supply of drugs. This means that the results of the health program are not sustainable.

Similar observations can be made with respect to the other investigated evaluations. The conclusion is that the evaluations could not detect evidence of significant poverty effects being achieved. It is possible that results were achieved but went unnoticed. But because the program objectives were generally not achieved or the results were not sustainable, the effect on poverty can only have been very modest. A variety of problems block the realisation of the aid goals. In the next section it is investigated what the key management aspects are that determine the success of the aid.

3.5 Identifying the key aspects of management

The poor results of Dutch aid are in line with those of the international aid, which were also very modest (Ch 2). But the investigation of the evaluation reports allows a better understanding of the reasons why the aid was often unsuccessful. If, consistently over time, goals are not achieved, then the processes to achieve them were not effective. The organisation did not function as it should, which means that the management failed. The question is, which aspects of management are the ones that caused the failure. Because management comprises an abundance of aspects, the research cannot possibly aspire to cover them all. The most relevant aspects should be selected. Management textbooks discuss many tasks, approaches and methods of management. Textbooks commonly used are those by Stoner and Wankel (1996), Griffin (1990), and Bilderbeek, Brinkman and De Leeuw (1992)¹¹. The tables of contents of these books provide a comprehensive overview of aspects of management that an organisation should take care of in order to be successful (see appendix 4). But how the problems should be dealt with, and which ones should be concentrated on, depends very much on the nature of the problems. To decide which aspects should be considered in this research, the findings in section 3.4. are used as the main guideline.

All management textbooks devote a chapter to the formulation of suitable goals. The evaluations in section 3.4 show that in most cases the programs' goals were not, or only for a small part achieved, and where they were achieved they were generally not sustainable. This raises the question whether the goals are attainable at all. To answer that question, the research should comprise an investigation of the suitability of the goals. All textbooks also address the role of local conditions on the achievement of the goals. Section 3.4 shows that often local conditions prevented the goals' realisation. For instance, in the health program Dutch donated drugs were often not available in the

¹¹ These three textbooks are rather popular at universities. For instance, Griffin sold over 300,000 copies

health centres because of corruption. It is not clear whether the MFA is sufficiently aware of the influence of such local conditions, when drafting the aid programs. Therefore, the research should investigate the role of the local conditions.

The textbooks also discuss the establishment of a strategy to achieve the goals. Section 3.3.2 shows that the MFA does not have a clear, consistent strategy. The MFA's approach comprises numerous main points, main themes, input targets, and guiding principles, but clear priorities are missing. In addition, one of the guiding principles is that the recipient country's policy is leading, which would imply that all MFA's main priorities are of little relevance. Therefore, the research should comprise an assessment of the MFA's strategy. The evaluations show that in many cases the MFA's strategy is implemented by the partner organisations, so their role in achieving the goals is essential. But the MFA does not provide much information about the activities of these partners. So, the role of the partner organisations should be investigated in this research too. It should be noted that in commercial companies it is quite unusual to leave strategically important activities to subcontractors. The management textbooks do not discuss this aspect.

All textbooks also devote one or two chapters to the processes to realise the strategy. The textbooks discuss the processes under 'tactical and operational planning', and 'operations management'. But the evaluations in section 3.4 provide little information about the MFA's processes for aid implementation and for the selection and control of its partner organisations. The research should investigate the MFA's processes too. Furthermore, all textbooks comprise a chapter on human resources management. The MFA employees should take into account the local conditions, which implies that they should have a profound knowledge of the local actors, processes and other relevant local issues. And to develop suitable aid programs, the employees need knowledge of the aid themes, like education and health care. In addition, to take effective action the employees require the ability to analyse the possibilities, take the right decisions, support the implementation of aid programs, and decide on changes in programs and in the aid approach. Therefore, the employees require a combination of knowledge and abilities, here further referred to as capabilities. They will be discussed as well.

Structural organisation is discussed in all management textbooks too. The aid evaluations do not allow conclusions regarding this aspect. But during preliminary interviews with MFA employees it was found that in the decision making processes often lengthy discussions evolved between many employees of numerous organisational units. An example is the decision process regarding the appraisal of the embassies' aid plans for the partner countries. This raises the question whether the division of work and the grouping of tasks to organisational units is adequately arranged. This is a problem of

structural organisation, and therefore the research should investigate the ministry's structural organisation as well.

Management textbooks devote quite some attention to monitoring of processes, it is an important aspect of control. The evaluations in chapter 3 revealed that the monitoring of the cooperation with the implementing partner organisations is defective. The most striking example is the cooperation with the FAO trust fund regarding agricultural techniques. During the entire fifteen years the program lasted, it was not noticed that hardly any effects relevant to the target group were achieved. The research should investigate how the monitoring is organised. The MFA should also be able to adjust the aid processes. The research should encompass the MFA's means to intervene as well. In the textbooks this aspect belongs to the control cycle. Another important issue is evaluation. In contrast to the results of commercial activities, the results of aid efforts are generally difficult to detect among the effects of other influences. The MFA devotes quite some effort to evaluating the results of the aid efforts, but it is doubtful whether the aspects addressed allow a proper judgement. For instance, the evaluations investigated under section 3.4 do not assess the lasting effects on the target groups. Therefore, the research should comprise an analysis of the evaluation process too. Like monitoring, in management textbooks evaluation belongs to the control cycle.

On the other hand, various other management aspects addressed in the textbooks are not very relevant to this research. Because the research focuses on the MFA, a government organisation, aspects like marketing the MFA's products and services, and financing its operations, do not play a role. Furthermore, generic activities, like accounting and ICT are not specific for development cooperation. Unless these functions are performed so poorly that they seriously obstruct the MFA's normal operation, they do not play an important role either.

Summarising, the MFA should take care of many management aspects. In this section various aspects are found that the MFA does not deal with very well. Here 10 aspects of management were identified: goals, external conditions, strategy, processes, cooperation with partners, the employees' capabilities, organisation structure, monitoring, interventions, and evaluation.

3.6 Conclusions

The goals of the Dutch development cooperation are in line with those of the international development cooperation. They comprise world-wide poverty reduction through the realisation of the Millennium Development Goals and also some of the

DAC's 'capabilities', with a focus on water supply, health care, basic education, good governance, human rights, gender equality and the development of the private sector. The Dutch aid pursues objectives that should contribute to these goals. Furthermore, a fair share of the aid funds is used for debt relief and general budget support. In addition, a whole lot of 'goals' are formulated regarding the MFA's internal processes. The aid goals are not specific and give little guidance for operational activities. Quantitative targets are seldom applied. An underpinning of the attainability of the goals is missing.

The results of the Dutch development cooperation are very limited. The precise effect on poverty of the Dutch aid cannot not be determined, the effect of the Dutch contribution is hard to distinguish between the effects of the efforts of the recipient government, other donors and external factors. Often, also lack of data obstructs the determination of the effect. For that reason, direct information about the contribution of the Dutch aid to poverty reduction is often not available. But from the data in the investigated evaluations it can be concluded that, as a rule, the program objectives are not achieved. Where results are realised they are usually not sustainable, because both the target groups and the government lack the funds to operate, maintain and replace the improved services and facilities. All in all, the effects on poverty are very modest.

Key management aspects that play a role in the (non-)achievement of the goals of the Dutch development cooperation are: goals, external conditions, strategy, processes, cooperation with partners, the employees' capabilities, organisation structure, monitoring, interventions, and evaluation. The investigated evaluation reports show that in the aid programs a number of problems were encountered that were related to these aspects of management.

In the next chapter a plan is developed to conduct the research to assess the management of the Dutch development cooperation.

CHAPTER 4: RESEARCH DESIGN

4.1 Introduction

Chapter 2 asserted that a correlation between the international aid and its main goal, poverty reduction, could not be detected. In chapter 3 it was found that the Dutch aid pursues the same goals as the international aid. Also from the Dutch aid programme no evidence of sustainable effects on poverty could be found. This lack of evidence is the reason to investigate the role of the MFA, the main actor in managing Dutch aid (1.2). In chapter 3 it was also concluded that the MFA does not perform very well with respect to a number of management aspects. Ten management aspects were identified that play a role in the unsatisfactory performance of the Dutch aid. These ten aspects are used to elaborate a suitable research model, to formulate research questions, and to carry out the research to find the answers to the questions. To address management aspects, literature provides a great variety of models. Using models is general practice (Stoner and Wankel 1986, p 710), and recommended (De Leeuw 1990, section 2.2).

4.2 The need to develop a model

A model is defined as 'an external and explicit representation of a part of reality as seen by the people who wish to use that model to understand, to change, to manage and to control that part of reality' (Pidd, 1996). Many types of models exist, and because this research assesses management, a management model is applied. The Management Model Book contains sixty common models (Ten Have 1999). Generally, they focus on a few aspects of management only and they are not useful for the analysis of various aspects simultaneously. One of the most comprehensive models, the EFQM (European Foundation for Quality Management) model (Ten Have 1999, p 64), is suitable to analyse operational management and quality improvement, but not strategy development, organisation structure, and the influence of the external situation, the management aspects relevant to the present research. The 'Strategic alignment model' (Ten Have 1999, p 140) addresses some relevant aspects, but it remains at a high level of abstraction and is not suitable to analyse organisational units or basic processes. The 'Seven-S' model (Pascal and Athos 1981) comprises seven aspects, among these skills, strategy and structure, but their relation is unclear and goals, processes, monitoring and evaluation are missing. In management textbooks a suitable model for this research could not be found either. In this research a model is developed that accommodates all identified aspects.

4.3 Research objectives

This research investigates the Dutch development cooperation as a management problem. There is no standard procedure to assess management, the assessment has to match the characteristics of the problem. According to its definition (1.2) the main aim of management is to achieve the organisation's goals. It was found that there is no evidence that the goals of the Dutch development cooperation were achieved. Another finding was that many aspects of management play an important role in the achievement of the goals. The management assessment should match these characteristics.

In management textbooks, management is considered an art as well as a science, but it is seen as a profession too (Stoner and Walker 1978, p 18-19). That it is a profession is also illustrated by the fact that management is described in textbooks, and taught at universities and in training courses. In this research, the criterion adopted to assess the management is: whether it is professional. In dictionaries the term 'professional' is generally described in terms of standards and skills. The Merriam Webster Online Dictionary (2008) defines it as: the technical and ethical standards of a profession. Similarly, the Oxford Concise Dictionary (1995) defines it as: having or showing the skills of a professional. Education scientists apply the term 'professional' in a wider meaning. Eraut discusses 'professional' in terms of knowledge and competences (Eraut 1994, p 8-9), but also in terms of 'satisfactory performance' (Ibid., p 164). According to Gozni: 'The competence of professionals derives from their possessing a set of relevant attributes, such as knowledge, skills and attitudes. So, a competency is a combination of attributes underlying some aspects of successful professional performance' (Gonzi 1993, p 5-6). Ozga stresses the aspect of quality of service: 'professionalism ... (concerns - LJ) the value of the services of that occupation' (Ozga 1995, p 22). It can be observed that the meaning of the term 'professional' comprises professional quality (knowledge, skills, competences), as well as satisfactory performance (like quality of service). In this research, the term 'professional' is used according to these two aspects of its meaning. To assess the professional quality of the management of the Dutch development cooperation, it is determined to what extent the identified ten aspects of management are taken care of and whether that is done effectively, i.e. whether the aid efforts are geared towards the realisation of the main goals. To assess the degree of successful performance it is determined to what extent the main goals are actually achieved.

The focus of this research is on effectiveness, not on efficiency. As there is no evidence that the aid results are achieved, the relationship between inputs and results ('results per effort') cannot be determined. Only in some cases, e.g. in the assessment of internal procedures, it may be possible to arrive at conclusions regarding efficiency.

The results of the assessment of the management of the Dutch development cooperation should lead to a better understanding of the present management practice. It is expected that this contributes to the identification of opportunities for improvements, and to a more effective development cooperation. Furthermore, as discussed above, a new, comprehensive management model, based on the identified ten management aspects, is developed for the management analysis in this research. The ten aspects of management are discussed in all three consulted management textbooks, which shows that these aspects are generally considered common issues in many organisations. Therefore, the model can be expected to be appropriate to analyse management problems in many other organisations too. These considerations lead to the following research objectives:

The main objective of this research is:

to assess to what extent the management of the Dutch development cooperation is professional.

The scientific objective is:

to elaborate a management model that enables the analysis of many management aspects simultaneously, in particular those identified to be relevant to the management of the Dutch development cooperation.

The social objective concerns:

to contribute indirectly to the improvement of the living conditions of the poor population in developing countries by identifying aspects in the management of the Dutch development cooperation that offer opportunities for improvement.

4.4 Research strategy

The nature of the research

The research uses the body of knowledge about development cooperation and about management to investigate a specific case, the Dutch development cooperation. The main pursued results of the research are findings about this specific case. In addition, the research is expected to contribute to the scientific knowledge about management. The nature of the research is practice oriented (De Leeuw 1990b, p 19).

Research philosophy

Development cooperation is an activity that assumes a real, reasonably objectively assessable organisation and outside world, though it may not always be possible to describe these precisely. Therefore, the main research philosophy adopted in this research is the 'realist' approach. Consequently, it applies the classical theory of organisation (Saunders, Lewis and Thornhill 2004, p 83-85). The classical theory is

based on objective rationality, it focuses on the total organisation and on the way to make it more efficient and effective. Main aspects are 'planning, organising and controlling' (Griffin 1990, p 48, 49). Social aspects, like motivation, organisational culture and leadership, are not investigated here. For a minor part of the research: the investigation of the views of the MFA officials, the interpretivist philosophy is applied.

Research approach

In this research judgements about the Dutch aid management are frequently based on general statements in relevant journals and in documents of reputable institutions, e.g. the World Bank and the UN. Where such statements concern aid in the same fields, and provided in a similar way, as the MFA's aid, these statements can be considered relevant to the MFA's aid as well. On other occasions observations of individual cases are used to discern a pattern. For instance, if data from a limited number of cases show a correlation between water supply and health, then it can be assumed that, provided the conditions are similar, this correlation applies to other countries as well. This means that in this research both the deductive and the inductive approaches are applied (The Internet Encyclopedia of Philosophy 2006).

In case a pattern is discerned in development cooperation phenomena, e.g. a correlation between water supply and health, that does not necessarily mean that there is a cause-effect relation. It may very well be that the relation is accidental, or that both cause and assumed effect are the result of a third factor. It could also be that the causal relation is (partly) reverse. For instance, it could be that healthier women are better capable to fetch water, grow food and care for their children, which contributes to the children's health. In case of a likely or assumed correlation, where possible the mechanisms behind it are investigated. Usually this requires an analysis in more detail and at a lower level of aggregation. For instance, in this research it is investigated what the actual effects of nearby water supply are at household level and why, based on detailed field studies. It is also checked whether the effect of clean water on health can be detected in the statistics. In this way, it is possible to determine whether or not the MFA's assumptions about the effects of clean drinking water on health are valid. Such patterns are used to assess the relevance of aid to poverty alleviation.

4.5 Research questions

Based on the considerations in the previous sections, the following research questions are formulated:

Research question 1: *What is a suitable research model to assess the professional level of the management of the Dutch development cooperation?*

Research question 2: *How professional is the management of the Dutch development cooperation?*

Because the research model also determines to a large extent the structure of the analysis, it will be used to guide the formulation of sub-questions to these research questions.

4.6 Research techniques

The research focuses on the functioning of the Ministry of Foreign Affairs (MFA). The aim is to assess 'what happens' and also 'how well'. In Saunders' terminology this research is an exploratory study (Saunders 2008). Saunders suggests three typical ways to conduct such a study (Saunders, Lewis and Thornhill 2004):

- a search of literature;
- talking to experts in the subject;
- conducting focus group interviews.

In this research all three ways are incorporated:

The research is carried out through a literature study of both the international and the Dutch development cooperation, and of the situation in the developing countries. The Dutch development cooperation is only a minor part of the international aid, and The Netherlands cooperates closely with other donors and with multilateral organisations like World Bank, UN and EU. Therefore, the Dutch contribution can only be understood within the context of the international aid. Both publicly available and internal documents were studied. Besides, a literature study of management and organisational theory was conducted.

To assess the feasibility of the research and to gather good advice, several experts were interviewed in the preliminary phase of the research, e.g. managers of the five 'Medefinancieringsorganisaties' (large Dutch non-governmental aid organisations) and of the Institute of Social Studies, a number of MFA employees and some members of the Adviesraad Internationale Vraagstukken (Advisory Board to the MFA for international questions). In the course of the research further interviews were carried out with a former minister of development cooperation, the former director of the Dutch development bank, and various development consultants. Besides, the author used his own experience in development cooperation programs and in management consulting.

To assess the functioning of the MFA a focus group interview was conducted with MFA employees, and fifteen employees were interviewed individually. The employees

were selected based on their knowledge of the topics investigated under the research. Most employees were selected among the policy advisors, i.e. those employees who deal with issues of foreign policy and its implementation. To obtain more detailed information about the content of bilateral aid packages and the way they are arrived at, several employees of the department responsible for education were interviewed. Also some employees from supporting departments were interviewed, e.g. Financial & Economic Affairs and Personnel and Organisation.

4.7 Research scope

Official Dutch development aid and Ministry of Foreign Affairs

The research focuses on the Dutch official (i.e. governmental) development aid (ODA) and on the management of the Ministry of Foreign Affairs. The MFA's management addresses the external organisation: the sponsored partner countries and development organisations, as well as the internal management: the head office in The Hague and its departments. The partner organisations comprise non-governmental organisations (NGOs), multilateral organisations (World Bank, UN, EU), governments of developing countries, universities, and many others.

Country focus

According to the DAC, ODA is restricted to developing countries as presented on the DAC List of aid recipients (DAC 2005a). The Dutch aid focuses on low and lower middle income developing countries, i.e. those with a gross national income (GNI) < \$ 3255 per capita in 2004. Therefore the research, too, focuses on that group of countries.

Type of aid

To focus the research, only aid oriented to the internationally accepted overall goal of development cooperation, poverty reduction, is investigated. This means that certain aid, though it satisfies the DAC criteria for ODA, is not analysed. Examples are humanitarian aid, activities regarding the asylum procedure of immigrants to the Netherlands, export re-insurance of Dutch exporting companies to developing countries, and diplomatic and military initiatives to prevent or mitigate violent conflicts.

The primary process of development cooperation

The research concentrates on the activities directly related to the 'product' of the Dutch ODA: poverty reduction, directly or through the development of the recipient country. This implies that the research does not investigate organisational arrangements between donors and the diplomatic activities involved.

CHAPTER 5: THE RESEARCH MODEL

5.1 Introduction

This chapter concerns research question 1:

What is a suitable research model to assess the professional level of the management of the Dutch development cooperation?

As discussed under section 4.2, existing models are not suitable to address the variety of management aspects to be investigated. Therefore, a new model is developed. To guide the process of model development, a more fundamental investigation of model theory is conducted. As the research has the characteristics of a description and an evaluation, model development is investigated from the angle of epistemology and influencing. As a first step, a general management model is developed that accommodates all identified management aspects, e.g. goals, processes, organisational units, and evaluations. In a next step, the research model is established by filling out the general model according to the characteristics of the MFA.

5.2 Model theory and modelling

5.2.1 Model theory for influencing complex systems

According to Pidd's definition, a model represents reality (section 4.2). But that does not mean that a useful management model has to be a true representation of reality. Epistemologists¹² generally share the view that reality cannot be fully known. In addition, according to Apostel, the real world or the representative theories we have of the world are usually too complex to handle, and therefore models that present a simplification of reality are more useful (Apostel 1961, p 1-37). According to Popper all our understanding is model-like, but there is no such thing as the one right model. Our models develop according to the Darwinist evolution theory: if we find our interpretation of the world unsatisfactory we try other ones, more 'truth-like', and then adopt the best one (Popper discussed in Bradie and Harms 2008). Other epistemologists argue that 'how is the world?' is the wrong question. Pepper holds the pragmatist view that knowledge is meaningful only in as far as it allows us 'successful working' and 'effective action' (Pepper 1942). In other words, a model is not so much about knowledge, but rather about enabling actions. Onions, a knowledge scientist, and

¹² experts on knowledge theory

Orange, a specialist on information management, stress that in addition to the acquisition of knowledge, learning also comprises the development of goals and the evaluation of the knowledge with respect to its usefulness to realise the goals (Onions and Orange 2002).

Turchin, an expert in system analysis, cybernetics and self-learning systems, describes knowledge as follows: 'A purposive cybernetic system has some knowledge if it has a model of some part of the world in which it finds itself'. And with that model: '...the system can predict, to some extent, the development of events in the world resulting from its action. Trying, in the model, various actions the system can make an informed selection of the action which is the best for its purpose' (Turchin 1993). This implies that a model is suitable if it enables the prediction of the effects of our actions. Heylighen, an expert on artificial intelligence, explains that for a 'subject' to become more successful in achieving its purpose, 'it should be capable to improve its model' (Heylighen 1997, p 4-7). To this end, the 'subject' should actively construct coherent new models based on communication with 'others', in a trial and error process. It can be seen that Heylighen uses Popper's evolutionary epistemology concept. Heylighen's views imply that the continuous development of more suitable models requires the exchange of ideas between different parties.

The ideas of the quoted experts are all quite relevant. Each quote complements the propositions of the previous ones. The propositions can be interpreted as aspects of management that should be taken care of. The ideas of Turchin and Heylighen also imply that the MFA itself requires an appropriate management model as well, and that it should enable to predict the effects of its aid measures, which is essential to achieve the aid goals. Because in many cases the MFA fails to achieve its goals, it could be that its model is not suitable. Consequently, the assessment of the MFA's management does not only require the development of a model of the MFA, it should also assess the model used by the MFA itself.

The next step is the development of a suitable general management model that accommodates the identified management aspects, as well as the ideas of the epistemologists. To this end, it is useful to apply existing theory of organisation modelling.

5.2.2 The elaboration of a general management model

The main problem of the Dutch development cooperation is that the goals are generally not achieved. De Leeuw presents a modelling approach that focuses on achieving organisational goals. He formulates a set of conditions for effective management in line with the propositions stated by the knowledge experts in the previous section. He

applies a system approach. It should be noted that there are various kinds of system approaches, many of them very formalised and often applying complex mathematics, for instance to describe quantitative decision processes. That kind of system approach is not meant here, De Leeuw uses a 'soft' system approach that has a descriptive character. It concerns the relations between components and other elements of the system, the relations between the system and its environment, as well as modelling rules (De Leeuw 1990a, 2000, Bilderbeek, Brinkman and De Leeuw 1992). The 'environment' comprises those elements that affect the results of the management but are not themselves subject to management measures.

De Leeuw uses his approach to describe and explain a fair amount of concepts of management and organisation theory. He also applies the concept of 'bestuurbaarheid' (manageability) of organisations. Sometimes the system is not manageable, for instance if the effects of conditions in the environment on the results are unknown. For the organisation to be manageable (at least) 'five conditions for effective management' have to be fulfilled. The conditions request that a managed system shall comprise:

- Goals and a mechanism to evaluate them
- A managing entity
- A model of the managed system
- Information about the situation in the managed system and the environment
- Sufficient intervention measures (De Leeuw 1990a, p 112 – 113).

It can be observed that De Leeuw's conditions satisfy an essential requirement of the epistemologists and other information experts: they comprise the element 'model of the managed system' to predict the effects of interventions. Furthermore, the conditions coincide with a number of the key management aspects identified in section 4.2, as can be seen when De Leeuw's conditions are 'translated' in management terms:

- Goals, evaluation
- The management (team) of the organisation
- A model of the organisation
- Monitoring of the processes in the organisation and in the management environment
- Sufficient measures to intervene in the processes.

Furthermore, in De Leeuw's system approach the managed system consists of components and their relations, in management terms organisational units and the organisation structure. In De Leeuw's approach the components belong to the system when they are subject to management measures. That means that partner organisations influenced by the MFA are considered part of the managed 'organisation'. It can be

observed that De Leeuw's system approach and his five conditions match the requirements of the epistemologists and also comprise many of the management aspects identified under section 4.2 that should be investigated under this research. Therefore, De Leeuw's approach and the identified management aspects are combined to establish the general management model.

Note that De Leeuw's conditions require a model of the managed system only, not of the conditions in the environment. But in section 3.4 it was found that the environment can have a strong influence on the achievement of the goals, so the model should comprise the relevant environment as well. Furthermore, as a rule organisations monitor their processes, i.e. they check progress and quality frequently during the year. But the other characteristics of the organisation and those of the environment are reviewed at larger intervals, for instance in yearly evaluations. Therefore, here too, monitoring is restricted to the MFA's processes. Goals and evaluation, condition No. 1 of De Leeuw, should be seen as two different aspects. De Leeuw also considers the managing entity, i.e. the managers of the organisation, as an essential element, and it is included in the model too. The model is not just the diagram, it should be brought to life through a description of its elements. The way the various elements of the model are viewed within an organisation will also depend on the managers in question. When the management of an organisation is assessed, the content of the model used by the management team should be investigated as well. That means that the general management model should comprise the element 'model' too. Based on these considerations a general management model is elaborated, that comprises twelve elements: the ten aspects found earlier, plus two new ones, the management and the model applied by the management, see box 5.1 and figure 5.1.

Box 5.1: The twelve elements of the general management model

1. The management (top, middle)
2. The goals
3. The strategy
4. The managed organisation consisting of organisational units
5. The processes that take place in and between these units
6. The capabilities of the employees
7. The structural organisation
8. The monitoring of the processes in the organisation
9. The measures to intervene in the processes
10. The mechanism to evaluate the results
11. The influence of the relevant environment
12. The model applied by the management

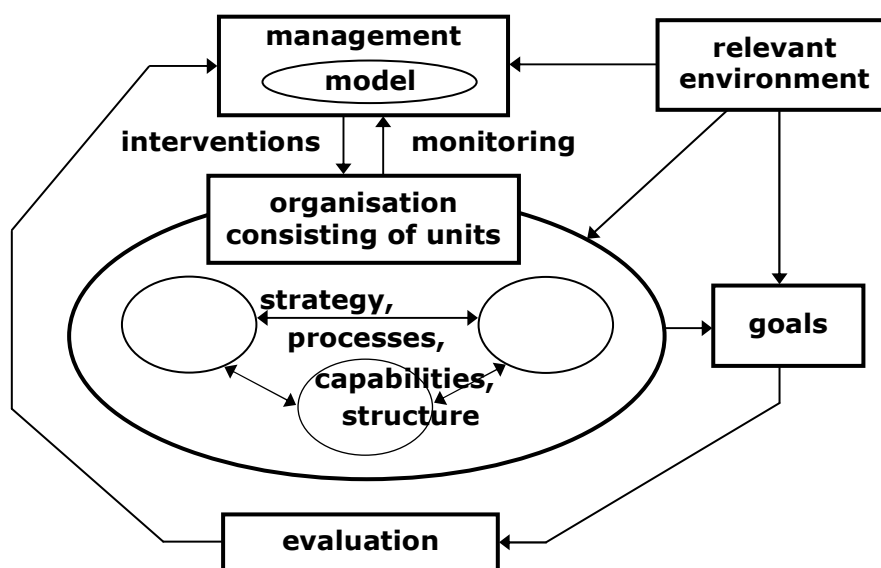


Figure 5.1: A general management model, according to the twelve elements of management

Presented in this way, the developed model is suitable for the analysis of all sorts of organisations. Note that it can be used flexibly, elements can be added or omitted, depending on the problem in question. It allows the elaboration of dedicated models for specific problems or aspects, for instance of financial flows only. It can also be used for a component on a lower level of aggregation, e.g. an individual department. Each aspect should be described, using the information about the organisation and the management problem in question.

5.3 The research model

The research model is elaborated by detailing the general management model according to the characteristics of the MFA, see figure 5.2. The model contains four main sections (the numbers below correspond to those in the figure):

1. The conditions in the developing countries. Included are the effects of social culture and governance quality on development, as well as the side effects of aid and trade.
2. The goals of the MFA. The goals comprise the MDGs and the DAC's 'capabilities'.
3. The MFA's external managed system. It encompasses the supported partner organisations and countries and the MFA units that deal with these partners, as well as the processes between these partners and units. The box 'aid evaluation' also belongs to the external management.

4. The MFA's internal managed system. It concerns the MFA's organisational units and processes that have no contact with the partner organisations, the majority of units at the Ministry in The Hague.

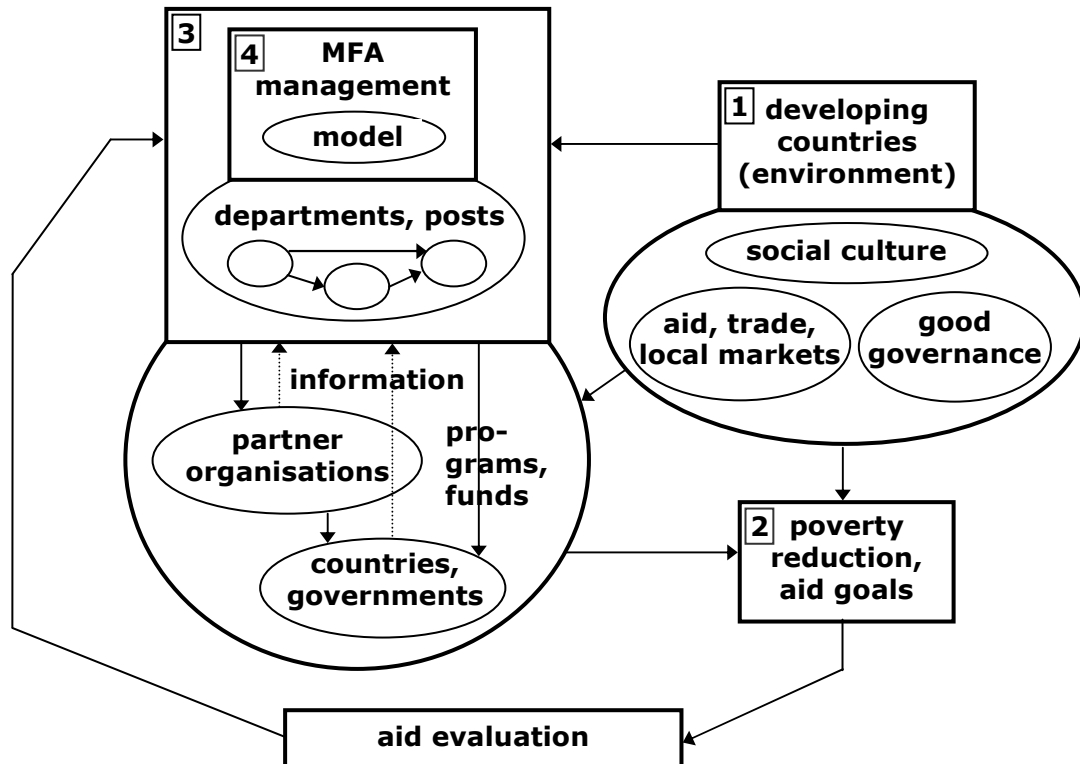


Figure 5.2: Research model for the analysis of the MFA's management

Note that not all elements are presented in the figure, it includes the main aspects. For instance, unlike figure 5.1, monitoring and intervention are not presented. But the model, as described below, comprises all twelve aspects of management listed in box 5.1. The elements of the model are interdependent. Detailing the model should begin with the most dominant elements: the managing entity and the goals. Management starts with a manager or management team, in this case the top officials of the Dutch MFA. The total MFA also acts as the 'manager' of its partner organisations. The overall goal is chosen and a set of main goals in specific fields that should bring about the overall goal. Here, the overall goal is poverty reduction in the developing countries, to be achieved through main aid goals like the Millennium Development Goals (section 3.3). To achieve these goals the top managers choose a strategy. Main characteristics of the strategy are that the MFA generally tries to realise its goals through financing aid programs in different fields, and by steering various partner organisations. As mentioned, the MFA's organisation comprises units that have no contact with the

partner organisations: the internal organisation, as well as units that influence these partner organisations and the influenced partner organisations themselves: the external organisation. The governments of the developing countries constitute a special type of partner organisation. The processes are the MFA's activities to realise the strategy, e.g. supporting the development activities of the partner organisations. The capabilities of the employees concerns knowledge of the situation in the developing countries and of the aid themes, the ability to judge the quality of the partners' development plans, and to intervene where necessary. The design of the organisational structure is especially relevant to the efficiency of the MFA. The MFA can for instance reduce coordination needs by diminishing the number of organisational units involved in individual process steps. The monitoring concerns controlling the aid implementation. The information should allow the MFA to intervene, e.g. to make changes in a running program, to adapt the distribution of the funds over the partners and the themes. The evaluation assesses the success of the supported aid programs. In all these activities, external influences could affect the results, e.g. poor economic governance can obstruct the achievement of aid goals in the field of economic development. Last but not least, the MFA should use a suitable model of its own organisation as well as of its partner organisations and of the conditions in the developing countries. This research also assesses to what extent the MFA's model is appropriate.

The internal and external management are of a different nature. The internal units steer the external units through targets, criteria and procedures, and the external units take care of the decision making about funding the partners and of the implementation, monitoring and evaluation of the aid. Whereas the internal organisation has ample possibilities to control the external organisation, the MFA's possibilities to steer the governments of the developing countries and the multilateral organisations are far more limited. As a consequence, the internal management is more concerned with administrative procedures, whereas the external management comprises negotiations and complex decision making. Therefore, the internal management is analysed separately from the external management. A strict distinction between internal and external is not always possible, though.

One of the more complex elements of the model is the environment of the external management, here the conditions in the developing countries that influence the results of the aid. There are so many phenomena affecting the aid results that they cannot possibly be addressed all, and a selection must be made. The criteria for the selection are that the issues have a considerable influence on development, and that they are not very well taken into account by the MFA. Based on preliminary interviews and literature study, three rather wide issues were chosen: social culture; good governance; and aid, trade and local markets. Social culture has a large influence on the results of the

aid because it causes loyalties and decision making in society to be quite different from what is common in the Netherlands. Processes in the developing countries are therefore often hard to predict. Investigated are the causes of the differences in social culture, and the effect of social culture on development. Good governance is chosen because it is generally assumed to be a condition for development. Good governance also depends on social culture. In most developing countries governance is rather poor. The aspects that play a role in poor governance are investigated, especially the functioning of the clientelism system. Finally, western aid and trade flows are analysed. They can disturb local markets, which may lead to diminishing competitiveness of local farmers and companies. It is investigated how these disturbing influences work.

Another complex issue concerns the attainability of the main goals. The limited degree to which the goals are achieved (section 3.4) show that many main goals are hard to attain. Of several main goals the mechanisms that inhibit their achievement are investigated.

5.4 The implementation of the research

The subjects of the four main sections in figure 5.2 enable the elaboration of sub-questions to research question 2: How professional is the management of the Dutch development cooperation? Four sub-questions are formulated:

1. How do the conditions in the developing countries affect the results of the aid?
2. To what extent are the main goals of the Dutch development cooperation attainable?
3. How professional is the external management of the Dutch development cooperation?
4. How professional is the internal management of the Dutch development cooperation?

Sub-question 1, about the situation in the developing countries, is analysed in chapter 6. The situation in the developing countries are such that external influences like aid do not have the expected effects. The research investigates the role of 'social capital', that consists of trust, institutions, social norms, social networks and organisations in society. In developing countries, social capital is often still limited. This causes clientelism: the informal bond between a person with influence (patron) and a group of people he protects (clients), who support him in return. In the deals between patron and clients, laws and regulations are disregarded. This leads to widespread corruption and poor governance. The quality of governance is investigated, and the situation in 'failed states', countries where governance is extremely poor. Also the role of aid and trade on the economy and on poverty is analysed in view of the local conditions. Large amounts of

aid and world wide trade in low priced, often EU and US subsidised food may disturb local markets. It is investigated how this affects local price level, competitiveness and economic development. Furthermore, the consequences of the high food prices in 2007 and the first half of 2008 are investigated, and the effects of higher food production in developing countries on malnutrition.

Sub-question 2, regarding the attainability of the main goals, is analysed in chapter 7. The analysed evaluations show that the main goals are often not achieved, and it is investigated what inhibits their realisation. The MDGs depend for a major part on donor funding, and it is analysed to what extent the funding is a limiting factor. Aid in the field of clean water supply is assumed to lead to better health. But in spite of large, aid supported improvements in water supply during the last decades, life expectation in SSA did not increase. It is investigated to what extent health results are achieved indeed, and also which local influences play a role, e.g. malnutrition. It is also investigated whether these local influences have a similar effect on the results of health care. One area where aid helped achieve important improvements during the last decades, is primary education. But in SSA incomes did not increase. It is analysed to what extent primary education helps the pupils to earn an income. The MFA considers good governance a condition for development and it tries to improve the governance. It is investigated whether good governance is conducive to development indeed, and whether it is feasible to bring about better governance by supporting it.

Sub-question 3, whether the MFA's external management is professional, is analysed in chapter 8. This is the main topic of the research. It is analysed whether the MFA takes care of the twelve aspects of management, and in such a way that they contribute to the aid results. For instance, a criterion regarding the aspect 'processes' is: whether the decision processes to fund partner organisations or governments guarantee that development-relevant activities are carried out that lead to poverty reduction. The criterion for 'capabilities' is: whether the MFA employees have the knowledge to make sure the programs are effective, e.g. by assessing the partners plans, judging the influence of local conditions, and monitoring and adjusting running programs. Because most of the aid is implemented by partner organisations, these too are assessed. The analysis of the partner organisations does not address all twelve aspects of management. Because so many partner organisations are supported, that would require an effort that is beyond the scope of this research. The assessment is limited to their effectiveness, i.e. whether there is evidence of development results, or at least a high probability of such results.

Sub-question 4, whether the MFA's internal management is professional, is investigated in chapter 9. This analysis is also guided by the research model. The internal

organisation determines how the external organisation should operate, by means of targets, criteria and procedures. Through the analysis of internal documents and through interviews the twelve aspects of management of the internal organisation are assessed, e.g. the goals of the internal organisations, the process of the elaboration of processes, and monitoring of the adherence to the procedures. The main criterion in the assessment is whether the model's management aspects are addressed and whether the internal activities are effective in the sense that they –indirectly- contribute to the main goals of the development cooperation.

The sequence of the chapters six to nine is such that each following one can make optimal use of the findings from the previous ones.

Chapter 10 comprises a summary of the findings, as well as conclusions and recommendations. The research aims to arrive at an integrated view on the underlying problem that explains the difficulties the MFA faces in the realisation of the aid goals.

The structure of the research is presented in figure 5.3 (next page).

5.5 Conclusion

An appropriate management model to evaluate the Dutch development cooperation is the model based on the twelve elements of effective management, summarised in box 5.1. The management model is operationalised for the Dutch development cooperation as described in section 5.3, and presented graphically in figure 5.2. Based on this model, four sub-questions to research question 2 are formulated. They concern the conditions in the developing countries; the attainability of the main aid goals; the analysis of the external management, i.e. the partner organisations and countries; and the analysis of the internal management, i.e. the MFA's own organisation. These four sub-questions are analysed in the next chapters.

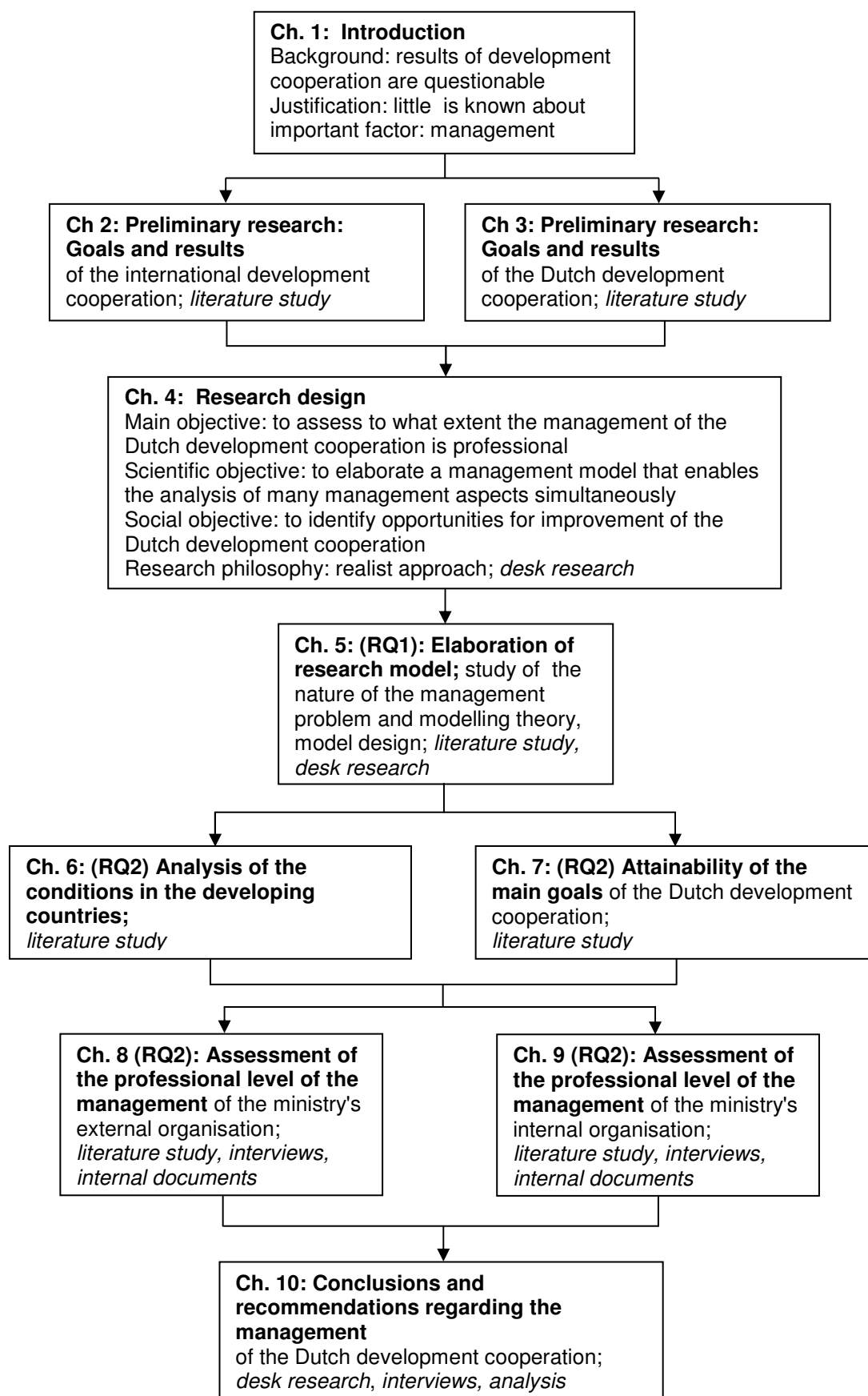


Figure 5.3: Research structure

CHAPTER 6: THE CONDITIONS IN THE DEVELOPING COUNTRIES

6.1 Introduction

The subject of this chapter is sub-question 1 to the second research question:

How do the conditions in the developing countries affect the results of the aid?

In this chapter the mechanisms are analysed according to which local conditions influence the results of the international and the Dutch policy on aid and trade. The aim and the scope of the analyses were described in section 5.4, sub-question 1. The main issues investigated are: the influence of social capital and the clientelism system on governance quality; the influence of governance quality on development; and the way markets in developing countries react on aid and trade. The latter issue comprises questions like: how local price level and competitiveness are affected by large amounts of aid, and how the local food market is affected by world wide trade in low priced, often EU and US subsidised food. The effects of the steep price increase of food products during 2007-2008 is analysed as well. Based on the findings of the analyses the effects of certain forms of international and Dutch aid and trade on poverty are discussed. It is found that in many cases severe negative effects occur.

6.2 Social culture

6.2.1 *Aspects of social culture relevant to development*

Various authors consider social culture the main causal factor in development, and they mention trust as one of the key issues, e.g. Fukuyama (1995), Sabatini (2006), Englebort (2001). Fukuyama sees a 'culture of trust' as 'the source of spontaneous sociability that allows enterprises to grow beyond family into professionally managed organisations'. In the future, network organisations are expected to become increasingly important, and then societies with a high degree of social trust will have a natural advantage (Fukuyama 1995). In developing countries trust and loyalty is generally high between (extended) family members but low towards other people, and very little to the public realm. The importance of trust is illustrated by the author's observations with respect to the opposite, i.e. a lack of trustworthiness. In Puno and Juliaca, medium size towns in the south of Peru, metal workshops never had more than about seven employees. As the

owners explained, when the workforce grew larger the employees could not be controlled anymore and systematic theft would result ¹³. Francois and Zabochnik also consider 'trustworthiness' the dominant economically relevant component of a society's culture and hence see it as constituting its 'social capital': 'When confident that non-contracted contingencies will not be exploited to one's detriment, one may be willing to trade even when promises cannot be guaranteed. A society with many trustworthy members allows people to have that confidence, and is thus rich in social capital' (Francois and Zabochnik 2003 p 3). Social capital is the aspect of social culture most relevant to development.

The expression 'social capital' is used in somewhat different meanings. In this research Sabatini's description will be used: 'Social capital is ... the set of trust, institutions, social norms, social networks, and organizations that shape the interactions of actors within a society and are an asset for the individual and collective production of well-being' (Sabatini 2006). This definition implies that 'trust' also comprises trust among different groups in society. Untrustworthy groups, e.g. criminal organisations, negatively contribute to the social capital in a country (Englebert 2001, p5) ¹⁴. Social capital according to this definition is considered by many authors as an important factor in the development process.

6.2.2 Social capital and economic development

The origins of the differences in social culture and social capital, and how these affect economic development, have been studied intensively. Weber investigated the role of religion and moral codes on economic development in the early 1900s. He found that the strict, ascetic protestant ethics in the USA had been a major driving force in the development of capitalism and economic growth. Catholic countries in Europe stagnated because they missed such ethics (Weber 1905). Peng argues that in China the moral codes of Confucianism still play an important role in the fast economic development, though it is not a prime cause: 'Confucianism ... emphasises authority, hierarchical order, and discipline. (...) When the government is seriously committed to economic development, Confucianism can facilitate this. In contrast, when the government carries out policies unfavourable to development, Confucianism can also make things worse because it increases the ability of the government to implement such policies' (Peng 1997).

In 'The ascendancy of Europe' Anderson describes the development of the modern state in the western world between 1815 and 1914. The industrialisation and the steep increase in production in Europe brought a middle class of citizens. This caused a shift

¹³ Observations of the author in seven metal workshops in Peru, 1982

¹⁴ The somewhat tautological character of the definition of social capital is not further investigated here

in economic power which changed social culture, and eventually shaped the modern society with its democratic political system and its reasonably effective and trustworthy public administration (Anderson 1972). A middle class, rather independent of a country's ruling elite, seems to be a prerequisite for a properly working democracy. Moore summarises this as: 'No bourgeoisie, no democracy!' (Moore 1966, p 418). Democracy requires trust in the public system and its chosen leaders. This means that economic growth and the subsequent development of a middle class may bring the degree of trust and social capital required for a democracy.

Veen explains the stagnating development in the sub-Saharan countries through the process of state building and the nature of African social culture. Before and during the colonisation era sub-Saharan Africa (SSA) had a small population, in 1900 some 90 mln inhabitants (McEvedy and Jones 1978), and a very low population density: 3.8 / km² (Hinloopen and Van Marrewijk 2004). Because of the scarce population, the difficult communication and transport as well as the limited financial and military means, systems of strong, centralised power did not develop. The authority of the leader generally concerned some extended families, and was balanced by the influence of the heads of these families (Veen 2002, p 115, 412). Relations were personal, there was no distinction between public and private, and people's obligations of mutual assistance were restricted to the extended family. For protection people turned to influential members of the society, because a formal protection system did not exist (Goody 2002, p 113). After decolonisation the local leaders inherited an unprecedented power and the control over often vast natural resources. Little social and economic development had taken place in SSA, and the relation between leaders and common people was quite unequal. The power of the leaders continued to be personal. And though nowadays formal government systems have developed, personal relations still largely determine the behaviour of politicians and officials. In terms of institutions and organisations, little social capital has been accumulated. This considerably restricts government effectiveness (Veen 2002, p 113).

In South and East Asia, state formation dates back several millennia. More social capital has been accumulated, which explains the present development. But according to Allena, Qianb and Qianb, in China 'neither the legal nor financial system is well developed', which implies a deficiency in its social capital. That nevertheless economic growth is very fast, is caused by 'alternative financing channels and governance mechanisms, such as those based on reputation and relationships' (Allena, Qianb and Qianb 1999). The deficiency in formal processes is compensated by trustworthiness, the main component of social capital.

Furthermore, as a result of prolonged, fast economic growth, a middle class is emerging now. At the same time, improvements in the judicial system take place. Lubman points at the many changes in the past years: 'The creation of new rights, revision of criminal law and procedure, and construction of a nascent administrative law' (Lubman 1999). Friedman predicts that 'within our lifetimes, we will see the beginnings of a political liberalization in China' (Friedman 2005). Similar observations are made for other countries. Hagen Koo investigated the role of the growing middle class in Korea and found a positive influence on development 'of a less authoritarian and more democratic system' (Koo 1991). Shiraishi described the increasing importance of the middle class in South Korea and Taiwan and to a lesser extent in Malaysia and Indonesia, and noticed a movement towards a cleaner society (Shiraishi 2004).

The examples show that social capital plays an important role in economic growth, and also that firm, long term economic growth can advance social capital. This is in line with Inglehart's research on change and growth in a large number of countries (Inglehart 1997). Furthermore, it can be seen that certain elements of social capital, like trust among people without family ties, need long periods of time to develop, but also pertain in society for a long time. China's social capital survived the many wars in the 19th and 20th century and the turmoil in the Maoist period. Economic development reacts much more volatile, e.g. on war or revolution. Also governance quality may vary between years, depending on the president or dictator in power. (The relation between aid, good governance and development is further investigated in section 7.5.)

6.2.3 Clientelism

Western countries have a reasonably reliable and impartial judicial system, that provides a fair degree of protection to all citizens. But in most developing countries there is no reliable, impartial judicial system. Therefore, people with little influence tend to seek protection from people with ample influence. The state is not a reliable entity, and peoples' loyalties rest first of all with their family and close friends and to some extent with a network of relations, but not with strangers or the society at large (Barro 1999, Hyden 2001, p 2). As a result, all social, economic and political processes are guided by personal relations and personal interests. In these relations the more influential person, the patron, gives favours to the less influential person, the client, and the patron expects services and support in return. This system of informal relations is known as clientelism (Lawson 1980). Only when countries develop a well functioning democracy, clientelism diminishes. Because of the way it functions, clientelism corrupts political decision making. Kaufman points at the lack of control by an impartial public sector: The relations between patron and client are: 'particularistic and private, anchored only loosely in public law or community norms' (Kaufman 1974). Brinkerhoff and Goldsmith comment on the hidden aspect of the clientelism process: 'Policy decisions

are taken in secret and procedures are impossible to follow from outside' (Brinkerhoff and Goldsmith 2002, p 7). O'Donnell points out that 'in many cases, systems of clientelism are ... subverting the rule of law' (O'Donnell 1996). And, as Brinkerhoff and Goldsmith formulate it, 'in practice the distinction between public and private realm is generally blurred' (Brinkerhoff and Goldsmith 2002, p 7).

The picture presented in most studies on clientelism is incomplete though. From own experience in many developing countries the author learned that clientelism has an effect on public processes that is not immediately clear from the bond between a patron and his clients¹⁵. These personal observations are confirmed by research. First of all, the clientelism system has many interdependent hierarchical levels, like small pyramids that combine to larger pyramids and finally to one overall pyramid. The beggar and the president will be some ten levels apart, the hierarchical stages may comprise the beggar, the leader of the group of beggars, the policeman who is the patron of the group, his chief, the chief constable, the mayor, the governor, the minister, and the president and/or the general¹⁶. They all have patron-client relations with each-other. Clientelism is everywhere in society, it is not limited to some dishonest politicians. It is also important to realise that money is not accumulated just for the sake of a luxurious life, but rather to acquire and maintain a position of influence. That necessarily requires paying and being paid. No high official or politician can be really 'clean', and the higher the position, the larger the amounts of funds involved. The way former President Suharto of Indonesia protected his political power illustrates this. He assured the loyalty of the dominating party, Golkar, by making Golkar membership obligatory for officials, and by positioning party members at lucrative posts (Bertrand 2002). He also encouraged the officials to skim off the budgets of the ministries (Bakker and Schulte Nordholt 2000, p 84). He assured the loyalty of the military by allowing the higher ranks to run private companies. For instance, they run a satellite communication company, a fishing fleet, and a timber concession (Aditjondro 2000). Suharto also arranged a reliable flow of funds for himself by letting his business allies, befriended generals and family members take control over almost all large Indonesian companies, and by granting these a monopoly in their trade, in exchange for a share in the profit (Aditjondro 2000).

There is a difference in character between clientelism in the various parts of the world. When in East Asia 30% of the budget for some investment leaks away, the remaining 70% is generally adequately used. For instance, if a bridge is built it is really needed, and it is constructed reasonably durable. In contrast, in SSA most of the infrastructural projects are not completed or soon broken down. For instance, in Nigeria, in a drinking

¹⁵ Own experience of the author, especially in Peru 1991, Indonesia 1992-95, Russia 1997, Nigeria 2006

¹⁶ Discussion with policemen in Peru, 1991

water project comprising several states, 80% of the water supply systems were out of order, most of them beyond repair (Transparency International 2008) ¹⁷. The African politicians are less interested in arranging proper services for the poor population than their East Asian colleagues are, and contracts are often given to befriended but incapable companies. The difference in responsibility of the politicians can be explained by the difference in social capital (6.2.2).

6.2.4 Corruption

Corruption causes government money to disappear, also when it concerns aid funds. To minimise the losses, the MFA should be aware of the amounts and of the applied methods. Corruption is defined here as: the application of bribes and fraud in the public realm. Corruption is common in countries where the clientelism system is dominant, which is the case in virtually all developing countries. The organisation Transparency International publishes the Corruption Perceptions Index (CPI), the most reputable corruption rating (Transparency International 2007). The CPI scores of the Dutch partner countries are presented in appendix 5. The scores show that in all Dutch partner countries except 4, CPI is below 3.5 on a scale from 1 tot 10, which means that corruption is perceived as quite high. Nearly all Dutch partner countries are severely corrupt. Apart from overall scores per country, statistics about corruption are hardly available. But numerous studies can be found on individual countries and cases. Rose-Ackerman describes many examples of corruption in a wide range of government activities, e.g. in procurement, customs, tax collection, and adherence to business regulations (Rose-Ackerman 2004). An example: as a result of collusion between tax inspectors and tax payers (and most likely also politicians), in Gambia tax evasion was found to be some 70% of revenues due, which seriously restricted government spending (Dia 1996, p 46-47, 94-100).

Corruption in developing countries causes a considerably share of the government budget to be siphoned off, and therefore it is increasingly recognised as an obstruction for development. An overview of statements of reputable sources about the share of funds disappearing is presented in box 6.1. The information stems from leading employees of large aid organisations, involved local government officials, researchers investigating specific cases, and traders and consultants. It can be observed that the share of the government budget lost through corruption is between 20% and 60%, the average is 34% (not weighted). All in all, it can be assumed that roughly a third of the funds disappears. This applies to the various kinds of aid funds as well, e.g. bilateral aid, the funds of NGOs, multilateral aid and loans.

¹⁷ Observations and information received as a team leader in an evaluation mission of an EU sponsored water supply project in Nigeria, February-March 2006

Box 6.1: Cases and estimates of amounts of corruption

- In 2007 Berkman, head of the Corruption and Fraud Investigation Unit of the World Bank, revealed that 30-40% of World Bank loans were lost through corruption (Berkman 2008, p 27).
- In 2000, professor Georg Cremer, secretary-general of Caritas International Germany, the German branch of a large relief organisation of the catholic church, estimated that Caritas projects lose 20-30 % of the funds through corruption (Cremer 2000, p. 26 – 27).
- In an article in the Jakarta Post of 07-01-1994 the generally respected economist and advisor to the Indonesian government, Soemitro Djojohadikusumo, stated that 'over 30% of the state investments were unaccounted for' (Djojohadikusumo S. 1994, p 1)
- In 2005 a study of the United Nations Asia and Far East Institute for the Prevention of Crime and the Treatment of Offenders (UNAFEI) was presented about corruption in Peru. Government officials 'inflated' the costs of investments through pension funds for government officials by 25% and of government aircraft purchases by 30% (UN 2005e, p 62 – 64).
- In 1982 Wade investigated a large scale irrigation project in South India and found that 20-50% of the funds disappeared (Wade, Professor at the London School of Economics, 1982).
- In a 1994 study Phongpaicht and Piriyanangsan, Professors at Chulalongkorn University Bangkok, revealed that in infrastructure projects in Thailand 20-40% of the project costs consisted of 'kick-backs' (Phongpaicht and Piriyanangsan 1994, p 25-34).
- In 1995 Fleischer, professor at University of Brasilia, reported that in public contracts in Brazil 30-50% of the funds were 'lost' (Fleischer 1995).

The following examples are based on experience of the author:

- In 2000 a Dutch trader in hand pumps and well drilling equipment for water supply programs in African countries, revealed he usually calculated 35% for 'kick-backs' on top of his normal price, which means that the corruption was about 25% of the total sum.
- In 2006, Nigerian officials at city level estimated that from the central government funds for aid sponsored water supply only 40% were really used for water supply; so, the corruption was as high as 60%.
- In Indonesia, 1994, the local manager of a large ADB sponsored urban development project explained that in all government procurement contracts in Indonesia 30 to 35% of the funds disappeared. He also explained the distribution of the funds: 10% for the president and his family, the minister and the involved officials at the ministry; 10% for the governor and the officials at provincial level; 10% for the mayor and the city officials; and some 3% for the tender committees and the project manager.

Jakob Svensson, senior economist at the World Bank, lists some of the most serious cases of corruption that became public during recent years (Svensson 2005): 'The former President of Zaire, Mobutu Sese Seko, looted the treasury of some \$5 billion (...). The funds allegedly embezzled by the former presidents of Indonesia and Philippines, Mohamed Suharto and Ferdinand Marcos, are estimated to be two and seven times higher (Transparency International 2005). (...) In Kenya in the early 1990s, (..) \$1 billion (was siphoned off-LJ) (BBC news 2003). An internal IMF report found that nearly \$1 billion of oil revenues, or \$77 per capita, vanished from Angolan state coffers in 2001 alone' (Pearce 2002). The examples illustrate the large extent of corruption in many countries. With respect to aid funds, the most common kind of corruption is fraudulent procurement. In aid programs the procurement (e.g. civil constructions, equipment and services) is generally left to the recipient government, which offers ample opportunities for corruption.

Corruption is usually cleverly hidden. Because of the secret nature of corruption, no reliable statistics are available of the exact amounts, and efforts to curb it are usually unsuccessful. Winters interviewed World Bank officials who admitted that their auditors could not detect the irregularities: 'The auditors themselves (...) say "we've looked at it according to international auditing standards, and we find that the records are in order." But the records themselves could be fraudulent (Winters 2000)...!' For more about methods to siphon off state funds and how to hide it, see appendix 5.

6.2.5 The influence of economic development on corruption

The TI list shows a strong correlation between per capita income and corruption: the OECD countries, i.e. the western industrialised countries, score better than the other countries, all except two above 6.5. The low income developing countries generally score below 3. In section 6.2.2 the positive influence of the prolonged, fast economic growth in the East-Asian countries was discussed. Table 6.1 shows that in the already well developed newly industrialised countries (NICs), the increase in social capital indeed translated into diminishing corruption rates. Whereas for most countries the CPI varied only little over the years, the NICs' values steadily rose.

Table 6.1: The newly industrialised East Asian countries show a rising CPI (TI)

Country / CPI	1997	2007
South Korea	4.3	5.1
Taiwan	5.1	5.7
Hong Kong	7.3	8.3
Singapore	8.7	9.3

Graf Lambsdorff, head of TI, has a different view: he assumes that diminishing corruption causes economic growth (Graf Lambsdorff, J. 2003a). But data on corruption (Transparency International: CPI) and economic growth (World Bank: World Development Indicators) show that higher CPI levels do not predict for economic growth. For example, since 2001 China's CPI was a nearly constant 3.5 and Vietnam's 2.5. These values were similar to most SSA countries' and they remained so over many years. Yet China and Vietnam went through a startling economic development since then. Therefore, Graf Lambsdorff's assumption is not correct.

In summary, social capital is an important causal factor in economic development. Prolonged economic development can also contribute to the generation of more social capital. But there are large differences between countries. SSA countries generally accumulated less social capital, whereas for instance East Asian countries accumulated much more. In countries with more social capital the government is more responsible than in countries with little social capital. In most developing countries a reliable government is not yet developed and power is structured according to the clientelism system, that is based on personal relations between people with influence and those without. Corruption is a necessary consequence of clientelism, it is widespread through the entire society. Only if a middle class emerges, a western style democracy can develop, and clientelism and corruption diminish.

6.3 Good governance

6.3.1 The level of governance of the Dutch partner countries

As discussed under 6.1.1, good governance is often considered the main driving force behind development. Good governance is the subject of many studies. Generally, donors only give budget support and other forms of financial aid to developing countries if the recipient countries achieve a minimum level of good governance. Therefore, it is intensively measured.

The most common good governance indicators are those under the World Bank's Country Policy and Institutional Assessment (CPIA). They comprise economic management, structural (economic) policies, policies for social inclusion/equity, and public sector management and institutions. Each indicator is made up from several characteristics. Economic aspects play an important role because the International Development Association (IDA), the World Bank's branch for the world's poorest countries, uses the CPIA scores to decide whether such countries (GNI/cap < \$ 1025 in 2007) qualify for interest-free loans and grants, and to what amount (IDA 2007e). The average of the CPIA scores per country is referred to as the IDA Resource Allocation

Index, or IRAI (IDA 2007a, table 2). Because 'public sector management and institutions' has a weighting of 68% in the overall score, the rest is not so relevant (IDA 2007c, p 2). It can be observed that the scores of the individual parameters are reasonably discriminative, so donors can see where the problems are. The average score is not discriminative, though. The list comprises 28 Dutch partner countries, and nearly all average scores are in the range 3.4 - 3.9. Georgia and Cape Verde score a little higher, and Afghanistan and Eritrea score quite low: 2.7 and 2.5. Because of the civil war, it does not surprise that Afghanistan scores especially poor on rule based government and property rights. Eritrea's war ended 8 years ago. It falls short regarding the parameters on economic management.

The World Bank also uses another set of indicators, the 'Kaufmann indicators', specifically for good governance (World Bank 2005a, p 1): voice and accountability, political stability, government effectiveness, regulational quality, corruption control, and rule of law. These too are made up from several parameters. Yearly, the scores for each parameter are presented for 200 countries (Kaufmann, Kraay and Mastruzzi 2007). The scores (of that year) are 'normalised', in such a way that the average is zero and the standard deviation is 1. Most Dutch partner countries score rather low: the average for all 36 countries is about -0.5, several countries score -1 or below. For the individual countries the scores with respect to the constituting parameters vary considerably, though. It can be seen that the good-governance indicators have an overlap with the CPIA ones: under 'Public sector management' the CPIA also addresses 'regulational quality', 'corruption' and 'rule of law'. This means that the two types of indicators are not independent. The choice of the constituting parameters seems somewhat arbitrary, for instance in the Kaufmann indicators economic policy is not included. The scores have a very wide confidence range: about 0.8 on a standard deviation of 1. That means that their discriminative value is quite limited. In addition, the fact that the scores are normalised every year means that a country's score may go up just because other countries are doing worse. But scores of the constituting parameters do show where the problems are. In Afghanistan it is in the areas political stability, rule of law and government effectiveness, in Eritrea regulatory quality and voice and accountability.

The CPI, the CPIA as well as the good governance indicators show a strong correlation with economic development: the rich, western countries generally score high and the poor countries low. This is in line with the strong correlation between economic development and social capital found in section 6.2.

6.3.2 *Failing states*

Sometimes, clientelism degenerates into rampant corruption and outright exploitation, for a longer or shorter time. As Brinkerhoff describes: 'A patron may turn to

intimidation or violence to prevent defections among followers. Sometimes the best that a follower can expect is to be left alone (the 'protection' racket), which is not much of a gain. Should the patron have a monopoly on important resources, as is often the case, defection may be a moot issue anyway. Followers will not find a better deal somewhere else' (Brinkerhoff and Goldsmith 2002).

In such a situation, with respect to the relation between the powerful and the powerless the social capital is entirely lost. In SSA countries this is more common than in other parts of the world. Often, the economic development stagnates because of excessive 'rent seeking' (collection of funds) by the elite. Walker observed that: '...many African leaders designed legal and administrative procedures precisely to maximize the opportunities for rent seeking, thereby mining their economies of their assets at the expense of citizens' (Walker 1997). Szeftel describes this as: '...the catastrophic consequences of African governments' obsession with the division of economic and political spoils to the exclusion of concern for economic development or social justice' (Szeftel 2000).

The excess of 'rents' leads to fiscal deficits and economic stagnation. The resulting poor economic performance may threaten the position of the leading politicians and cause instability. The behaviour of the political elite may degenerate further into rampant corruption or even into state criminality, with 'government officials linking up with smugglers, drug-runners and money launderers'. This happened for instance in Liberia and Sierra Leone where mineral resources (diamonds) are abundant (Reno 2000). Evans describes the problems in Zaire in the early 1990s, and how under Mobutu the state degenerated 'into a perverse form of private enterprise, where government services were sold to the highest bidder' (Evans 1995). In many cases the state also let slide its main tasks, e.g. taking care of public safety, rule of law, infrastructure, provision of public utilities and education (Veen 2002, p113).

According to Ake, the 'western' assumption that African governments have as their goal development and poverty reduction, is just false. They do not have that intention, 'development was never on their agenda'. De Kadt explains this degeneration of the governments' role in many developing countries from the combination of 'power plus discretion minus accountability' (De Kadt 2001). The poor, uneducated people do not form an effective power to control the elite. Ake sees the root causes of the problems of many SSA countries in the authoritarian political structure of the African states derived from the previous colonial entities (Ake 1996). This is in line with Veen, who argues that the generally poor functioning of the state in sub-Saharan Africa is a consequence of the lack of effective, large power structures before the colonisation (section 6.2.2). The process of state formation has only just begun. The conclusion is that, especially in

SSA, governance can become so poor that it ruins the country and its economy. Aid to such governments cannot be expected to lead to development.

In summary, according to the indicators, governance in the Dutch partner countries is generally poor. There are several indicators measuring good governance, each comprising various parameters. Their overall scores are not very discriminating, but the individual parameters do show where the problems in a country are. There is a strong correlation between economic development and governance quality. Especially in poor SSA countries governance is often quite poor and it is not uncommon that it disintegrates entirely. Violent conflicts often play a role. Under such conditions traditional development aid will not have any effect. (Whether good governance leads to development and whether it can be advanced by aid is investigated in chapter 7.)

6.4 Aid, trade and local markets

6.4.1 Dutch disease

As discussed under section 6.1.1, aid and trade to developing countries can disturb local markets, which can have negative effects on the competitiveness of local companies and on governance quality. To prevent these negative effects it is important to know why they occur, and what can be done to counteract them. One of these negative effects is Dutch disease.

Countries with high foreign exchange revenues tend to develop a relatively high exchange rate. When the foreign currency is converted into local currency, the local currency becomes scarcer and appreciates (increases in value). This causes a higher price level, which reduces these countries' competitiveness. This effect is called 'Dutch disease' because it was seriously studied for the first time after the Netherlands started to export gas in the 1970s (Mearns 2007, figure 7). Dutch disease causes local entrepreneurs' competitiveness to diminishes, both against imports and at exports markets, which causes the economy to stagnate and incomes to drop (Moss, Pettersson and Van De Walle 2006, p 4). Most scientists agree that Dutch disease is a problem in many developing countries. An international workshop was held on the issue in Hamburg in 2004. Flassbeck confirmed the importance of low price level for economic growth (Flassbeck 2004). Razafimahefa and Hamori stressed the importance of maintaining a competitive exchange rate to attract foreign direct investments and achieve economic growth (Razafimahefa and Hamori 2005). Dollar discovered a significant negative correlation between an over-valued exchange rate and economic growth (Dollar 1992). Sachs and Warner found that the abundance of foreign exchange

caused resource rich developing countries to develop slower than countries without such resources (Sachs and Warner 1997, p 2 and figure 1).

Aid constitutes a considerable share of the developing countries' inflow of foreign exchange. Therefore, it can cause Dutch disease and have significant negative effects on development. In 2006, 28 countries received aid in excess of 10% of GDP, not counting Oceania (DAC 2008c, table 25). Aid (grants and loans) is largely converted to local currency, because it is used for projects with few foreign inputs (Bond 2002). Verbeke expects Dutch disease effects of aid to become more serious in the years to come because to achieve the MDGs aid volumes will go up (Verbeke 2007). The Dutch MFA does not mention Dutch disease in its policy reports or in the Explanatory Memorandum, though. Only one MFA document could be found on the issue, a 'Kamerbrief' (letter from the minister to the House of Commons), explaining that 'Dutch disease effects are hardly found and are certainly not seen as a structural problem' (MFA 2007d). Many other studies also failed to detect Dutch disease effects of aid (Issa and Ouattara 2004; Ouattara and Strobl 2004; Sackey 2001). Indeed, in some countries aid does not lead to Dutch disease, because the foreign currency is not exchanged in local currency but is used for import (luxury goods, equipment, fertiliser) or maintained as reserve. Ghana disburses only part of its aid and maintains large dollar reserves to avoid Dutch disease (Sackey 2001). China does not receive much aid (per capita) but its export generates a large inflow of foreign currency, and to keep its currency down it maintains the largest dollar reserves in the world (US-China Economic and Security Hearing Commission 2003, p iii). However, in most developing countries the aid is just exchanged in local currency, so if aid causes Dutch disease the studies should detect it. But there are strong reasons to assume that the studies use an inappropriate indicator. Usually, the investigations are based on a definition of the real exchange rate, RER, that may mask the effect (Frankel and Wei 2007):

$$\text{RER} = e \cdot P_t/P_n$$

Here e is the nominal exchange rate (in units local currency per unit foreign currency), P_t is the price index for tradable goods (like household appliances and oil) and P_n the price index for non-tradable goods (like houses and services) in a given country. The indexes refer to a given base year and are based on 'baskets' of several products and services. Different kinds of such baskets are applied (Suranovic 2006; EIU data services 2007). A country trades with many other countries so it has many RERs. The weighted average of the RERs is the REER, the real effective exchange rate. The theory is that high amounts of foreign currency cause the local currency to appreciate (to increase in value), i.e. e diminishes (less rupiahs/dollar). If the exchange rate is fixed, e remains constant but the extra money causes the prices of the non-tradables to go up, so P_t/P_n drops. In both cases the REER appreciates (Nkusu 2004).

The studies just check whether the REER appreciates, and if not, they conclude there is no Dutch disease. But that conclusion may be wrong. If the tradables baskets happen to comprise goods that increase in price as well, then the REER may remain constant or even depreciate, even if there is Dutch disease (Harberger 2004). Furthermore, using index values for P_t and P_n may also lead to wrong conclusions because the currency may have been over-valued in the base year already. In addition, other foreign exchange flows may mask the Dutch disease effect, like official and private loans, debt repayments, foreign direct investments, and remittances of migrant workers (World Bank 2006d, p 179 table 7a; Gupta, Pattillo and Wagh 2007, p 6). Some of the incoming flows may actually reduce Dutch disease: investments in productive activities cause the economy to expand which counteracts the effect. Therefore, that the MFA does not find Dutch disease effects of aid may very well be explained by the inadequacy of its studies. At present many organisations, e.g. the IMF, apply another definition for the real exchange rate (Catão 2007):

$$RER = e \cdot P_f/P_d$$

where e is the nominal exchange rate, P_f is foreign price level and P_d is domestic price level, both in \$ US. Price levels in different countries are determined based on representative baskets of goods, so P_f and P_d compare purchasing power. This allows a simple check whether a currency is over-valued. It is a rough check only because competitiveness varies per product, as it depends (among other things) on the share of local and foreign exchange required for its production. But overall, to be competitive a country with a low average productivity (many man-hours per unit of product) should maintain low costs of labour and therefore a low price level. If not, its products would become too expensive to compete at the international market. Therefore, the poorer the country, the lower its price level generally is (the so called Balassa-Samuelsen relation). Comparing price levels and productivity per capita between countries and regions allows conclusions about their competitiveness. A common measure for productive capacity per capita is average income per capita purchasing power, GDI/cap PPP (UC Atlas of Inequality 2007). Price level can be found dividing income per cap PPP by income per cap in \$ US at the nominal exchange rate. The World Bank applies a slightly different parameter: GNI, i.e. GDI adjusted for financial transfers to and from abroad. Both GNI/cap and GNI/cap PPP are presented by the World Bank in \$ every year (World Bank 2008b, table 1.1). Price level and growth data in some world regions is shown in table 6.2. The data confirms that, overall, the lower the production per person (GNI PPP/cap), the lower price level. Only SSA has a much higher price level than its low productive capacity/cap would suggest. Its price level is higher than that in South Asia and East Asia, whereas its productive capacity is lower.

Table 6.2: Price level and growth for different regions, 2006 (World Bank, UN)

Region	GNI/cap, \$ 2006 (WB)	GNI/cap PPP, \$, 2006 (WB)	Price level (WB)	Growth GNI/cap PPP, %, 1990- 2005 (UN 2008b)
Sub-Saharan Africa	829	1681	0.49	0,5
South Asia	768	2289	0.34	3,4
East Asia & Pacific	1856	4359	0.43	5,8
Latin America & Carrib.	4785	8682	0.55	1,2
High income countries	36608	34933	1.05	1,8

This means that in general, the currencies of the SSA countries are over-valued and that their economies are not competitive. Labour cost is related to price level, and therefore price level is especially important for competitiveness in activities like labour intensive manufacturing (Rajan and Subramanian, 2006). Not surprisingly, in contrast to Asia, in SSA manufacturing is hardly developing: SSA's export of manufactured products (excluding Rep. South Africa) is about 1 % of world total (UN 2008a, p 38). SSA is not a competitive exporter of staple food either, it is a net importer. That SSA's exploitation of natural resources, e.g. oil and ores, is more successful, is because it is generally financed with foreign capital and the proceeds are paid in hard currency too. Therefore competitiveness in that field is hardly dependent on local price level.

Because many incoming and outgoing financial flows play a role, it cannot be concluded that aid necessarily causes Dutch disease and affects competitiveness. But Rajan and Subramanian (2006) found convincing evidence that as a rule it does. They studied the relation between aid, Dutch disease and manufacturing, for many countries, mainly in SSA, in the early 1980's and the late 1990's. They compensated for the influence of many other factors. They found that, on average, aid caused an appreciation of the local currency, and that, indeed, this had a negative effect on the manufacturing sector, especially on labour intensive manufacturing: 'A one percentage point increase in the ratio of aid-to-GDP reduced average annual manufacturing sector growth ... by 0.45 percent in the 1980s' (p 29, 49), see figure 6.1. Their conclusion is that 'labour-intensive sectors grow far more slowly in countries that receive more aid. This should be a source of concern for those who see aid as an instrument to reduce inequality, for labour intensive sectors are the ones that can absorb the poor and landless who leave agriculture (p 35)'.

In summary, aid can lead to negative effects on growth and on poverty. High amounts of aid contributes to an over-valuation of the currencies and a high price level. This reduces competitiveness in labour intensive activities in the tradeable goods sector, and blocks the development of the manufacturing sector.

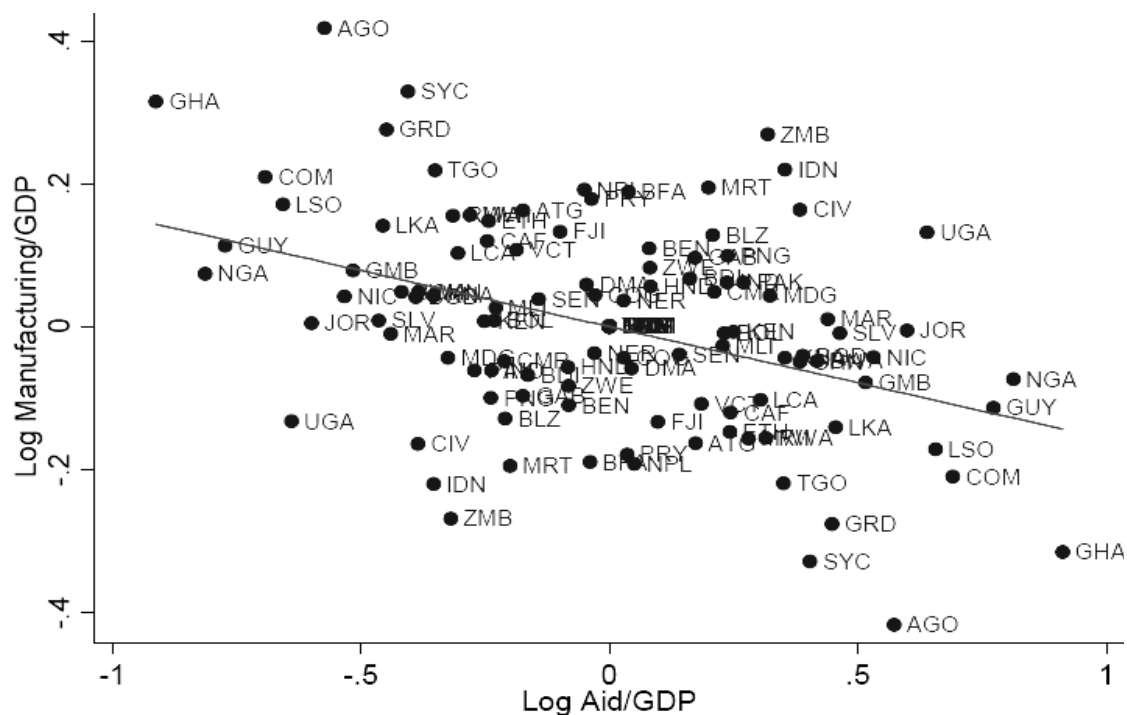


Figure 6.1: The adverse effect of aid on the development of manufacturing industry (Rajan and Subramanian)

Whereas in other parts of the world the manufacturing sector creates many jobs and income for the poor, in SSA it does not. In interviews with MFA employees they stated that Dutch disease effects as a result of the Dutch aid could not be detected. They did not refer to studies to support that view, though.

6.4.2 Food trade

Over the past decades, a dismal harmony of interests between the western countries and elites in developing countries developed. Both parties benefited politically from food subsidies in the rich countries. But this negatively affected the situation of the poor in the rural areas in the developing countries.

Food subsidies cause a decrease in food prices

To guarantee food security and to protect their farmers, over the last decades the rich countries have been subsidising their agricultural producers. This caused world market prices to remain low, especially for commodities like wheat, rice and sugar (FAO 2004b, p 23). An estimate of subsidies by major food producing (groups of) countries in different parts of the world is presented in figure 6.2 (OECD 2008b).

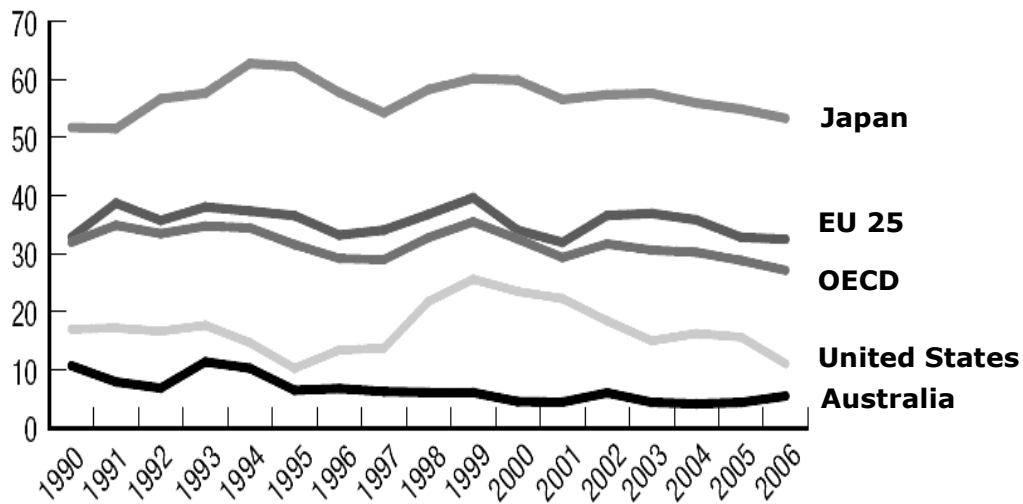
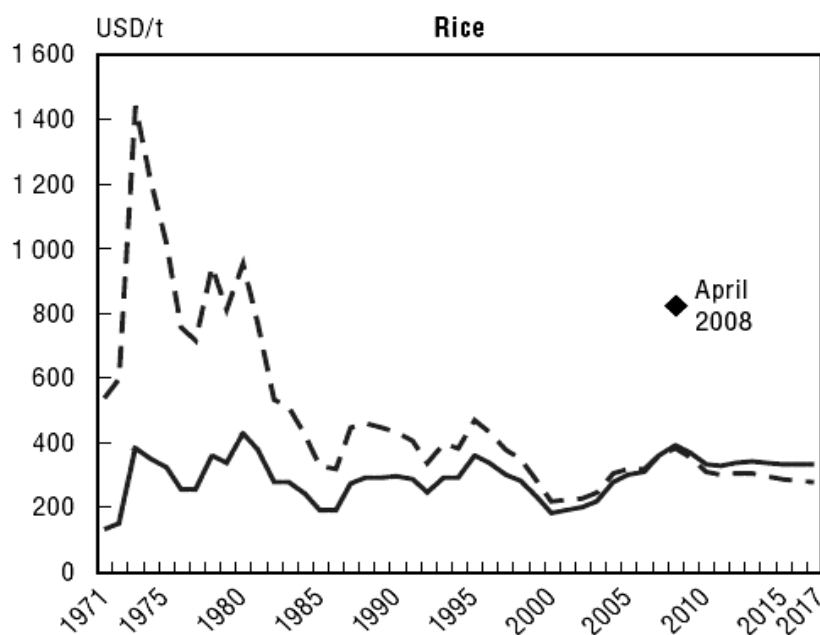


Figure 6.2: Subsidies to agricultural producers as a percentage of value of gross farm receipts (OECD)

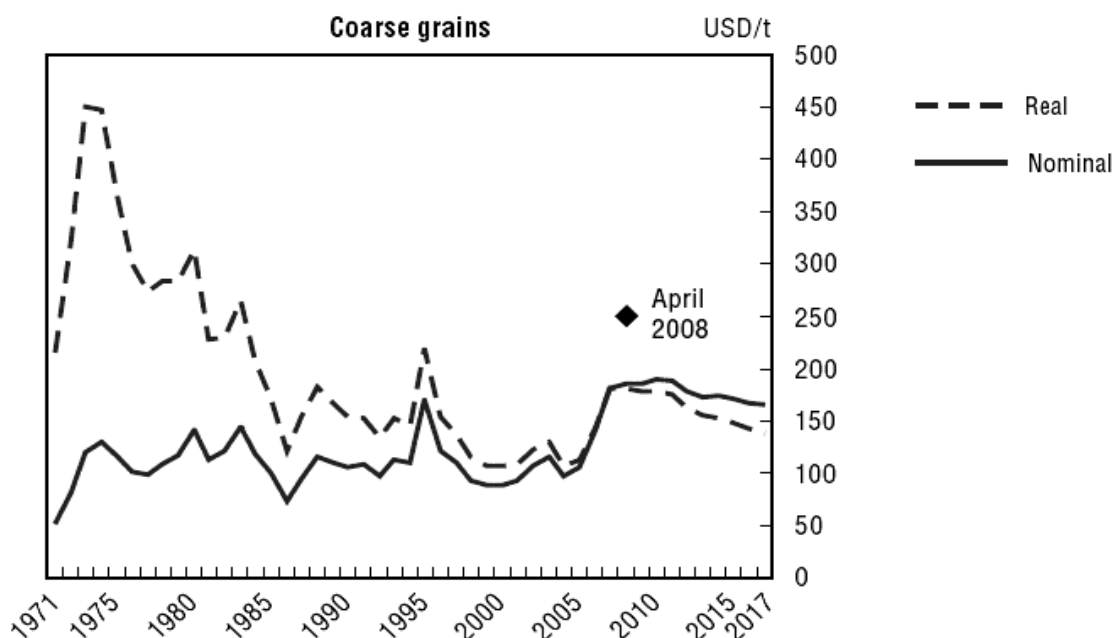
Increasing productivity in the rich countries contributed to the price decrease. Between 1975 and 2002 average real prices of commodities (corrected for inflation) have steadily declined, the total reduction being some 40% (FAO 2004b, p 11). Staple food prices are the most relevant to the poor. Examples of rice and coarse grains prices over the years are presented in figure 6.3. (OECD-FAO 2008a, p 32). Prices are deflated by the US GDP deflator. The figures show that as from 1971 prices decreased considerably. After 1985 real prices (compensated for inflation) fluctuated but remained in the same range. After 2005 the prices increased, but the increase matches the normal fluctuation, and real prices continue to be considerably lower than before the 1990s.

For political reasons, leaders in developing countries import subsidised food

According to Veen, the position of the ruling elites depends mainly on the support of the population in the capital and other large cities, as the political awareness and the influence of the people in the countryside is limited (Veen 2002, p 61). Charvériat and Fokker describe how developing countries opened their borders for low cost food from the rich countries, as a part of the WTO trade agreements in the 1990s. An example is Haiti: it cut its tariff on rice to a mere 3 per cent. As a result, rice imports, mainly subsidised rice from the US, increased thirty-fold. This severely undermined the livelihoods of more than 50,000 rice-farmers and a massive migration to the cities followed. Whereas in the early 1980s 48% of the population was malnourished, in the late 1990s it was 62 %. Especially the big rice traders and US rice farmers benefited from this process (Charvériat and Fokker 2002, p 10). Because of the low food prices, also the people in Haiti's cities benefited. This will have contributed to their acceptance of the residing government.



*Figure 6.3:
Prices of rice
and coarse
grains over the
years (OECD-
FAO)*



The FAO confirms the market distortion: 'Export subsidies and domestic support in some developed countries have remained high and have depressed prices on world markets, eroding the incomes and market share of producers in non-subsidizing developing countries' (FAO 2004b, p 23). Djurfeldt, Holmén and Jirström (2005, p 8) found that the low farm-gate prices reduced the incentive to produce a marketable surplus. Over the years, many smallholders withdrew into subsistence farming. Not only the poorest countries faced this problem. Lehman estimated that about 700,000 Mexican farmers were forced off their land because under the NAFTA trade agreement they were unable to compete with subsidised corn producers in the United States (Lehman 1993).

Several other factors contribute to the low food prices as well. Generally, food markets are dominated by one or a few large (often state) enterprises that control buying, storage and selling. The enterprises have quite some influence on prices, and they try to keep their buying prices as low as possible (Barrett and Mutambatsere 2005). Tollens explains the small farmers' weak bargaining position. They sell immediately after harvest when prices are very low, and they have to buy back later in the season, in the hunger period before the next harvest, when prices are at their seasonal highs. In addition, they have very little market information (Tollens 2006, p 6). It can be concluded that the structure of the market causes the farm gate prices to remain low. Another disturbing factor is food aid. Mousseau points at the aggravating effect of food aid in large quantities. For instance, when in Malawi the harvest of 2002-2003 was very poor, donor organisations overreacted and sent excessive amounts of food aid. The maize price dropped from \$ 250 per metric ton mid 2002 to \$ 100 mid 2003 (Mousseau 2004, p 10-12). In some areas food was even distributed for free. Farmers who produced a surplus found that it became almost worthless and they could not buy seeds and equipment for next year's crop. Furthermore, as discussed above (section 6.4.1), foreign aid can cause Dutch disease, a too high value of the local currency, which has an adverse effect on local farmers competitiveness against imported food (Mousseau 2004, p 63).

The decline of agriculture

Figure 6.4 shows the increasing gross food import of the developing countries (FAO 2004b, p 16).

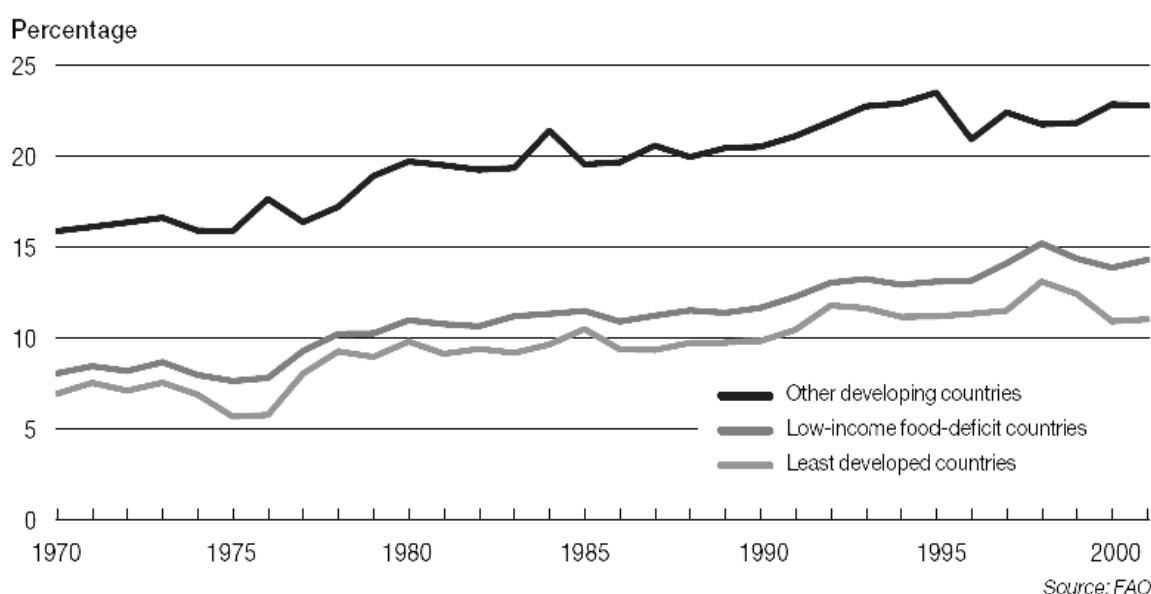


Figure 6.4: Share of gross food imports (excluding food aid) in total apparent food consumption in developing countries, 1970–2001 (FAO)

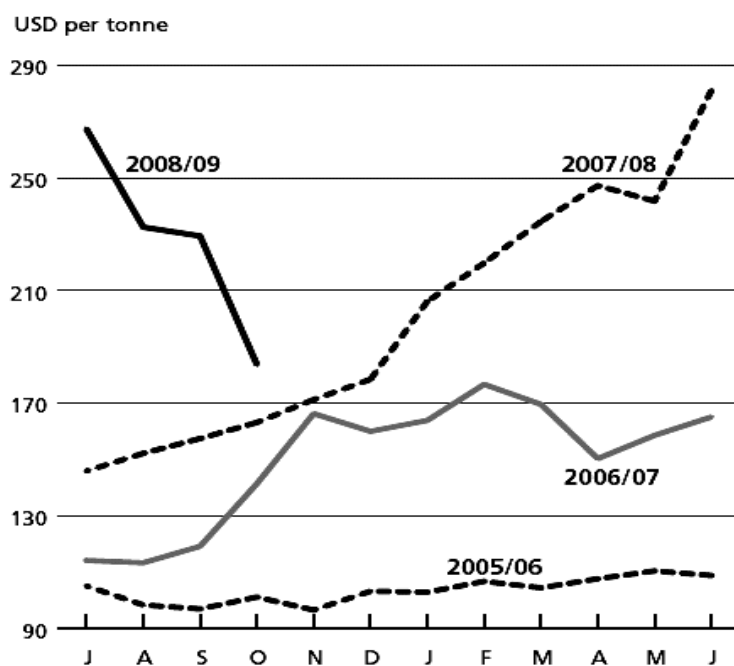
The various effects described above caused a decline in the agricultural production of many poor countries, especially in SSA. Statistics as far back as 1970 show how, in most poor countries, food production decreased (Clapham 2003, p 164), and many developed a food trade deficit. The FAO classifies all SSA countries as low-income food-deficit countries, except Namibia, Botswana and South Africa (FAO 2004a). In 2001, in the least developed and the low-income food-deficit countries, food imports amounted to 12 and 14% of total food consumption, not counting food aid (FAO (2004b).

6.4.3 The recent increase in food prices

Because of a combination of stagnating supply, increasing demand and low stocks, food prices increased considerably during 2007 and the first half of 2008. Though the prices dropped in the second half of 2008 they are still considerably higher than in recent years. For the poorest people especially the prices of staple food are important. In figure 6.5 the increase in world market prices is presented (FAO 2008b, p 56), and in figure 6.6 it can be observed that near the end of 2008 prices dropped. But prices remained considerably higher than in the years before 2007 (FAO 2008d, p 19). In September 2008, world prices of cereals were still more than twice the average price in the period 1998-2000 (FAO 2008d, p 97). In its report Economic development in Africa 2008, the UNCTAD presents current and expected import bills for staple food. Costs of food imports in low-income, food-deficit countries in Africa increased from \$ 18 billion in 2005-06, to \$ 24.7 billion in 2006-07 and to \$ 38.7 billion in 2007-08 (UN 2008a, p 38).



Figure 6.5:
Increase in prices of commodities since 1998 (FAO)



*Figure 6.6:
Maize
export price
2005-2008,
US (FAO)*

For comparison: total aid to Africa amounted to \$ 43 billion in 2006 (DAC 2008c, table 25). The data shows that the poor developing countries face a tremendous challenge to feed their population.

In principle, the high prices should provide opportunities for small farmers to earn a better income. But during recent decades they were never encouraged to increase their productivity, and in addition they cannot match the present quality standards for export. They have to sell their surplus at their home market where prices are generally lower, especially for crops produced domestically (IMF 2008b, p 2), although now they are higher than before. But fertilisers, seeds and transport became far more expensive, so the farmers still may not be able to make a profit. Slum dwellers, landless labourers and smallholders without surpluses are the hardest hit by the higher prices. Often they will not be able to afford them and they will suffer from hunger. The FAO warns that, 'in many low income countries, food expenditures average over 50% of income, and the higher prices ... will push more people into under-nourishment' (OECD-FAO 2008a, p 3). According to its estimate in September 2008, 'rising prices have plunged an additional 75 million people below the hunger threshold, bringing the estimated number of under-nourished people worldwide to 923 million in 2007', a 9% increase since 2003-05 (FAO 2008a). Between 2004 and 2007 the world population increased with only 3.6 % (World Bank 2009), which means that presently the number of malnourished people increases at a much faster rate than the world population. This shows that the recent rise in food prices seriously aggravates poverty.

6.4.4 *Is more food the answer to malnourishment?*

In many developing countries malnutrition rates are quite high: in SSA about 30% of the population, in South Asia 21% (World Bank 2008b, table 2.18). Malnourishment is especially high in the rural areas where subsistence farming is common and hardly any surpluses are produced. Recently, also malnourishment in the cities increased. It is often argued that to reduce malnutrition in a country food production should be increased. But that is no solution. No matter if modern farms would produce abundant food, most smallholders, landless labourers or slum dwellers lack the income to buy the food. Therefore, food production as such has no effect on hunger. It may make the situation somewhat better for the slum dweller, as prices will fall. But it makes it more difficult for smallholders to become competitive and make a living, and for landless labourers to get work at more successful farms. Sending subsidised low priced food or food aid to countries where people are malnourished has the same effect, it causes food prices to fall and discourages local production. Subsidised food and food aid may offer a temporary relief but prevent a structural solution and rather make countries food aid dependent. An example is Ethiopia: between 1985-86 and 2000-01 it received over 11 million metric tons of food aid, on average 9% of Ethiopia's total grain production (Middlebrook 2003, p 27). Thus, the cause of hunger is not lack of food, but people who, for whatever reason, are unable to produce sufficient food to live on, or do not have the money to buy it. Sending food or increasing food production in general, does not solve that problem.

In summary, the food subsidies of the Western countries and the wish of the developing countries governments' to keep food prices low, resulted into large flows of low cost food to the developing countries. Smallholders could not compete and migrated to the cities or withdrew into subsistence farming. Malnourishment remained high. The agricultural sector declined and many countries became dependent on food imports. Because of the recent increases in food prices, they now face very high food bills. Near the end of 2008 prices were falling again, but they are still twice as high as in the years 1990-2000 (constant prices).

6.5 Conclusions

Social culture

Social capital, especially the factor trust, is widely considered an important causal factor in long term economic development and poverty reduction. It develops over many years, in the process of state building. In most developing countries it is still limited. A reliable government is often not yet established and power is structured according to the

clientelism system. Patron-client relations occur at all levels in society, and virtually everybody is involved in clientelist relations. Real decision making takes place behind the scenes. The distinction between private and public is blurred. Corruption is high and everywhere, about a third of the state funds disappears, also of the aid funds.

Especially the countries in SSA accumulated little social capital as yet, and development has been slow. The state funds left after deduction of the corruption share are often not spent very wisely. Countries in East Asia accumulated far more social capital and develop very well. These countries also function according to the clientelism system, and corruption levels are similar to those in SSA, but the remaining part of the funds is usually applied quite responsibly. Therefore, aid to countries in East Asia will be more effective. Prolonged economic development can contribute to the formation of more social capital. In East Asia, in many countries average income is steadily increasing, and a middle class is emerging now. The development of more democratic government structures may become feasible in the years to come.

In its policy, the MFA does not take the described mechanisms into account. Advocating a western style democracy in the poorer countries will have no effect, it requires the development of a middle class first. The MFA does not seem to be aware of the fact that corruption inevitably takes place in all developing countries and that a large share of the aid, about a third, disappears. The MFA also mistakenly assumes that sending in western auditors guarantees that there is no corruption. On paper everything always tallies. In more advanced developing countries, aid to support democratic developments may achieve some success.

Good governance

Generally, poorer countries have weaker governance. Governance quality is also related to social capital. Especially in African countries governance is often quite weak. The individual parameters under the internationally applied governance indicators show the typical problems per country. It is not uncommon that governments disintegrate and basic functions like public safety, infrastructure and education are not taken care of anymore. Often this goes hand in hand with violent conflicts. Traditional development aid will not have any effect under such conditions. Two Dutch partner countries score particularly poorly with respect to good governance: Afghanistan and Eritrea. Their governance deteriorated because of violent conflicts, but they are now in a process of stabilisation and reconstruction. Especially where governance is weak, there is little chance that the MFA's aid efforts have any effect. Often the aid is based on the Dutch aid priorities and not sufficiently tailored to the typical problems and possibilities of the recipient country. (Whether good governance leads to development and whether it can be advanced by aid is investigated in chapter 7.)

Aid, trade and local markets

The MFA's policy in the field of aid and trade can have adverse effects on development. When aid funds are converted to local currency, they contribute to Dutch disease: an over-valuation of the developing countries' currencies, and a high local price level. As a result, the manufacturing industry does not develop, and chances to generate jobs and income are missed (6.4.1). The economic growth in the period in many SSA countries in the late 1990s – early 2000s was only a result of the high commodity prices. It reversed when the prices fell again in 2008 - 2009.

The MFA's aid policy in the field of agriculture was quite in line with the policy of the other Western countries over the past decades. The export of subsidised food and the provision of food aid over many years fundamentally disturbed local markets. Smallholders were out-competed and withdrew into subsistence farming or migrated to the cities. In many countries the agricultural sector declined and malnourishment remained high. Many developing countries became dependent on food imports, especially in SSA. Because of high food prices in 2007 they faced very high food bills. Besides, slum dwellers, landless labourers, as well as smallholders who cannot produce enough to live on, suffer from the high prices. As a consequence malnourishment is increasing fast.

The MFA's aid policy does not take these mechanisms into account. Its agricultural aid hardly addresses the problems of the slum dwellers, landless labourers and smallholders. Increasing food production in African countries is no solution because the poor do not have the money to buy it. The MFA is also unaware of the risk of Dutch disease, it denies that it is a problem. But the indicator applied by the IMF, price level, clearly shows that most African currencies are quite over-valued; price level is 50% higher than in South Asia. Aid is an important causal factor. In 2006, the MFA gave aid to 9 (out of 37) partner countries, all African ones, where total donor aid exceeded the generally accepted limit of 15% of GNI (not counting Afghanistan and West Bank). Most of this aid is spent on public services and exchanged to local currency. This means that the MFA contributes significantly to Dutch disease. The high price level makes labour intensive production (e.g. manufacturing, agriculture) uncompetitive. As a result, aid contributes to the stagnation of the SSA economies.

The effects of the conditions in the developing countries on the results of the aid

Summarising, the following effects from the conditions in the developing countries on the results of the aid were found:

- In the developing countries social capital (trust, institutions, social norms, social networks, reliable impartial organisations...) is generally scarce, which causes the public system to be weak. Society is structured according to the clientelism system.

It tends to cause poor governance and high corruption: roughly a third of the government budget disappears, and also of the aid funds. Consequently, the effects of the aid programs are reduced. But developing countries with more social capital, like India and China, achieve fast private sector development and poverty reduction, in spite of high corruption. When a middle class develops, the role of the clientelism system diminishes and governance improves.

- Especially in the poorer countries governance is generally very weak. It happens that it disintegrates entirely and no longer takes care of its main functions, e.g. providing public safety, urban water supply and infrastructure. Violent conflicts often play a role. Under such conditions aid has no effect.
- The aid to poor countries contributes to a high value of their currencies (Dutch disease) and a high price level. This makes labour intensive production uncompetitive. With regard to agricultural production, import of subsidised food from Western countries further contributes to the poor competitiveness. Food aid disturbs the markets even more. The recipient governments welcome the low cost food as it contributes to the support of the population in the cities. But, the rich countries' high amounts of aid and their export of subsidised or free food contribute to the economic stagnation of SSA countries. Nearly all SSA countries are now food importing countries. Because of the high food prices in 2007-08, malnourishment increased, and the SSA countries face high food bills.

Overall, the effect of the aid is considerably reduced through the mechanisms that result from the Dutch (and international) aid and trade policy and the conditions in the poor developing countries. The MFA does not take these mechanisms into account. The net effect of the aid may even be negative.

CHAPTER 7: THE ATTAINABILITY OF THE MAIN GOALS

7.1 Introduction

This chapter investigates sub-question 2 to the second research question:

To what extent are the main goals of the Dutch development cooperation attainable?

Four main goals are analysed:

- whether the MDGs are attainable with the internationally available aid funds;
- whether health effects are attainable through water supply and health care;
- whether poverty reduction can be advanced through (primary) education;
- whether economic growth can be achieved through advancing good governance.

The MFA supports the realisation of the MDGs by 2015. Water supply, health care, primary education, and good governance are main goals of the Dutch aid. From the information in the Explanatory memorandum, it can be concluded that the MFA expects the efforts in these areas to be successful. But as discussed under 5.4, it can be questioned whether these goals can be achieved. It is not sure whether the funds to reach the MDGs are sufficient, and there are several side effects that obstruct the achievement of the other goals. The attainability of the MDGs with the available funds is analysed based on the expected costs to achieve them and the expected available funds. Both the costs and the available funds are based on estimates of experts, but certain factors appear to be ignored. The research uses reasonable assumptions for the missing data to arrive at a useful conclusion. The effects of water supply on health are investigated through existing data on the effect of nearby water supply on birth rate and child mortality, the effect of population growth on malnutrition, and the effect of malnutrition on health. The found overall relation is then compared with statistics regarding the increase in water supply in various countries, and the data on child malnutrition, to see whether the findings match. The mechanism that explains the effects of water supply on health is found to be also applicable to the effects of health care. Primary education is generally seen as a very important contribution to lift poor people out of poverty. It is investigated whether it really does. To this end the quality and relevance of the education is analysed, and the contribution of the primary education to the future lives of the school leavers is estimated. To assess the influence of good governance to achieve development and poverty reduction, the correlation is analysed between good governance and development. Also the effect of efforts to achieve better governance through aid is investigated, and of aid to well governed countries.

7.2 Achieving the Millennium Development Goals

7.2.1 *The amount of aid required to meet de MDGs by 2015*

The MDGs concern mainly public services, i.e. physical infrastructure, and running costs (teachers salaries, water supply maintenance...). Apart from the developing countries' own budgets, development aid is applied to finance these services. As discussed in section 2.7.3, at present the progress towards the MDGs is slow: on average, in the various regions in the world about 40% of the sub-goals are expected to be realised. But if the aid would be increased enough, the Goals could be met. The UN report 'Investing in development, a practical plan to achieve the Millennium Development Goals' presents an estimation of the yearly ODA till 2015 that would be required (in addition to local governments' efforts), see table 7.1 (Sachs 2005, p 251). The amounts are in constant 2003 dollars and they concern the aid for the MDGs only.

Table 7.1: Total ODA required to meet the Millennium Development Goals (UN)

Required ODA contributions to meet the Millennium Goals, constant billion US\$ of 2003	estimated ODA in 2002	required ODA in 2006	required ODA in 2010	required ODA in 2015
In low-income countries	15	94	108	149
In middle-income countries	3	12	11	9
At the international level	10	15	23	31
Total	28	121	143	189

7.2.2 *The amount of aid required to match both MDG and non-MDG goals*

It can be seen that the aid to meet the MDGs would have to increase from \$ 28 billion in 2002, to 121 billion in 2006 and 189 billion in 2015 (in constant dollars of 2003). But the total aid consists of more than just the MDGs, it comprises aid for other goals too. The required MDG aid and other aid is presented in table 7.2.

Table 7.2: The required aid to achieve the MDGs plus other aid (based on UN data)

ODA, constant billion US\$ of 2003	2002	2006	2015
MDG aid	28	121	189
Other aid	32	34	41
Total	60	155	230

The amounts are found as follows. Total net aid in 2003 was \$ 58.3 million, 2002 prices (DAC 2006a, table 4), and using the DAC deflators (DAC 2006b) that equals \$ 59.5 billion in 2003 dollars. So non-MDG aid was \$ 59.5 – \$ 28 = \$ 31,5 billion. Ignoring the present economic crisis, and assuming the non-MDG aid to increase proportional to the real economic growth of the OECD Euro area of the last years, about 2% /yr, the non-MDG aid would amount to \$ 34 billion in 2006, and \$ 41 billion in 2015. This brings total required aid on \$ 230 billion in 2015 in constant 2003 dollars, see figure 7.1. The aid levels before 2002 are based on DAC data (DAC 2005b, table 2).

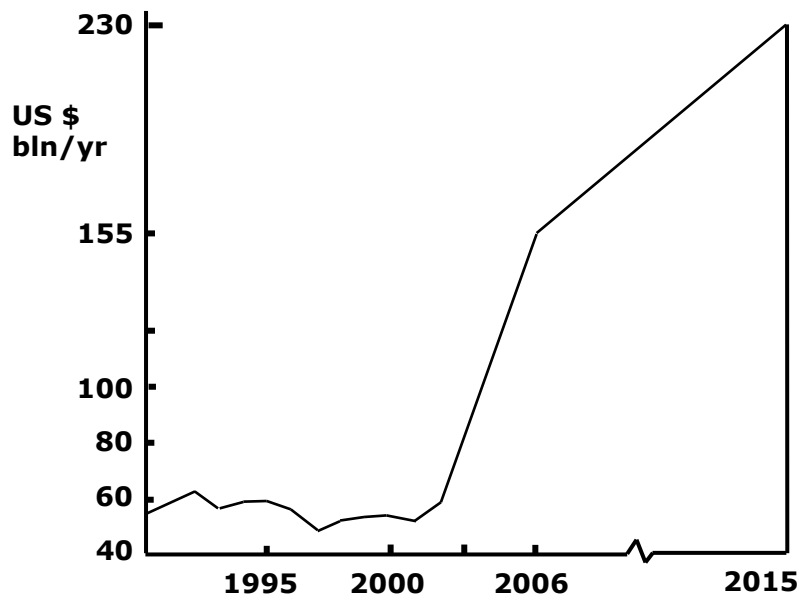


Figure 7.1: The required aid after 2002 to achieve the Millennium Development Goals, including non MDG aid, constant 2003 dollars (DAC data)

7.2.3 The amount of aid expected to be available

The figure shows that it would require an aid increase of nearly 4 times the 2003 level in 2015 (constant prices). The DAC expects the aid to increase modestly, both as percentage of donor GNI and because of donor GNI growth. As from 2005, the DAC expects the aid to increase from 0.33% to 0.36% of GNI (see figure 2.4, section 2.6.3) and donor GNI is expected to grow with about 2% /yr. The combined effect is a 2015 aid that surpasses the 2005 level (\$ 106.8 billion) with a factor $0.36/0.33 \times (1.02)^{10} = 1.33$ in constant dollars. Applying the DAC deflators it follows that 2005 dollars are worth 0.8967 of the value of 2003 dollars, so the aid in 2015 in 2003 dollars would be \$ 106.8 billion \times 1.33 \times 0.8967 = \$ 127 billion. It can be observed that the expected aid, \$ 127 billion, is considerably lower than the required aid, \$ 230 billion. The aid will be nearly a factor two short. In 2006 it fell short already: it was about 100 billion \$ of

2006, instead of \$ 150 billion of 2003. In view of the world wide economic crisis (2008) it is not realistic that the DAC's assumptions about the aid increase are met. The conclusion is that the available aid funds are quite insufficient to achieve the MDGs.

7.3 The effects of water supply and health care programs

7.3.1 The immediate effects of water supply on health

Many donors support drinking water supply programs, often in combination with sanitation, in order to achieve improvements in health status. Also the MFA finances such programs. It is investigated whether appropriate water supply leads to sustainable health effects indeed.

All experts agree that there is a clear relation between clean drinking water and health: many illnesses are caused by contaminated drinking water and poor hygiene. For instance, Prüss et al. estimated the disease burden from inadequate water, sanitation, and hygiene to be 4.0% of all deaths and 5.7% of the total disease burden occurring worldwide, taking into account diarrhoeal diseases, trachoma (eye disease), schistosomiasis, ascariasis, trichuriasis, and hookworm disease (all parasites) (Prüss, Kay, Fewtrell and Bartram 2002). The authors stress that many other illnesses are at least partly caused by contaminated water and poor hygiene as well, but insufficient data are available to estimate the overall effect. Especially young children are vulnerable to water related illnesses. According to WHO statistics, 1/6 of all deaths of children under 5 is caused by diarrhoeal diseases (WHO 2006a, p 22-29). 88% of diarrhoeal disease is attributed to unsafe water supply, inadequate sanitation and hygiene (WHO 2007b). In addition, many people suffer from skin infections et cetera because of contaminated and insufficient water for washing.

Huton and Haller investigated the economic value of investments in clean water supply and sanitation, based on time savings associated with better access to water and sanitation facilities; the gain in productive time due to less time spent ill; health sector and patients costs saved due to less treatment of diarrhoeal diseases; and the value of prevented deaths. In developing regions, the return on a \$ 1 investment was in the range of \$ 5 to \$ 28 depending on the kind of service, the estimated cost and the estimated value of the benefits. The main contributor to benefits was the saving of time associated with better access to water supply and sanitation services nearby (Huton and Haller 2004, p 3). It can be concluded that in developing countries, clean water and sanitation near the houses contribute considerably to the reduction of hygiene related illnesses, and also to workload reduction, especially of women. Yet, there is evidence of side effects counteracting these positive effects.

7.3.2 Nearby water supply and population growth

The studies mentioned above ignore the fact that water and sanitation lead to more surviving children, and in poor families where food is scarce this aggravates malnutrition. This effect was convincingly demonstrated by Gibson and Mace in a study under 2000 households in rural Ethiopia (Gibson and Mace 2006). The households comprised villages that received better and nearer water supply, and a control group of comparable size that did not. Where better water became available nearby, the time women spent carrying water reduced from around 3-6 hours to less than 30 minutes during the dry months (p 0478). It was found that child malnutrition increased, see figures 7.2 and 7.3.

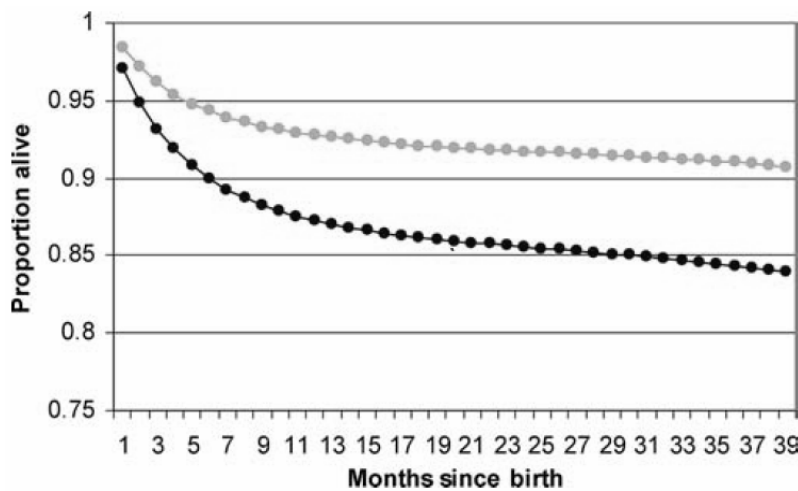


Figure 7.2: Aggregated child mortality for age, expressed in proportion alive, for villages with safe water nearby (upper curve) and without (lower curve) (Gibson and Mace)

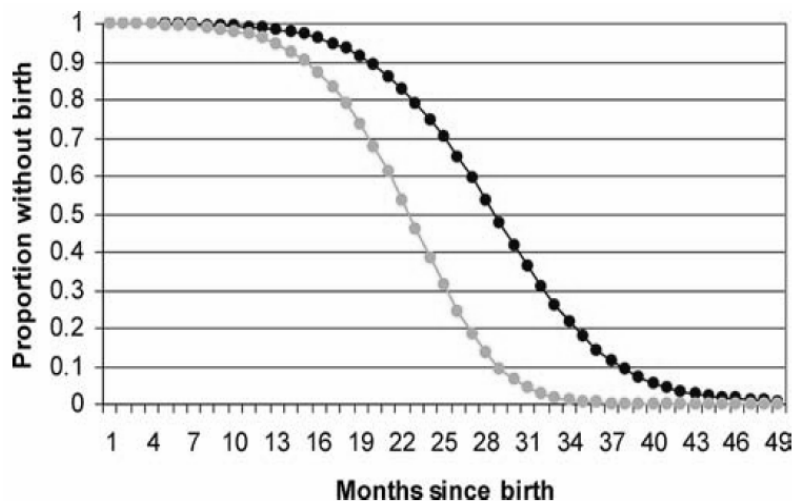


Figure 7.3: Time between births, for women with nearby access to safe water (lower curve) and without (upper curve)

Data presented in figure 7.2 is controlled for child survivorship, mother's age, parity, religion, socioeconomic status, and village for 1,526 women. Data presented in figure

7.3 is controlled for sex, preceding interval length, mother's age, parity, religion, socio-economic status, and village for 2,914 births. The study shows that the access to a clean water source nearby caused a considerable amount of time and energy savings for the women. This led to a shorter time between births and to a decrease in child mortality rates. The authors concluded that: 'whilst infant mortality has declined, the birth rate has increased, causing greater scarcity of resources within households', and 'development initiatives designed to improve maternal and child welfare may also incur costs associated with increased family sizes if they do not include a family planning component.'

The diagrams allow an estimate of the increase in the number of surviving children per woman. The average time (50% chance, see figure 7.3) between births reduced from 28 to 22 months approximately, a factor 1.27. The fraction of children surviving 39 months increased from 0.84 to 0.91, a factor 1.08. This brings the total increase in surviving children per woman (other things being equal) on 37%. Without additional demographic information a reliable assessment of the extra population growth is not possible, but a rough estimate can be made. Actual average birth rates and death rates for Ethiopia are 40 and 19 per 1000 respectively (World Bank 2006f, table 2.1), so population growth is 2.1% / yr. Even if we conservatively assume that, after some time, the 37% increase in surviving children per women also causes a proportional increase in death rate, birth and death rates increase to 55 and 26, and population growth increases from 2.1% to 2.9%. In ten years a community of 1000 people would grow to 1331 instead of to 1231, a difference of 100 people. In the near future, the death rate will not increase that much and the population increase will be much higher still. Summarising: water supply nearby leads to an increase in birth rates and a reduction in child mortality rates, and therefore population growth increases, in the investigated case from 2.1% to at least 2.9%.

7.3.3 Population increase and malnutrition

A significant change in women's health or nutrition status could not be observed in the villages with nearby water supply, but children in these villages suffered from more severe malnutrition. For child malnutrition the indicator 'weight for age' or 'wasting' (WAZ) was used (WHO 1999, p 4; WHO 2006b, p v). In the villages with water supply the average WAZ for children below 10 years was significantly lower than in the control group, see figure 7.4 (Gibson and Mace 2006, p 0481). The diagram shows the difference between the two WAZ curves. '-1' is the lower standard deviation of the reference curve. The maximum difference is achieved at 3 years, with average WAZ-scores of -1.75 and -2.15 respectively. This means that the chance of child malnutrition is considerably higher in the villages with nearby water supply, and malnutrition is also more severe.

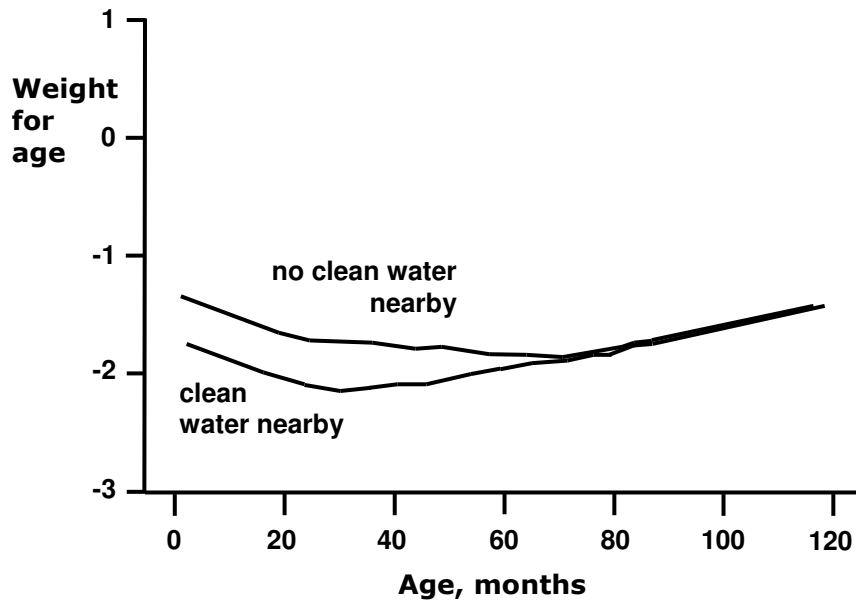


Figure 7.4: Malnourishment (WAZ) for children with and without access to clean water nearby, in the participating villages (Gibson and Mace)

It can also be observed that malnutrition scores for children over 6 are identical, those of under 3 show a constant difference, and between 3 and 6 the scores converge. This corresponds very well with the time table of the water program: most facilities were installed 3 to 6 years before the survey. This confirms that the difference in child malnutrition is caused by the water project. The statistics show that, when food is scarce, the population growth resulting from the improved water supply causes a considerable increase in child malnutrition.

7.3.4 Country and region statistics

If water-induced child malnutrition is common in poor countries, it should be traceable in statistics of countries where malnutrition is common. But both water supply and malnutrition also depend on economic development, and the relation may be blurred. But between 1990 and 2004, GDP/cap PPP in SSA increased with 0.1 %/yr (UN 2005b, table 14), and therefore the influence of growth rate is negligible. Differences in growth among countries are assumed to middle out. Furthermore, the influence of absolute economic development (GDP/cap PPP) and access to clean water disappears when changes in percentage of people with water supply versus changes in malnutrition level are considered. A disturbing effect of short term variations in economic conditions is avoided by using data over a sufficiently long period. 'Stunting', i.e. height-for-age, is used as an indicator for child malnutrition because it is related to long term food deficits. Not for all SSA countries reliable data is available, so the relation can only be investigated for selected countries. Malnutrition data was used of two reliable organisations: the WHO (WHO 2006c) and Measure DHS (2006), an organisation supported by the John Hopkins University. These organisations differ with respect to

countries and years of collected data, and therefore two samples of countries (with an overlap) were analysed. The scores for the two samples are presented in appendix 6, the samples' average scores (not weighted) in table 7.3. The WHO differentiates between urban and rural data. The water supply data is of the UN (2005b).

Table 7.3: Improved water supply and child malnourishment over time, SSA (WHO files and DHS files)

Trends, %, ± early 1990s – early 2000s	Water source		Malnutrition population		Stunted children < 5		Idem, only rural	
WHO files			weight for age (UN)		height for age (WHO)			
With impr. source (UN)	50	64	34	29	35	37	38	41
Change %		28		-15		+6		+8
DHS Files			weight for age (UN)		height for age (DHS)			
With impr. source (UN)	47	62	34	28	33	36		
Change %		32		-18		+9		

The table shows that, between the early 1990s and the early 2000s, in the two samples of countries the share of people with nearby water supply increased with 28% and 32 % of the original level respectively; the share of malnourished people decreased with 15% and 18% of the original level; but the share of children stunted increased with 6% and 9% of the original level. The WHO sample also shows that the increase in child malnutrition for children in rural areas is worse than on average. All these findings are fully in accordance with those of Gibson and Mace in Ethiopia: where food is scarce, water supply nearby generally causes additional population growth and increased child malnutrition. This in spite of the fact that in the samples, malnutrition for the population as a whole decreased. It can be concluded that statistical data confirms that nearby water supply aggravates child malnutrition where food is scarce.

7.3.5 The effect of malnutrition on health

The WHO has ample data on the relation between malnutrition and illnesses. Though the direct cause of death is usually a specific illness, malnutrition affects resistance and is often a main causal factor of the fatal illness. Murray and Lopez (1996) as well as Pelletier, Frongillo and Habicht (1993) investigated the contribution of different illnesses on child mortality and the role of malnutrition as a causal factor. Based on these studies, UNICEF concluded that if a child is even mildly underweight, the mortality risk is increased, and that malnutrition was associated with over half of all

child deaths that occurred in developing countries in 1995 (UN 1998, p 11-12). Based on the same studies, the WHO showed the causes of child mortality and the role of malnutrition in a diagram, see figure 7.5 (UN 1998, p 11). The figure shows that in 55% of child deaths malnutrition is an important causal factor. In addition, prolonged malnutrition causes stunting and mental retardation.

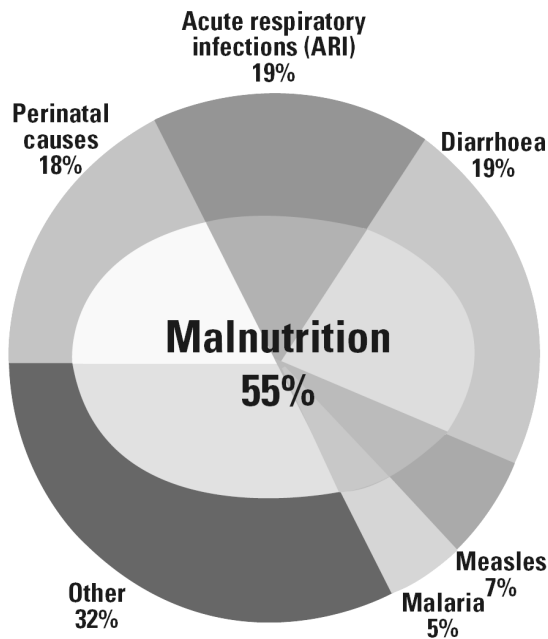


Figure 7.5: Diseases causing child mortality, and the role of malnutrition as a causal factor (UN, based on WHO)

But Gibson and Mace observed that because of better hygiene and motherly care 'smaller, low birth-weight offspring are coming to full term and survive critical periods of early childhood' (Gibson and Mace 2006, p 0482). If this observation correctly represents the general situation in SSA it should be possible to trace it in the statistics. And indeed, UN's and WB's data show the expected relation between water supply, malnutrition and life expectancy in SSA (UN 2006, p 308, 318; World Bank 2006f, p 106, 114, 122), see table 7.4.

Table 7.4: Water supply, the percentage of the population malnourished and life expectancy in SSA over time (UN, World Bank)

Human development indicators, SSA	Access to an improved water source, %		Population undernourished %		Life expectation at birth %	
	1990	2004	'90/'92	2001/'03	'70/'75	2000/'05
UN	48	56	31	30	46	46
Year	1990	2002	2001	2003	1990	2004
World Bank	49	58	31	32	49	46

The table shows that in SSA as a whole, in spite of an increasing percentage of the population served with improved water supply, living conditions did not improve. Total population malnourishment remained constant and life expectation did not change either, and therefore it is quite likely that health status remained the same too. It can be concluded that in poor countries better water supply leads to population increase, but in regions where food is scarce that causes more child malnourishment, and the positive health effect is lost.

7.3.6 The health effects of health care programmes

Studies examining the impact of health interventions in similar conditions (food scarcity, no family planning) found no improvement in child growth patterns, most likely for similar reasons. Gibson and Mace (p 0482) refer to studies regarding efforts to reduce diarrhoea prevalence in Gambia (Briend, Hasan, Aziz and Hoque 1989) and Bangladesh (Poskitt, Cole, Whitehead and Weaver 1999) that failed to improve child nutritional status. It is obvious that, where food is scarce, health programs face the same difficulty to improve health as water supply programs do: they will cause child mortality rates to drop, so more children stay alive. Because of better maternal health care the mothers may be more healthy too, which will cause an increase in birth rates. Where food is scarce this results into more child malnutrition. Drugs that increase the resistance to illnesses or suppress their effects (diarrhoea, malaria, tuberculosis et cetera) will cause more malnourished children to survive childhood. But the drugs do not cure the malnutrition and so they do not make the children more healthy. This mechanism also applies to other health improving measures, like sanitation. It increases the number of surviving children, and where food is scarce malnutrition aggravates.

The overall conclusion is that, where food is scarce, water supply programs and health care programs cause more population growth and more child malnutrition. Because such programs generally target the poorest population, where hunger is common, they will not lead to better health.

7.4 The effect of primary education on poverty reduction

7.4.1 The quality of primary education

As shown in chapter 2, many donors support education programs. The MFA spends 15% of the aid budget on basic education. A major share is destined for primary education. As found in the assessed education evaluation (section 3.4.7) improving literacy is the most important objective. The question arises whether aid in the field of primary education indeed leads to more literacy and to poverty reduction.

UNESCO's EFA Global monitoring report (UN 2004) provides statistical data about literacy. Reportedly, in SSA 62% of the population is literate, and for all developing countries the share is even 76% (UN 2004, table 3.7 p 129). But many sources conclude that education quality is poor. In 2005, the UN Millennium Project arrived at the conclusion that 'Most poor children who attend primary school in the developing world learn shockingly little' (Sachs 2005, p 9-10). Lipson and Wixson investigated primary education in Ghana and found that 'after one year primary school many children cannot write their own name', and 'at the end of grade 6 very few children can read with understanding' (Lipson and Wixson 2004, p IV, 1). According to Kraft, reading level assessments showed that in Ghana 'fewer than 10% of the school children at primary level six are able to read with grade level mastery' (Kraft 2003, p 3). Research by Williams into the reading skills of pupils in Zambia revealed that, compared to the UK, 'reading performance in Zambian languages of children of grade 3 to 5 was three grade levels below their level' (Williams 1998). And according to the UN Human Development Report 2005 in Zambia 'less than one-quarter of the children emerge from primary school able to pass basic literacy tests' (UN 2005b, p 24). Also in more advanced developing countries education performance is often unsatisfactory. In 1999 the Minister of Education of South Africa, Professor Kader Asmal, declared that 'we have not managed to raise the national literacy rate, nor levels of school literacy, to any significant degree. Many pupils in rural areas entering 8th grade still have a reading age of 2nd graders, and math exams failure rates reach the proportions of a national disaster' (Asmal 1999). It can be concluded that in the developing countries, especially the poorer ones, the result of primary education is generally quite limited.

7.4.2 Enrolment and completion

The 2007 UN report on the MDGs presents an enrolment in SSA of 70% in 2005 (UN 2007d, p 11). But enrolment is generally over-reported. For instance, Kingdon found that in India 'enrolments in government-funded schools are greatly over-reported (...and) as a result, official education statistics are seriously skewed' (Kingdon 2005, p 4). The World Bank states that: 'Administrators may report exaggerated enrolments, especially if there is a financial incentive to do so' (World Bank 2007a). In addition, not all children enrolled actually attend school, and many who attend do not complete school. The UN Human Development Report 2003 estimated primary enrolment in SSA at 57%, but because of 'low completion rates, only one in three children in the region finish primary school', which corresponds to 58% of the enrolled children (UN 2003a, p 37). Assuming the same relation in 2005, the 70% enrolment in 2005 would mean some 40% of the children finishing primary school in 2005 (UN 2007d, p 10). Observed data for a primary school in Simonga, Zambia, illustrates the issue, see table 7.5.

*Table 7.5: Enrolment in a primary school in Zambia (2007)*¹⁸

Children attending school in Simonga	% /No.
Percentage children in Zambia 5 – 9 yr *	13.5%
Percentage children 10 – 14 yr	12.6%
Together	26.1%
Percentage children 6 – 12 yr = 0.67 x 26.1	17.4%
Population Simonga, persons	3000
Number of children 6 – 12 yr = 0.174 x 3000	522
Children in Simonga attending school, officially	300
Official enrolment percentage 100 x (300 / 522)	57%
Actual number of children attending (counted)	150
Actual attendance percentage	29%

* US Census Bureau 2009

It can be seen that in this example the attendance rate is only 29%, whereas the official enrolment for Zambia (2005) is 89% (UN 2008b, table 12). This illustrates the high degree of over-reporting. As discussed in section 7.4.1, in poor countries education quality is generally poor and in Zambia only 25% of the pupils who terminate grade six pass a simple reading test. If that same percentage applies to Simonga, only 0.25 x 29% = 7% of all children learn to read properly. This does not yet take into account that also in Simonga a fair share of the children attending may not complete school, and that the actual percentage that learns to read will be even lower.

This is only a single case and it is likely that enrolment in Simonga is lower than average: it is a rural community in a poor, remote area and often the children have to help with the work in the fields. But in view of the available information about statistics varnished over, it is not unlikely that the Simonga example is reasonably representative for rural Zambia. The various statistics and cases show that in developing countries both pupils' attendance and education quality of primary schools is quite low.

7.4.3 Teaching quality

According to an interviewed MFA employee¹⁹, one reason for the poor performance is a serious shortage of teachers. Increased enrolment caused a large increase in the required number of teachers, and in several countries HIV/AIDS caused the number of available teachers to diminish. Sometimes the number of children per class exceeds 100.

¹⁸ Based on data for Simonga, Zambia, collected by L. Berger, Source Connection Fund, 2007 (not published)

¹⁹ Interview with MFA employee 3, 10-05-2005; on request of the MFA the interviews were anonymised. For a list of interviewed MFA employees see appendix 8.2

According to UNESCO, there are sixty-seven pupils per teacher on average in Bangladesh and nearly ninety in Equatorial Guinea. Furthermore, classrooms often have seats for only 40% of the pupils, and textbooks for only 50% (UN 2007b). It is not surprising that under such conditions teaching quality is poor. The poor performance is also caused by the inadequate training of the teachers. In his research in Malawi and Zambia Williams found that 'the normal teacher training college syllabuses are closely tied to the teacher's guide for each subject, and this rigid approach means that teachers may not have been prepared to be flexible in their response to the problems that individual children may face' (Williams 1998, section 2.3.3). Therefore, 'the development of problem solving skills, essential to the student (teacher to be) who is to cope with difficult and diverse classroom conditions, is neglected' (Williams 1998 section 2.3.3, quoting the Zambian minister of education). The Dutch evaluation organisation IOB arrives at similar conclusions. In Uganda: 'The quality of primary education remains poor and absenteeism and drop-out pose serious threats to the efficiency and effectiveness of primary education'. Furthermore 'Many children leave school without having mastered literacy and numeracy' (IOB 2008a, p 17).

Another shortcoming is the traditional education method. As a rule the education consists of learning everything by heart. On a large conference on education in Surinam, the Ministry of Education commented: 'In our schools students are usually taught verbally. The teachers take over the mental activities of the students. The strong verbal nature of the classes causes students to see learning as a process through which the teacher presents information, which should be learned by heart' (Ministry of Education and Community Development in Suriname 2004, p 36). This verbal teaching and learning by heart is not limited to primary education. Human Rights Watch reported about Egyptian students complaining about the education quality at universities. Teaching is generally in lectures and the main education method is learning by heart. A student related that, when she posed a question to her professor about a subject, he told her: 'Just memorize it, do not understand' (Human Rights Watch 2005). The Danish aid organisation Danida investigated teachers education at universities in Nepal and found that 'oral teaching and learning by heart are deeply embedded in the Nepalese system of education'. The Faculty of Education proved no exception: from the students 'note taking and rote learning' are expected 'because the examination questions require memorisation of what the faculty members said' (Danida 2002, p 46). It can be concluded that the teaching methods are quite poor. The pupils have to learn everything by heart, and they do not learn how to apply their knowledge.

7.4.4 Relevance of primary education

Only a small portion of the children get any additional education: in low and lower-medium developed countries about 20% (UN 2006, p 324). Children belonging to the

poorest share of the population hardly attend secondary school. But there are few jobs for people whose skills are limited to some reading and writing. The vast majority of the poor population work in the informal sector, almost all the work is practical. All sorts of tasks are carried out that require a variety of skills. Just literacy is of little value as nearly all communication is verbal. As a result, primary education does not help the children to get a job, become successful farmers or to set up some business of their own. The education evaluation analysed in section 3.4.7 also arrived at the conclusion that the school did not prepare the children for the 'working world'. The GTZ (German development cooperation agency) found that parents were often unhappy with the academic nature of the education. According to Bergmann (2002): 'The demand came from policy makers and parents alike ... for an education that would help to improve everyday life, and provide access to salaried employment. The demand was strongest in sub-Saharan Africa'. In a study in poor rural Tanzania Burke and Beegle found that 'There is evidence that parents are reluctant to send their children to school given the low expected returns, coupled with the cost of schooling and the opportunity cost of children's time' (TADREG 1993). The conclusion is that, because poor children do not get any further education, primary education is irrelevant for their future, and it does not contribute to poverty reduction. Therefore, primary education is not a suitable goal for the Dutch development cooperation. It does not help the poor.

7.5 The effects of aid on good governance and development

7.5.1 Can aid advance good governance?

Donors often try to advance good governance. There are positive examples of improvements under donor pressure. For instance, in Uganda in the 1990s only 20% of the money for basic education was really transferred to the schools. When the parents were informed about the precise amounts of funds available for each school, this share increased to 80% (Reinikka and Svensson 2002). But in general the donors' efforts to bring about good governance have no effect. Already in 1998 the World Bank sponsored the comprehensive study: 'Assessing aid: what works, what not, and why'. It concluded that setting conditions to aid in order to influence governance has no lasting effect (World Bank 1998, p 1, 103, 106). The report does not entirely exclude the possibility to improve governance, but the aid should support 'champions' of change, reformers with a positive influence, and it should engage the civil society (World Bank 1998, p 103, 104). The World Bank presents some examples of this approach, but these are not convincing. For instance, its example about the change in economic policy in Vietnam in the 1980s ('Doi Moi') suggests that the Bank's influence brought it about. But in fact the change was initiated by the Vietnamese government itself, and then it invited the donors, among them the World Bank, to support the process (World Bank

1998, p 105-108). Rose-Ackerman's analysis of good governance and corruption confirms that aid is not a suitable tool to improve governance. Those in power benefit too much of the shady practices (Rose-Ackerman 2004). For instance, in 2003, pressed by the World Bank, Bolivia managed to establish good macro-economic policies, but corruption remained high, and judicial quality and protection of property rights were still very poor, and therefore the private sector did not flourish (Kaufmann, Mastruzzi and Zaveleta 2003, p 363-364). Furthermore, there are no examples that aid has been successful in improving governance indicators like CPI, CPIA or similar scores. The conclusion is that aid is ineffective to advance good governance.

Apart from good governance at central level, aid sometimes aims at improving other organisations and processes in society. Often aspects of social capital are advanced too. Especially NGOs are active in this field, for instance in the organisation of health care, the formation of civil organisations, and social integration of certain groups. Many donors use NGOs to implement water and sanitation projects and to establish community level associations responsible for maintenance and repair, for instance the ADB (Carroll 2001). But there are few signs that these efforts lead to sustainable results. A comprehensive study of the United Nations Research Institute for Social Development (UNRISD) found that establishing water user groups was successful but not sustainable, because 'the services cannot be maintained without aid'. Furthermore, the success of 'mobilisation ... of local organisations into substantive civic actors has been poor', and the NGOs had very little 'influence on social integration, or on political exclusiveness on national level' (Fowler 2000, p 16). An evaluation of Dutch efforts to establish water user groups responsible for wells and hand pumps in Tanzanian villages found that in a part of the villages the user groups operated reasonably well. But trust was often limited and remained so during the sixteen years the program lasted. The villagers were found to have 'a certain degree of mistrust of their leaders at all levels', and they were 'reluctant to contribute their money if they sensed that the village government or any government official ... was involved'. Also, there was a 'gap of mistrust' between the villagers and the companies supplying spare parts (Miert and Binamungu 2001, p 24). It can be observed that, even in a project over sixteen years, in small communities where all people know each-other, it is already very difficult to create sufficient social capital to manage the communal operation and maintenance of a hand pump. Englebert disputes the very idea that an external organisation can create social capital in a society. He criticises the World Bank for claiming that it can enhance social capital in the societies addressed by its projects, in a short period of time (Englebert 2001, p 12). Englebert refers to Putnam who described the development of social capital in Northern Italy as a process over centuries (Putnam 1993). The World Bank's programs typically last five years and address large cities and entire provinces.

Thus, the Bank's claim is not realistic. It can be concluded that it is hardly possible to advance good governance through aid.

7.5.2 Will good governance bring development?

In many publications good governance is mentioned as important for development and poverty reduction. It is obvious that very poor governance inhibits development (6.3.2). But whether good governance as defined by the development organisations brings development is questionable. As demonstrated in section 6.2.5 corruption is not necessarily an obstruction for development. IDA found a correlation between CPIA and Human Development Index, but the causality is not evident (IDA 2007d, p 15, 17). It is more likely that both CPIA scores and development are a result of social capital (6.2.2). In addition, the CPIA scores do not predict very well for growth. As an illustration, the CPIA and Kaufmann scores for four Dutch partner countries with high growth rates were compared for the years 2002 and 2005, as well as their GDP growth rates per cap. between 2002 and 2006 (appendix 7). Vietnam scored lowest or average on both governance indicators. Yet, Vietnam's GDP per capita growth rate was about twice the other countries', also in PPP terms. This shows that, even if there is some statistical correlation, that says very little about individual countries. Apparently, Vietnam's 'poor' policy worked very well. Indeed, Hausmann, Rodrik and Velasco (2006) found that the constraints that hamper economic growth differ considerably among countries: in one country it may be a lack of savings, in another a lack of entrepreneurship. Therefore, the 'one size fits all' approach to governance is not effective. Furthermore, the history of the East Asian countries illustrates that policy approaches beyond those advocated by the World Bank played an important role, for instance the transfer of resources to productive sectors. Examples are the creation of chaebol in South Korea with public resources in the 1960s (Savada and Shaw 1992), and the creation of the Chinese Township-Village Enterprises using public resources in the 1980s as well as their privatisation in the 1990s (Wu and Chen 1999). Also, incentives were applied (e.g. subsidies) for achieving rapid technology acquisition and productivity enhancement (Khan 2006, p 1-8).

To understand why some countries are more successful than others, a more detailed analysis of their situation and their policies is required. Van Arkadie and Dinh did so for Vietnam and Tanzania. They found that on some CPIA parameters Vietnam performed well, e.g. it maintained a low exchange rate of its currency. As a result, Vietnam had a very low price level, about 0.2 between 2000 and 2004 (World Bank 2002 table 1.1 and 2006f table 1.1). Furthermore, already before Vietnam's change in policy in the 1980s, its government strongly advanced technical and professional training. All this made Vietnam's export quite competitive. Between 1999 and 2007 export to the EU increased with 11%/yr (EU 2009, p 40). Because the export consists for a major part of labour

intensive industrial products (textile, shoes, small equipment), many people found jobs. At present labour is getting scarce and minimum wages are increasing: from 35 \$/month in 2005 to 50 \$/month in 2006 in current US \$ (Japan External Trade Organisation 2006, p 16-18). In contrast, the Tanzanian government did not give priority to technical education (Van Arkadie and Dinh 2004, section 3.1) and its price level was always rather high: about 0.5 between 2000 and 2004 (World Bank 2006f, table 1.1), 2½ times Vietnam's. Its industry did not develop and at present its export mainly consists of gold and gem stones which does not generate much employment (Van Arkadie and Dinh 2004, section 2.0). Vietnam's scores regarding the poverty indicators improved considerably as well (UN 2008b, p 252, 262, 278). The example shows that governance can make a difference indeed, but not by adhering to the World Bank criteria only.

In summary, very poor governance may block development, but there is only a very weak relation between good governance according to the generally applied criteria (CPIA scores) and development. As discussed under 6.2.3 and 6.2.4, the clientelism system and the corruption it generates affect governance quality. The clientelism system is rooted in the social culture and will only give way to a more democratic system in the wake of economic development. But depending on the social capital, also in a clientelist society governance can be of a sufficient quality to advance economic growth.

7.5.3 Does aid to well governed countries bring development?

A convincing correlation between aid to well governed countries (according to the World Bank's criteria) and development has not been found either. Studies by Dalgaard, Hansen and Tarp, and by Easterly show that the claimed correlation in the often quoted study by Burnside and Dollar (1997) is extremely weak and does not resist small changes in the sample and in the definition of the parameters (Dalgaard, Hansen and Tarp 2004; Easterly 2003). Easterly illustrated this graphically, see figure 7.6. He used Burnside and Dollar's data, but included some countries for which data had not been available previously, and he used slightly different definitions. The letter codes indicate country performance, the dotted lines represent the statistical correlation. Easterly's diagram clearly disproves the claims by Burnside and Dollar.

But Clemens, Radelet and Bhavnani claim that a *specific* type of aid given to well governed countries does lead to more growth. They defined 'short-impact aid', that should show an effect within 4 years, e.g. in the field of budget support, infrastructure, industry and agriculture.

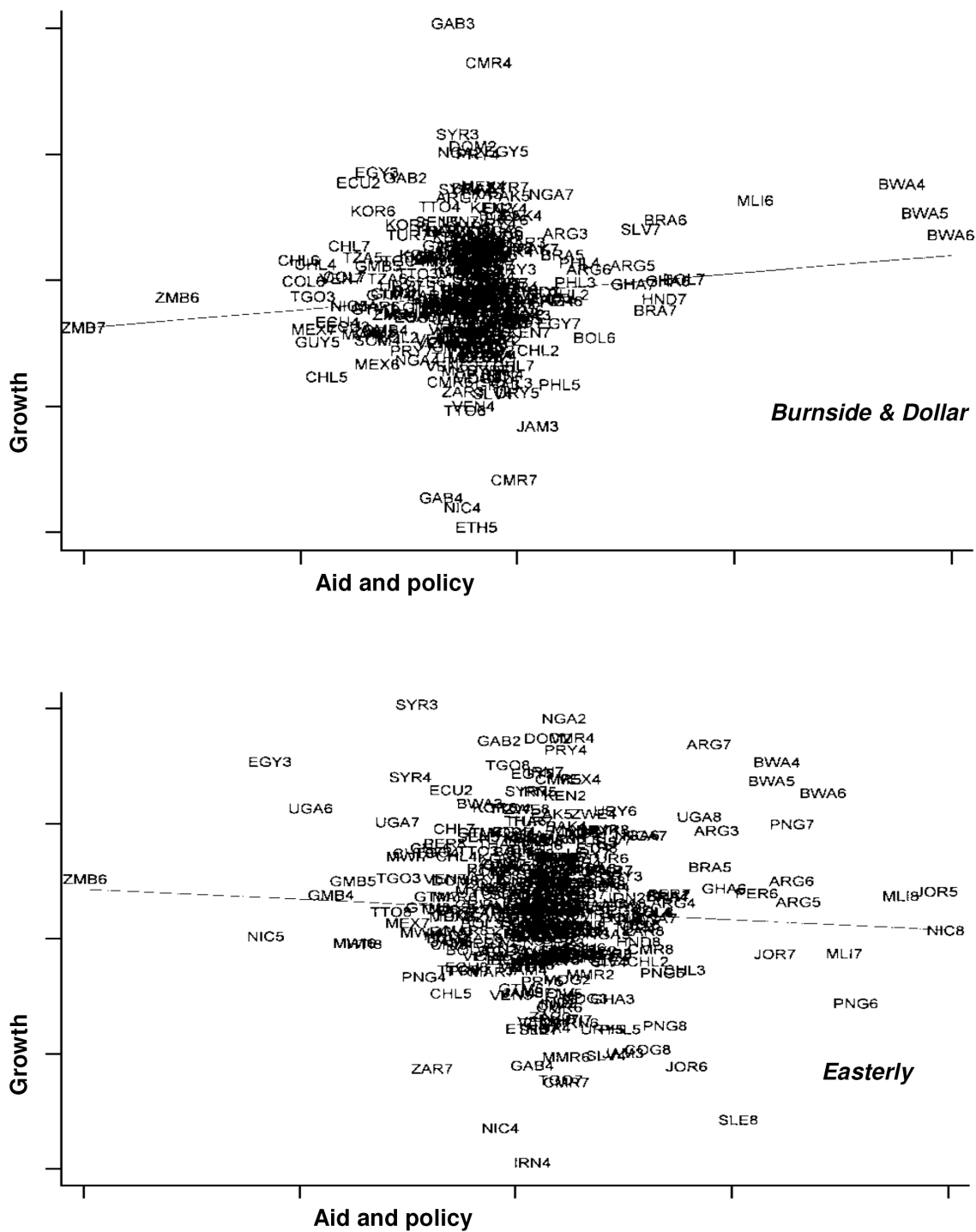


Figure 7.6: Correlation of economic growth versus aid and government policy (Burnside & Dollar, and Easterly)

They conclude: 'We find a positive, causal relationship between this 'short-impact' aid and economic growth (with diminishing returns) over a four-year period. The impact is large: at least two-to-three times larger than in studies using aggregate aid'. They claim

that 'Even at a conservatively high discount rate, at the mean a \$1 increase in short-impact aid raises output (and income) by \$1.64 in present value in the typical country' (Clemens, Radelet and Bhavnani 2004, p 1). But when this kind of aid should create such strong growth over a four years period it should also do so over a longer period, and also if it is combined with other types of aid that are irrelevant to growth. Easterly shows that there is no evidence for that, and many reputable economists share that view, e.g. Rajan (2005) who also points at the Dutch disease effect of the aid. Furthermore, the regression coefficient is a meagre 0.06, barely above 0.05, the minimum level for statistical significance. The diagrams for different sub-samples all show that individual countries deviate enormously from the statistical average, many grow fast without aid and others show negative growth in spite of a lot of aid, notwithstanding their good governance (Clemens, Radelet and Bhavnani 2004, p 51-52). All in all, there is some statistical correlation but it is rather weak, and it does not say anything about individual countries.

This divergence can be explained by the fact that if countries generate some growth they often attract more funds. Western governments like to show to the voters that aid works and is not in vain, so they prefer to give aid to poor countries that do relatively well. An example: in the 1990s Uganda's economic growth caused many donors to offer large amounts of aid. It was so much that the minister of finance accepted it only to a certain limit and refused the rest, as he feared that it would destabilise the economy ²⁰. Another example of a 'donor darling' is Mozambique: it has a decent economic policy (according to the CPIA) and between 2000 and 2006 its growth rate increased from 1.6% to over 8% (World Bank 2002, table 1.1 and 2008b, table 1.1) Over that period aid was about 25% of GNI (World Bank 2002, table 6.10 and 2008b, table 6.14). Donors are also likely to support the productive sectors in countries with growth potential like the fast growing countries in East Asia. In countries without such growth potential, this kind of aid is unlikely to create growth. Furthermore, the long term effect of the 'short term aid' is not measured. It is likely that the observed growth is at least partly the result of the temporary jobs created by the aid financed construction activities, e.g. irrigation systems, roads and harbours. It is quite questionable whether the 'short impact aid' is the main cause of the short term growth, whether the short term effect pertains in the long run, and whether it does so for developing countries in general or only for a selected group of countries.

All in all, aid can advance development in countries with growth potential. But there is no convincing causal relation between aid to well governed countries -according to the World Bank criteria- and development.

²⁰ Interview with MFA employee 11, 25-11-2005

7.5.4 *Abundant aid negatively affects governance*

Many studies show that abundant aid over a longer period has negative effects. One such effect, Dutch disease, was discussed under section 7.4.1 already. Another one is a deterioration of institutional quality, to a degree that it also affects economic growth. Knack found robust statistical evidence that prolonged high levels of aid resulted in poorer governance: 'Analysis of cross-country data in this paper provide evidence that higher aid levels erode the quality of governance, as measured by the indexes bureaucratic quality, corruption, and the rule of law. Within countries periods with high aid levels tend to coincide with periods of lower institutional quality' (Knack 1999, p 1).

Many researchers proposed explanations why abundant aid negatively affects governance. Bräutigam found that often these countries become 'aid dependent', i.e. 'they cannot perform many of the core functions of government, such as operation and maintenance, or the delivery of basic public services, without foreign aid funding and expertise'. According to Bräutigam countries receiving aid equalling 10 percent or more of GNP tend to become aid dependent. In 2006 this was the case in 26 countries with populations over 1 million (World Bank 2008b, table 6.14). Bräutigam concludes that aid dependency leads to poor governance: '...large amounts of aid, delivered to countries with weak institutions ... may reduce local ownership, accountability and democratic decision-making, while fragmenting budgets and lowering tax effort' (Bräutigam 2001).

Bräutigam and Knack found that political elites have little incentive to change a situation in which large amounts of aid 'provide exceptional resources for patronage and fringe benefits'. They conclude: '...that states which can raise a substantial proportion of their revenues from the international community are less accountable to their citizens and under less pressure to maintain popular legitimacy. They are therefore less likely to have the incentives to cultivate and invest in effective public institutions. As a result, substantial increases in aid inflows over a sustained period can have a harmful effect on institutional development in sub-Saharan Africa' (Bräutigam and Knack 2004, p 263). They estimate aid to have notable negative effects on development when it exceeds 15% of GNP (Bräutigam and Knack 2004, p 19). The IMF applies a limit of 50% of the central government's own expenses (IMF 2005, p 147-148). In 2006, 12 countries of over 1 million inhabitants received aid in excess of 15% of GNI., and 9 countries aid in excess of 50% of central government expenses (World Bank 2008b, table 6.14). It should be noted that for more than half the developing countries government spending is not known, so the actual number of countries exceeding these limits is likely to be more than twice as high. Also the MFA donated to countries where total aid was very high. In 2006 the MFA sponsored 9 out of 37 partner countries where total donor aid exceeded 15% of GNI (Afghanistan and West Bank are not counted). In several cases it

concerned countries where total aid exceeded even 20%, e.g. Mozambique where it was 26%. This shows that the MFA contributed actively to Dutch disease and aid dependency.

The conclusion is that too much aid has a negative effect on governance quality. Next to Dutch disease it causes aid dependency, which loosens the social contract between the government and the population. It stimulates corruption and has an adverse effect on the functioning of public institutions.

7.6 Conclusions about the attainability of the goals

In this chapter the attainability was investigated of four main aid goals that are pursued by the MFA. It was found that:

- The expected total donor aid is far too little to achieve the MDGs, it is nearly a factor 2 short. The 2005 MDG report estimates that as an average in the various regions of the world the sub-goals will be achieved in about 40% of the cases only. In addition, the sustainability of realised facilities is questionable because generally there are no local funds to pay for recurrent costs and replacement.
- Water supply programs and health care programs cause an increase in birth rates and a decrease in child mortality which aggravates child malnutrition where food is scarce, and health improvements are not achieved. Because most of the aid focuses on the poorest people for whom food shortage is common, in general water supply and health programs will have no effect on health status.
- The quality of primary education is generally very poor. The pupils are taught some reading and writing but only a small part achieves a level that allows practical use. The pupils do not learn any skills to earn an income or to achieve other forms of poverty reduction. Poor families cannot afford further education for their children, and primary education is all they get. Therefore the primary education does not contribute to poverty reduction.
- Aid is not effective to advance good governance, because the clientelism system resists such change. Furthermore, there is no evidence that good governance (according to the accepted definition) leads to economic development, nor that aid to well governed countries leads to development. Government policies beyond the accepted definition and tailored to the local conditions may advance economic development, and aid could support these policies.

With the present approach, three of the four investigated main goals are unattainable, whereas the fourth, 'primary education', is hardly relevant to poverty reduction.

CHAPTER 8: THE EXTERNAL MANAGEMENT

8.1 Introduction

This chapter addresses research question 2, sub-question 3:

How professional is the external management of the Dutch development cooperation?

The external management includes all MFA activities that comprise communication with parties outside the MFA. The investigation is carried out according to the management model presented in chapter 5. For each element the investigation consists of a description and an evaluation. The analysis is carried according to the twelve aspects of management in the research model, and in more detail than in chapter 3. The goals are generally analysed at the level of individual aid results ('pursued results'). Because nearly all aid is carried out through partner organisations, a large number of these organisations is investigated. They are not analysed according to all twelve aspects of the research model, as that would require a too large effort. The focus is on the effectiveness of their activities to contribute to poverty reduction.

8.2 The managing entity

Description

The MFA is officially in charge of the implementation of the Dutch aid policy. It is responsible for the decision making concerning the aid activities and the disbursement of the aid funds, within the political framework agreed upon by the House of Commons. The minister for development cooperation is responsible for the Dutch aid. Development cooperation is only one task of the MFA, but it is a relatively important one. Compared to other donor countries, its aid budget is relatively high. The MFA counts over 3200 officials and has at its disposal a comprehensive, world wide infrastructure (9.5). In the Netherlands the development cooperation is not a separate activity, it is an integral part of the MFA's foreign policy.

It should be noted that the minister for development cooperation has no authority over the ministry's internal management, i.e. its daily operation, its structural organisation, or its recruitment policy (MFA 2007g, p 3). These areas are the responsibility of the minister of foreign affairs.

Evaluation

The MFA is a suitable managing entity. It has the authority, the budget, the employees and the infrastructure. Most donor countries have a specialist aid organisation (e.g. DFID in the UK, USAID in the USA, GTZ in Germany), a somewhat independent unit that implements the country's development policy. The fact that the Dutch development cooperation is an integrated part of the foreign policy causes the Dutch foreign policy to be more coherent and development friendly than that of most other OECD countries. In 2006 and 2007 the Netherlands scored first in the international Commitment to Development Index of the CGD (2007). The disadvantage is that the Ministry's organisation is not under the responsibility of the Minister for Development Cooperation but of the Minister of Foreign Affairs, who does not always give priority to the development aspects. For instance, in the recruitment of the employees only diplomatic skills are considered, expertise in the field of development cooperation or in the main addressed themes is not required. This may have an adverse effect on the quality of the aid (section 8.11).

To estimate the MFA's efficiency regarding the development cooperation, a comparison was made of aid handled per employee in The Netherlands and in the UK ²¹, see table 8.1. In The Netherlands, transaction costs amounted to € 206 million in 2007, for the UK they could not be found. For other data and analyses see appendix 9. Bilateral aid is also presented separately because it requires the most employee-time.

Table 8.1: Aid volume handled per aid-devoted employee, and transaction cost, 2006 (MFA, DFID)

	Total ODA handled, € million/empl.	Total bilateral ODA handled € million/empl.	Transaction cost total ODA, %	Transaction cost bilateral ODA, % *
Dutch MFA	5.1	1.7	4.8	14
UK's DFID	3.5	1.5	n.a.	n.a.

* Assuming all work concerns bilateral aid

Compared to the DFID, the MFA's performance in terms of funds handled per employee seems quite satisfactory. But the DFID experts are generally more actively involved in the design and the implementation of the aid, and in the cooperation with their partner organisations, many of them 100% financed by the DFID. An example is WaterAid, that provides practical design and implementation support in the field of low cost water supply in many countries (DFID 2002; WaterAid 2008). In contrast, the MFA

²¹ The DFID's approach resembles the MFA's, and of other aid organisations data is hard to obtain

outsources nearly all program design and implementation to Dutch partner organisations, that in turn leave the practical implementation to local partners (see section 8.7 and 8.8). The MFA's contribution is generally limited to the division of funds per theme and per partner organisation, and the promotion of the Dutch political position in meetings and conferences. The MFA's efforts are rather modest in comparison to DFID's, and a bit meagre to justify nearly 5% transaction cost.

In summary, the MFA is a suitable managing entity, with considerable financial means and employees, and a comprehensive infrastructure. But the fact that in the employees' recruitment procedure knowledge about development cooperation is not required may affect aid quality. Whether this is the case will be further investigated (7.14). Furthermore, the MFA's transaction cost, nearly 5% of the ODA budget, seems high, considering that the MFA is not involved in aid design and implementation but only finances partner organisations.

8.3 Goals, description

The MFA's main goals and many intermediate goals were discussed in chapter 3. The Explanatory Memorandum to the Budget and the HGIS Note present many more details of the intermediate objectives (MFA 2006e, 2006f). Here, the goals at different levels presented in the Memorandum and the HGIS Note for 2007 are investigated. To a large extent the goals are similar to those in previous and later years. In the Explanatory Memorandum, under each 'operational goal' various 'pursued results' are formulated, and where relevant these are discussed here too. The 'activities' to achieve these 'pursued results' tend to be formulated in a very general way, e.g. 'Improve issue X through cooperation with partner Y', and therefore the activities are not analysed.

8.4 Goals, evaluation

8.4.1 The suitability of the main goals

The Dutch main aid goals (MDGs, DAC 'capabilities') aim at poverty reduction, which is commendable. But several were found to be unattainable, unsustainable, or irrelevant to poverty reduction. In addition, many goals do not satisfy the commonly applied SMART criteria, which request that goals should be: specific, measurable, attainable, relevant and time-bound (IOB 2006a, p vii). Goals that do not suffice these criteria are unsuitable as their realisation or their contribution to poverty reduction cannot be assessed. From the various types of goals the Millennium Development Goals are at least partly SMART-formulated. For nearly all MDGs, targets are formulated, also with

respect to progress over the years till their completion in 2015, so they are specific, measurable and time bound. But hardly any of the MFA's goals are SMART-formulated, neither its MDG related goals nor its other goals. In some cases inputs and immediate effects are specified and quantified, but targets regarding the effects on the main goals or on the lives of the poor population are not specified. For instance, for gender equality only MDG targets are listed, e.g. the share of girls in education, but the Dutch contribution in that share is not mentioned. Also, better women rights in Arab countries are pursued, but no further details are added (MFA 2006e, p 21, 81). That means that the goals are formulated such that it is impossible to assess whether they are achieved and whether the aid was successful. The only exception is the objective to realise water supply for 50 million poor people by 2015 (MFA 2006e, p 70). In general, the Dutch aid goals give little guidance.

The most serious criticism regarding the main goals is that many are unattainable, or irrelevant to poverty reduction. In chapter 6 it was found that:

- The MDGs cannot be realised with the limited available and expected aid funds;
- Health improvement cannot be attained through water supply and health care programs where food is scarce. They cause population increase and more child malnutrition. 45 % of the children in SSA is malnourished, i.e. 'too short for age' (World Bank 2008b, table 2.18);
- For poor people primary education is irrelevant to poverty reduction, as the pupils do not learn skills useful to earn an income;
- Good governance cannot be attained through aid, as the clientelism system blocks improvements. Furthermore, there is no evidence that good governance, according to the common indicators, leads to development.

Furthermore, in many cases aid financed facilities and services do not generate sufficient returns to match the recurrent costs and the replacement of the facilities after service life, which means that the results are unsustainable (section 3.4). This applies for instance to education, water supply and health care. It also applies to other aid that does not take away the cause of the problems, e.g. repeated debt relief and food aid to the same country. In summary, nearly all Dutch main aid goals are insufficiently specific to allow their achievement to be assessed, and most are unattainable, unsustainable or irrelevant to poverty reduction. Therefore, they are unsuitable goals.

8.4.2 Assessment of the individual Dutch goals for 2007

In this section a more detailed assessment is made of the suitability of the MFA's goals. The 'pursued results' should lead to 'operational goals' that should bring about the results with respect to the 'policy themes'. Actual information about results as well as

plausibility considerations are used in the assessment. Goals with very small budgets are ignored.

Policy theme 2: Increased safety and stability, effective humanitarian aid and good governance²²

Operational goal 2.7: Good governance

Pursued results are formulated regarding several governance parameters: democracy, rule of law, economic governance, corruption, accountability, transparency and quality of public services. But as found in section 7.5, in general governance cannot be improved through aid, nor does good governance lead to development. And the MFA does not present arguments why it should succeed where others failed. Therefore, this goal is not suitable.

Policy theme 3: Strengthening European co-operation

Operational goal 3.1: Contribution to the EU budget

As a member of the EU the Netherlands contributes proportional to the EU's multilateral aid budget. This enables the Netherlands to exert influence on the EU development policy, and it also has a voice in the approval of individual programs and projects proposed by the EU officials²³. In this way, the Dutch participation can have a positive influence on the quality of the EU's aid. It is not known in what way the MFA uses this influence, though. (The EU aid is analysed under section 8.8.8.)

Operational goal 3.3: An effective and coherent course of action of the EU

Most of the MFA's pursued results concern the internal EU procedures, e.g. 'Intensified EU-Africa dialogue' and 'Yearly reporting about the achieved results of the Rabat declaration'. But these results consider migration flows, not development objectives. Other pursued results are 'the implementation of the agreed UN policy', and 'the implementation of the agreed EU policy'. But these 'agreed policies' comprise objectives like focusing on the MDGs, that are part of the MFA's policy for years already (EU 2005; UN 2005a). This section in the Explanatory Memorandum is superfluous.

Policy theme 4: More wealth, less poverty

Operational goal 4.1: Trade and financial system

The pursued results concern the MFA's contribution to the negotiations in the World Trade Organisation. The MFA's aim is a reduction of the rich countries' agro-subsidies and tariffs, and higher quotas, in order to stop the marginalisation of the agriculture in the poor countries, especially in SSA. But most of these countries are net food

²² Note that policy theme 1 concerns issues like human rights dialogues in UN conferences and the functioning of the International Court of Law, which are beyond the scope of this research

²³ Own experience of the author as a consultant in projects for the EU in the 1990s

importers, and they need the subsidised and donated food (6.4.2), especially since the increase in food prices in 2007. They will not appreciate the MFA's intentions. Furthermore, easier access to the EU will not benefit the poor farmers, but rather the large, efficient ones in Brazil, Argentina and Canada (6.4.3, 6.4.4). Therefore, the value of this goal is highly questionable.

Operational goal 4.2: Less people living on less than 1 \$ a day

The pursued results comprise maintaining the amount of total Dutch aid at 0.8% of GDP; capacity building of partner countries to prepare poverty reduction strategy programs (PRSPs) and poverty impact analyses; and the application of the debt sustainability framework. But sending high amounts of aid funds does not lead to development (7.5), and the PRSPs tend to be geared towards the MDGs which are generally not attainable, irrelevant or unsustainable (Ch 7). It is unclear why these measures should lead to income generation by the poor.

Operational goal 4.3: Business climate

The improvement of the business climate in the developing countries is expected to stimulate private sector development. This is a commendable goal. The aid concerns € 372 million. The pursued results concentrate on rules and regulations, export possibilities, infrastructure, and financial sector development. It is questionable whether the main bottlenecks are addressed, though. Especially effective to achieve poverty reduction is employment creation through labour intensive manufacturing for export (7.5.2). But in SSA, the poorest region, price level is generally too high for labour intensive manufacturing to be competitive (6.4.1). In addition, only about 40% of all children complete primary school (7.4.2), and from these, only a small part receive technical and vocational training (7.4.4). Especially in SSA this training is very poor. Many young people have hardly any skills (OECD 2008a, p 48-50; Wegner 2008). These problems are not addressed. As a consequence, in SSA improving the business climate will not lead to more income for the poor. The same applies to the poorest people in other world regions.

Operational goal 4.4: Quality and effectiveness of the development cooperation

The pursued results address topics like the share of budget support; the degree of aid predictability, coordination, harmonisation and coherence of the aid; and institution building in partner organisations. The budget is a modest € 16 million. No information is provided about the content of the measures. Most of the objectives concern the way the goals are approached, and not the intermediate and main goals themselves. But in this chapter as well as in chapter 6 it is found that in many cases the goals themselves are unsuitable. Furthermore, the pursued result 'institution building' aims at better governance, and as discussed that is not attainable and not very relevant (7.5).

Operational goal 4.6: International financing institutions (IFIs)

Loans and grants may stabilise the economy in countries that experience a financial crisis, e.g. in Argentina in 2002 (CIA 2008). In countries that experience some economic growth it can stimulate further growth, e.g. Vietnam: in the period 1993-2007, the IMF, the World Bank and the Asian Development Bank contributed nearly \$ 11 billion in loans to Vietnam (Nguyen 2008). But, as most SSA countries show, in poor countries with prolonged stagnating economies loans and grants do not work. Instead, they lead to aid dependency and Dutch disease (6.3.2). Development depends first of all on social capital, not on funds (6.2.6). MFA contributions to IFIs may lead to poverty reduction in some cases, but they are not an answer to the problems of stagnating poor countries.

Operational goal 4.8: Export credit insurance facility

The export credit insurance facility, with the considerable sum of € 530 million, concerns re-insurance by the Dutch National Bank of aggregate risks of the national export insurance company, Atradius (Zalm and Van Gennip 2005). If Atradius has insurance obligations caused by defaulting (government or private) buyers of Dutch products in developing countries, the debt of these buyers becomes part of the foreign debt of that country (IOB 2007b, p 142-143). Remission by the Dutch State then counts as ODA. But the export concerns commercial goods, that are not specifically development-relevant (IOB 2007b, p 515). Furthermore, the exporting companies pay a cost covering premium, so it is unclear why the remission is considered a cost at all. The arrangement causes funds for development cooperation, about 10% of the budget, to be transferred to the treasurer for unfathomable reasons. These transactions help the Dutch government to achieve the target of spending 0.8% of GDP on development cooperation, but the actual net expenditure is less.

Policy theme 5: Advanced human and social development

Operational goal 5.1: Education

Operational goal 5.1 addresses basic education, which comprises primary education, professional education, lower secondary education, non-formal education and kindergarten. The plans focus on financing primary education, but as discussed in section 7.4, that does not teach the poor children skills to generate an income. Poor children do not receive any further education, and therefore the primary education is irrelevant to poverty reduction. Tangible objectives and budgets for the other types of education are not presented, therefore results in these fields cannot be expected. Therefore, this policy theme has little relation to poverty reduction.

Operational goal 5.2: Research & higher education

This goal comprises two intentions: 'More use of knowledge and research in the Dutch aid and strengthening research and education in developing countries', and 'Reducing the shortness of middle and high level executives in developing countries'. The first issue concerns research by Dutch and local universities and institutes in development-relevant themes, as well as its application. But there is no information how the knowledge is applied in the Dutch aid or in local development. The second issue concerns scholarships for students from developing countries for studying in the Netherlands, and strengthening universities and research institutes in developing countries. University students travelling overseas are usually not from the poorest families, and therefore there is no direct relation to poverty. Whether more people with a university degree lead to faster economic growth is not clear. Furthermore, the foreign students may stay in the Netherlands, which is counterproductive (brain drain). The conclusion is that the contribution to poverty reduction of this goal is questionable.

Operational goal 5.3: Gender equality

The MFA's pursued results concern support to plans of the World Bank (2006c), the UNDP (2005), and the UNHCR (UN 2005f), and initiatives like combating sexual violence and HIV/AIDS. Only the World Bank plan aims at a tangible result: income generation by women. Furthermore, the 2006 Explanatory Memorandum mentions that 'assessments show that changes in the field of gender equality are very slow' (MFA 2005e, p 70). World wide, the IOB's evaluation of the MDGs' progress only finds improvements in gender equality with respect to enrolment in primary education, apart from that there is very little progress (IOB 2007c, p 132). The MFA report on activities regarding gender equality in five countries describes the highly motivated efforts of the Dutch embassies, but it also shows that tangible results were hardly achieved. (MFA 2007c). The limited results are in line with the findings in 6.2.2 and 7.5, that aspects of social culture are very hard to change from the outside in.

Operational goal 5.4: HIV/AIDS and other illnesses

Fighting HIV/AIDS, malaria and tuberculosis is a commendable goal. The pursued results comprise services like access to AIDS agents and other medicines, health insurance and organisational support, which can be expected to contribute to a decrease in the prevalence of illnesses and a softening of their effects. But better health status causes faster population growth, and where food is scarce malnutrition will increase and the health gain is lost (7.3). In addition, the results are not sustainable. As an example: between 1999 and 2006 donors' contributions to health care in Tanzania amounted to 50% of total health budget (COWI 2007, p 27). Consequently, if the aid stops the health care will deteriorate right away. For HIV/AIDS the situation is somewhat different. The

life expectancy curve for SSA shows that most victims are adults in their most productive years: 20-40 (UN 2005b, p 26). Especially in SSA HIV/AIDS prevalence is quite high: in 2006 about 4.5%, but mortality rates were only 0.20% in 2006, down from 0.33% in 2002 (WHO 2008, p 54; WHO 2003, p 154). In addition, between 2001 and 2005, prevalence reduced in several countries, e.g. in Botswana, Burundi, Kenya and Zimbabwe (UN 2007a, p 11). This shows that better care may help to reduce the loss of productive years. From a macro-economic point of view HIV/AIDS prevention and treatment might even be sustainable. Health insurance systems, though, cannot be expected to be successful in poor developing countries because of lack of trust (6.2.2). Furthermore, the poorest people cannot pay the premium, and the rich people's preparedness to subsidise the poor is limited (Carrin 2002; Carrin, Waelkens and Crie 2005). Therefore, except in some cases, aid to health care will be unsustainable.

Operational goal 5.5: World wide involvement for sexual and reproductive health and rights (SRHR), implementation of the Cairo agenda

The Operational goal focuses on SRHR and the pursued results comprise the issues of reinforcement of the health system, strengthening reproductive health security, sex education and service provision, sexual violence, and gender oriented poverty reduction. These issues are certainly relevant to the situation of women and girls. But the pursued results under this goal are extremely non-committing, e.g. 'The Netherlands has initiated a process to make a coordinated effort in at least five countries to support the recipient countries...' Furthermore, that the Cairo agenda will be implemented is meaningless because it does not comprise any specific activity or target (UN 1994a, 1994b). Like gender equality, SRHR is an aspect of social culture, which is very difficult to change. For instance, the WHO found that between 1990 and 2005 maternal mortality decreased at an average of less than 1% annually and in SSA only about 0.1% (WHO 2007a, p 2). But data is quite uncertain: the number of maternal deaths globally could be as low as 220 000 or as high as 870 000 (WHO 2008b, p 9), which means that changes of 1% are insignificant. Therefore it is impossible to know whether the aid is effective. Overall, SRHR seems to be hardly attainable, which makes it an unsuitable goal.

Operational goal 5.6: Participation of the Dutch civil society in development activities

With 'Dutch civil society' the MFA means the smaller and larger Dutch NGOs, including those strongly tied to the MFA, like SNV. The NGOs provide aid to the target groups via local NGOs, which gives more freedom in focus and implementation mode. The local NGOs have direct contact with the people, which allows them to by-pass much bureaucracy. They are mainly active in the field of social aspects of poverty. The NGOs can provide aid also when, for instance for political reasons, the MFA is not in a position to cooperate with the national government. It should be noted that the NGO's participation does not really concern a goal but rather an issue of external organisation.

However, in principle, cooperating with the NGOs is a commendable goal. (The activities of the Dutch NGOs are discussed in detail under section 8.8.3.).

Operational goal 5.7: Higher professional education

Operational goal 5.8: University education

Operational goal 5.9: Development related research

Operational goal 5.10 and 5.11: Safeguard knowledge system

These goals are similar to those under 5.2. It was found that the value of these goals is questionable.

Policy theme 6: Better protected and improved environment

Operational goal 6.1: Environment and water

The MFA's goal is the protection of the environment in the developing countries through an array of pursued results, e.g. protecting biodiversity, rain forest conservation, more sustainable energy (instead of firewood) and emission reduction. Indeed, often environmental degradation has a negative effect on agricultural production and on living conditions. Where the pursued results concern the protection of productive natural resources like water and fertile land and the improvement of living conditions, they are commendable. But the MFA's efforts to advance biodiversity, combat illegal logging, and reduce the emission of green house gasses bear no relation to development. Over the last 200 years the Western countries used high amounts of coal, oil and gas, they used almost all their primeval forests for building, mining, charcoal and firewood, and very little is left of the original biodiversity. In spite of the over-exploitation of their natural resources, or probably thanks to that over-exploitation, these countries realised an unprecedented development and the effective eradication of poverty. The listed environmental measures supported by the MFA may serve rich countries' goals, but there is no reason to assume that they contribute to development. In some areas people may actually benefit from CO₂ emissions and the consequent climate change. There is strong evidence that the rising world temperature causes more rainfall in the Sahel (Landsea 1992, Webster 2005), a dry and very poor region. Therefore, most of the environmental goals are unsuitable.

Operational goal 6.2: Water and urban development

This goal is realised through the pursued results integrated water management, river basin management, safe drinking water supply and sanitation, and slum improvement. This year's goal is to provide access to safe drinking water and sanitation for 5 million people (the goal is 50 million by 2015), and to improve the living conditions of a significant number of slum dwellers, also with drinking water and sanitation (MFA 2006e, p 81). As discussed (7.3), in rural areas safe drinking water nearby causes faster population growth, and where food is scarce this aggravates malnourishment, and the

health gain is lost. Sanitation measures lead to less illnesses and generate a similar effect. Because of the increased food prices, hunger is more common in the slums of the cities now as well (6.4.3), not only in SSA but also in cities in other poor regions, e.g. in India (Malekar 2006). There the health gain of water and sanitation will be very limited too. In addition, the MFA's approach is incomplete. For a more hygienic environment solid waste management and drainage are required too. Poor drainage causes flooding that mixes with waste and night soil and washes pathogenic sludge into the houses. Poor waste management causes vermin, smouldering waste causes toxic gasses, and in addition waste clogs the drains and adds to flooding ²⁴. Simple waste management is inexpensive, but even the simplest sanitation in cities, septic tanks, require investments in the magnitude of \$ 100/cap. A simple open drainage system costs even more. Because according to UN Habitat, at present a billion people live in slums (BBC News 2006), providing the mentioned services to the cities requires investments of hundreds of billions of \$. The MFA does not reflect on these issues. Apparently, it is not aware of what is needed, and what that costs. Unless malnutrition is overcome and all four urban services are provided, the MFA's measures will have a very limited effect on health. But providing all services on a large scale is unaffordable.

The efforts in the field of integrated water management and river basin management are important to cope with the increasing agricultural, industrial and urban demand for water and to control water pollution. No doubt, this is a commendable goal. But it is questionable whether the underlying problems can be solved, though. No measure can prevent that increased water demand spurs competition for water, pushes up prices and causes the ground water table to drop. As a rule, the poor suffer most from such developments. Therefore, in general, measures under integrated water management and river basin management will not diminish poverty.

8.4.3 Reflection with regard to the goals.

In most cases the formulated goals and pursued results are commendable, but aid regarding these goals is not likely to bring about sustainable poverty reduction. In addition to the goals in chapter 6, several more goals were found to be hardly attainable, e.g. gender equality, SRHR and slum improvement. A number of goals were found to be of little relevance to poverty reduction, e.g. several objectives under environmental protection (biodiversity, reducing CO₂ emission), export credit insurance, and business climate development in countries with a too high price level, like most SSA countries. Aid may have positive results in countries with a competitive exchange rate, though. In other cases the results of the efforts cannot be expected to be sustainable, like most public services. Sustainable results have a better chance in countries with firm economic

²⁴ The author's experience in urban development programs in Lima, Buenos Aires, Bangkok and Jakarta

growth, as the increasing incomes and government funds make maintenance and replacement of public facilities more feasible. This applies for instance to loans and other forms of financial aid. It was found that no clear aid measures were formulated to achieve the income poverty goal, i.e. to reduce the number of people living on less than \$ 1/day. Furthermore, there were goals so unspecific that the intended effect was unclear. Examples are higher education in developing countries, scholarships of foreign student to the Netherlands, and development-relevant research.

The overall conclusion is that hardly any of the MFA's development goals are suitable, and pursuing them will contribute only very little to poverty reduction.

8.5 Strategy, description

Based on various Explanatory Memoranda and policy notes, a number of strategic principles were identified that guide the Dutch aid's key strategic principles (see 3.3). They are: good governance, ownership, coherence (in the Dutch policy), harmonisation and alignment (aid in agreement with the government's and other donors' policy, and with the government's procedures), budget support (where possible), implementation through partner organisations, plausibility (that the result will be achieved), concentration (of bilateral aid to a limited number of partner countries), and input targets (minimum percentage or amount of aid to be spent in some category). It should be noted that the MFA has not formulated an explicit strategy. The chosen strategic principles are selected statements from the mentioned various political documents from the ministry.

8.6 Strategy, evaluation

8.6.1 Ownership

Since 1999, the MFA gradually shifted from projects to more sectoral aid and budget support. This should foster ownership, i.e. commitment to the development agenda (3.3.1, 3.4.2), 'the government in the driver's seat'. But in a clientelist society the Dutch aid goals may not be the politicians' priorities. In addition, a politician needs funds to secure the support of his followers, and the aid funds offer opportunities to obtain them. Furthermore, in many developing countries the government officials lack know-how, which prevents the government to assume ownership. As a consequence, in many cases the recipient government may not assume ownership of the aid goals and programs.

8.6.2 Budget support

Budget support (3.3.1) enables the recipient government to add the aid funds to its budget and spend them as its own money. Sectoral support is similar, but restricted to a specific sector. Budget support is supposed to stimulate ownership. In principle that is quite commendable. But the IOB evaluation of the sectoral support concludes that, after the introduction of the new strategy, ownership did not increase at all. The reason is that the government is quite dependent on the aid, and the MFA and the other donors largely determine the goals and objectives (IOB 2006b, p 12). Furthermore, the MFA's decision whether or not to grant budget support is based on an own assessment of the government's 'good governance', but the decision method is debatable (8.9, 8.10). In addition, an IOB evaluation revealed that in many cases the MFA provided budget support or sector support although the good governance criteria were not satisfied (IOB 2006b, p 10, 94-96). There is a tendency in the MFA to give budget support rather lightly. Often the MFA violates its own criteria that should guarantee that the funds are properly used. This was confirmed in an interview with an IOB employee.²⁵ The IOB recommends more MFA involvement in such cases (IOB 2006b, p 14).

8.6.3 Implementation through partner organisations

The MFA does not carry out aid programs itself, it finances the activities of partner organisations, including the recipient governments, and is not itself involved in the implementation. In bilateral aid it keeps in contact with the implementing ministries but only on the administrative level.²⁶ Also if, because of poor governance, the aid is given through projects the MFA contracts consultants or NGOs for the implementation. These organisations are generally quite capable in their specific fields. The disadvantage is that the MFA is hardly informed about what goes on in the implementation. Therefore it has no means to provide support, or correct things that go wrong. The IOB evaluations analysed in chapter 3 showed many examples of practical problems in the implementation. For instance, the evaluation of the cooperation with the FAO showed that, during the 15 years the program lasted, the new agricultural methods were not applied as they were not financially rewarding (section 3.4.5). This also raises questions about the MFA's monitoring of running partner programs.

8.6.4 Plausibility

Because of the many other factors that influence aid results, the attribution of a development effect to a particular aid measure is often difficult (section 2.8.1). Therefore, to estimate the effectiveness of the planned aid the MFA applies the criterion

²⁵ Interview with MFA employee 15, by telephone

²⁶ Interviews with various MFA employees, The Hague 2005, 2006

of plausibility of the effect, instead of its actual observation.²⁷ But the evaluations analysed under section 3.4 show that many of the effects that were thought plausible ex-ante, were proven wrong ex-post. Furthermore, the findings in chapter 6 show that it is often quite possible to judge the impact of the aid. The research on drinking water supply in an area where food was scarce (7.3) illustrates that the causal factors and effects that determine the results can be found, up to the poverty effects. It may be necessary to rely on the plausibility of the pursued results' effectiveness and relevance ex-ante, but during and after implementation it is generally quite possible to see what happens, what goes wrong and why, and what worked. It requires gathering base line data and assessing many other influences on the effect, like other donor programs and price changes, which is a lot of work, but it can be done. Therefore, plausibility is not a suitable criterion to assess the success of aid efforts.

8.6.5 Concentration of bilateral aid

The MFA does not want to spread the bilateral aid too thinly and therefore the number of countries receiving bilateral aid is restricted, at present to 36 (3.3.3). This makes sense indeed, to make a difference it is better to concentrate the aid. But, in practice the MFA does not limit the bilateral aid to its 36 partner countries at all. According to the World Bank (2006f, table 6.11, 6.12), the Netherlands also provides aid to a long list of other countries. In 2004 total aid to non-partner countries amounted to € 588 million, nearly half as much as the aid to the 36 partner countries: € 1203 million. The highest amounts spent on non-partner countries went to Iraq, Swaziland and the Congo (Dem. Rep.): € 141, € 98 and € 59 million respectively. 32 other non-partner countries received over € 5 million. Most of these 'extra' countries do not fulfil the criteria for aid. For instance, China and Angola have high export earnings and possess abundant foreign exchange, per capita income in Swaziland is relatively high, and governance in the Congo is very poor. It can be observed that the MFA violates its own strategy.

8.6.6 Input targets (financial volumes)

Various input targets have been agreed upon: the Dutch ODA shall be 0.8% of GDP; 15% of ODA shall be spent on basic education; 0.1% of GDP shall be spent on environment and water (MFA 2006e, p 56, 65, 77); and 50% of ODA shall be spent in SSA (MFA 2003a, p 13). These input targets are agreed upon through initiatives by members of the House of Commons. The input targets should guarantee a minimum amount of aid for important themes. Interviewed MFA employees found the level of the targets not unreasonable. But the draw-back is that in a given year it is not always easy to find sufficient plans worth financing. When for all countries the embassies' Annual Plans (9.6.1) are determined, the budgets per theme are added together. Where the total

²⁷ Interviews with MFA employee 5 and 8, 10-05-2005

does not meet the target the embassies are requested to look for possibilities to increase the amount for the theme in question. This may lead to 'disbursement compulsion' and to the support of lesser quality plans. For instance, the governments in SSA are often not capable to present sufficient acceptable plans to achieve the 50% target. A way-out is to spend more funds on debt remission, but that implies disbursement compulsion just as well. Debt remission is also used when near the end of the year the 0.8% of GDP target is not achieved.²⁸

8.6.7 Reflection about the strategy

The considerations in the previous sections show that the strategic principles have serious drawbacks. The ownership approach is valuable in principle, but in many cases it may seem that the government assumes ownership, whereas in reality it does not. Giving budget support should encourage ownership. But real ownership is often not achieved, because the influence of the MFA on local government policy is still very strong, and because budget support is also given to governments that do not fulfil the criteria of good governance. Also leaving the aid implementation to partner organisations is a useful principle, but the MFA's non-involvement approach is ineffective, as it leaves the MFA poorly informed and unable to exert influence. The plausibility principle is not a reliable instrument to judge the effect of the aid, and often it is not necessary either. As the IOB suggests (IOB 2006b, p 14), a more suitable strategy for the MFA would be to remain involved in the implementation and directly observe the cause-effect mechanisms. The concentration of bilateral aid to a limited number of countries is valuable, but in practice the principle is ignored. And it is strange that the information about the relatively high spending on non-partner countries can be found in a World Bank document but not in publicly accessible documents of the MFA. Furthermore, the inflexible application of the input targets leads to disbursement compulsion and less effective aid.

There is a pattern in these issues. The MFA focuses very much on the goals and objectives, including 'input targets', and they are entirely 'made in The Netherlands'. But the Dutch priorities do not necessarily coincide with the recipient government's priorities. This explains why ownership is often not really assumed. In addition, the MFA shuns involvement in the implementation. As a consequence, problems during implementation go unnoticed and are not remedied. Furthermore, the MFA is not aware of the effects of local conditions and external influences that affect the results on the target group. As a result, it does not really know whether the aid actually made a difference. Therefore it adopted the concept of 'plausibility' to claim that the results were achieved, whereas evaluations, research and statistics show that the results are

²⁸ Interviews with MFA employee 8, 10-05-2005 and with Mr. J.A. Meerman, senior consultant PriceWaterhouseCoopers, The Hague, 13-09-2005

generally very meagre. It can be concluded that the strategic principles do not constitute a suitable development strategy. Their application does not contribute to sustainable poverty reduction.

8.7 Partner organisations, description

8.7.1 Partners to be assessed and assessment criteria

One aspect of the Dutch aid management is the choice of the partner organisations. All partner organisations mentioned in the Explanatory Memoranda and for which information was available are analysed. Criteria applied in the assessment are that their activities are relevant to development; that they have an effective approach to achieve the aid goals; and that they indeed achieve poverty-relevant results. A description of the partner organisations is presented hereunder, their assessment in section 8.8. The assessment of the partner organisations' own management (e.g. according to the research model) is beyond the scope of the research.

8.7.2 Governments of the developing countries

The managed system of the MFA's external organisation consists first of all of the 36 partner countries (section 3.3.3). From the policy documents (section 3.3) it can be concluded that the governments of the developing countries are considered the most important partners. They are supposed to assume responsibility for the design and the implementation of the development plans.

8.7.3 Local non-governmental organisations (NGOs)

If the government is not a suitable partner, e.g. because its policy is too poor or its capabilities are insufficient, the aid is partly or entirely channelled through Dutch and domestic NGOs. As Dutch NGOs also use local partner NGOs to implement their aid, these local NGOs play a very important role. Local NGOs are active in many development-relevant fields, e.g. health care, education, water supply, human rights and gender equality. Local NGOs are also directly sponsored by Dutch embassies.

8.7.4 Dutch non-governmental organisations (NGOs)

The Dutch Ministry of Foreign Affairs has a long tradition of supporting Dutch NGOs that are active in the field of development cooperation. The major part of the aid through NGOs goes to the six largest ones, through the program 'Medefinanciering' (co-financing). These NGOs comprise NOVIB, Cordaid, ICCO, HIVOS, and Terre des Hommes, and till the end of 2006 also PLAN Nederland. They are active in a variety of fields, especially the themes under the MDGs, and in many countries.

8.7.5 *Semi government organisations*

There are quite a number of other organisations involved in development-relevant activities, that could best be characterised as semi-governmental. The most important ones are described below.

- SNV: receives its entire budget from the MFA through contracts and subsidies, but it is rather independent in the aid implementation. Its activities concern advisory services in the field of capacity building in local government institutions at 'meso' level (between city and central government) and in local NGOs (MFA 2006h). Its 2005 budget was about € 80 million.
- PSO: a branch organisation for Dutch NGOs that are active in capacity development in civil society organisations in the developing countries. PSO offers training to its member NGOs to raise their level of expertise. For the period 2007-2010 it receives a subsidy of € 108 million (MFA 2006h).
- NCDO: the Dutch Commission for Sustainable Development tries to strengthen the support for development co-operation and sustainable development in the Dutch society. The allocated subsidy for the 2007-2010 period is € 128 million (NCDO 2006, p2).
- IMD: the Institute for Multi-party Democracy, seeks 'to deepen and strengthen a pluralistic political party system' in 'young democracies' by supporting local political parties. It is an initiative of 7 Dutch political parties. It receives a subsidy of € 50 million over the 2007-2010 period (ECDPM 2005, p 9). The organisation is operational since 2002. In 2005 it was active in 15 developing countries.

8.7.6 *Advisory councils*

The MFA is supported by various advisory councils. The most relevant to development cooperation are:

- AIV, the Adviesraad Internationale Vraagstukken (Advisory Council International Issues) advises the MFA (among other things) regarding development related topics, e.g. gender equality, human rights, the role of culture and religion, and private sector development (AIV 2009)
- WOTRO, de Stichting Wetenschappelijk Onderzoek van de Tropen en Ontwikkelingslanden (Foundation for scientific research on the tropics and developing countries) focuses on scientific research on development issues, in particular poverty alleviation and sustainable development (NOW 2007b). Half its budget stems from the MFA.

In addition there are a multitude of smaller public Dutch organisations that support colleague organisations in developing countries, often (partly) with public funds, e.g.

trade unions, provincial and city governments, and the police. The analysis of these organisations is beyond the scope of this research.

8.7.7 Universities and research organisations

- The universities receive subsidies for development-relevant activities. Often the research covers 'technical' issues, e.g. activities in the field of tropical agriculture (Wageningen University) and water management (Delft). Other universities focus on social issues, e.g. those cooperating under CERES (CERES 2007).
- Some research institutes and (post) graduate schools are sponsored too, e.g. the Institute of Social Studies (ISS 2008), 'an international graduate school of policy-oriented critical social science' with some 400 students from all over the world. ISS also cooperates in CERES.
- Furthermore, subsidies are given to the International Institute for Geo-Information Science and Earth Observation, ITC (2007a) with 660 students; and the African Study Centre (ASC 2009), 'an independent scientific institute that undertakes social-science research on Africa', with 22 researchers.
- The MFA (2008f) has an own fund, the IS Academy, that finances aid policy relevant research.

8.7.8 Private sector support organisations

For support to the private sector in developing countries and for development-relevant investments of Dutch companies, various organisations are subsidised:

- The CBI is 100 % MFA sponsored and advises local companies about export to the EU. It is a 'government agency'. For a couple of branches, e.g. foundry and apparel, it also provides know-how in the field of management and production technology. Its budget is € 17 million in 2008 (MFA 2007b, p 142).
- The FMO is the Dutch international financing bank, it extends loans to Dutch and local private companies and to local development banks in developing countries. In the past the Dutch state has contributed to the FMO's capital, but that is no longer necessary. FMO's loans range from \$ 1 million to 100 million. It is also responsible for the administration of the ORET and PSOM programmes, see below (FMO 2008)
- ORET is not an organisation but a financing program, administered by the FMO. The MFA finances 50% ²⁹ of investments of Dutch companies in the economic and social infrastructure of developing countries, e.g. public utilities. For 2006 € 104 million was available (FMO 2006b). In 2008 it was adapted, and called ORIO.
- PSOM is a similar program, it is intended to support Dutch companies in case of high risk investments in developing countries. For PSOM € 51 million/year is available. The average contribution is about € 500,000 and the maximum MFA

²⁹ The percentage changes a bit depending of the type of country, and over the years

share is 60% of the investment (MFA 2005j). Recently, the criteria for financing were adapted, and the program is now called PSI.

- PUM sends out senior Dutch ex-managers to support companies in developing countries for a limited time, usually a couple of weeks, to assist the management of these companies. The budget in 2007 was € 13 million (PUM 2007a).

8.7.9 Multilateral organisations

High amounts of aid are donated via Multilateral organisations. They also play a crucial role in the development of international policies (e.g. trade) that affect the situation of the developing countries. The MFA contributes mainly to the EU, UN, IDA (soft World Bank loans) and to several regional development Banks. The total Dutch ODA contribution was \$ 1430 mln in 2005, about 6% of the DAC countries' total. The largest share went to the EU, \$ 430 mln (DAC 2007c, table 12e).

8.8 Partner organisations, evaluation

8.8.1 Governments of the developing countries

The governments of the developing countries are the largest recipients of the aid, both via the bilateral and the multilateral channel. Their functioning was already discussed under section 6.2 and 7.5. It was found that the clientelism system causes bad governance and high corruption, but also that that is not decisive for development and poverty reduction (7.5). Social capital was found to be more important (6.2.2). Therefore, the MFA should base its decision to provide budget support on the degree of social capital rather than on the level of 'good governance'. But the question is whether budget support is really necessary to stimulate ownership. If the MFA does not impose its own goals but supports the recipient government's goals, ownership will not be a problem. For instance, before 2003 India was quite happy with the Dutch aid, which consisted mainly of know-how transfer. When the MFA decided to restrict the aid to budget support India announced that it was not interested in the Dutch aid anymore (8.14). In case the MFA doubts the recipient country's ownership it could decide to participate actively in the aid implementation. As argued before, that has advantages anyway (8.6.3, 8.6.7).

8.8.2 Local NGOs

Local NGOs can be valuable partners with good access to the population and a lot of local knowledge. But in many cases they are (also) part of some clientelism network and function as a source of income for those involved. Because the Dutch partners (MFA, Dutch NGOs) tend to leave the implementation of the aid entirely to the local

NGOs there is a considerable risk that a fair share of the funds disappear and that the results for the target group are diminished. As mentioned under section 6.2.7, Georg Cremer, vice president of Caritas in Germany, a large international NGO, estimates that 20 - 30% of Caritas' funds are lost through corruption (Cremer 2000).

Also the Dutch financed local NGOs pose such risk. In 2006 the Dutch embassy in Bangladesh financed a local NGO, BRAC, to carry out a large water and sanitation project. Bangladesh has a CPI value of 2.0 (2006), meaning that it is in the top ten of corrupt countries. Yet, there was little control, the embassy just contributed the funds (MFA 2006l). But it is very hard for a large organisation to stay clean in a clientelist society. BRAC is heavily involved in purely commercial activities, e.g. real estate, banking, marketing and cold storage, that have nothing to do with the needs of the poor, and bring in large profits. And because in Bangladesh NGOs do not present detailed financial accounts on their activities, it is not clear where these profits go (Ahmad 2004). Over 2006 total earnings were € 185 million, thereof € 81 million from Western donations. Over its non-profit activities BRAC does not pay taxes, but the division between commercial and charitable activities is not clear. A couple of years ago BRAC received a tax assessment of € 25 million for its commercial activities. This tax was then exempted, possibly because the former tax offices' director general became a board member at BRAC. According to an article in the Dutch newspaper NRC, of the funds for schools BRAC receives from western donors, only a fraction is actually spent on schools. It can be concluded that BRAC is indeed part of the Bangladesh clientelism system (Chakrabarty 2007). The Dutch embassy does not seem to be aware of this. In summary, local NGOs can play a valuable role in the implementation of Dutch aid, as they have specialist knowledge and experience, and they can work directly with the poor. But when channelling aid through local NGOs there is a serious risk that a major part of the funds disappears. Both the MFA and the Dutch NGOs ignore this risk.

8.8.3 Dutch NGOs

The MFA's contribution to the Dutch civil society organisations (mainly NGOs) is one of the largest positions under the budget: in the period 2007-2011 over € 600 million/yr, thereof € 437 million MFA subsidy to the five large NGOs (Vice Versa 2008; HIVOS 2007). The Dutch NGOs cooperate directly with local NGOs, passing by a lot of bureaucracy, and they can continue to give aid also when for political reasons the MFA cannot cooperate with the government. Most Dutch NGOs are quite professional and have a lot of experience in development cooperation. They concentrate especially on the micro (city and village) level and pursue goals in the field of public services (like basic education, health care and water supply) and social issues (e.g. establishing cooperations) (ICCO 2006). In addition they try to influence the policies of international organisations (e.g. the WTO) and large commercial companies and make them more

development friendly. For instance, several NGOs were active in the promotion of 'certified coffee', where consumers pay a little more and the local farmers and labourers get somewhat higher prices and wages (IOB 2007a). It can be observed, though, that most of the NGOs' goals concern public services and efforts to change social culture, goals that are unattainable, unsustainable or irrelevant (Ch 7). And because they leave the implementation to local NGOs, they are often poorly informed, unable to intervene, and they may lose funds through corruption (8.8.2). The Dutch NGOs do not seem to be aware of these risks, for instance they do not refer to them in their yearly reports. Only Cordaid mentions efforts to judge the 'transparency' of potential partners (Cordaid 2006, p 31) but it does not explain how. The Dutch NGO Oxfam-NOVIB finances the controversial NGO BRAC (Oxfam-Novib 2007). An evaluation by the UNRISD of NGOs world wide concluded that, in general, 'there is scant firm evidence to support high expectations about NGO impact on sustainable poverty reduction' (Fowler 2000).

8.8.4 Semi governmental aid organisations

SNV

SNV fulfils a unique role as a partner at 'meso' level, i.e. to governments and private companies of federal states or provinces. Especially in the rural areas the management of public services and production chains is generally managed at meso level. SNV focuses on capacity building of groups of organisations, both public and private ones, that cooperate to advance such services or production chains (evaluation, SEOR and ECORYS 2006, p 12). SNV's Annual Report 2005 shows several examples of efforts that resulted into better services or increased incomes for the people (SNV 2006). But there are shortcomings too. Between 2002 and 2007 SNV spent € 500 million, but the effects on capacity building, good governance and poverty reduction remained unclear, because SNV lacked a measurement instrument (p 16). Furthermore, the efficiency was quite low: the office in the Netherlands consumed 43% of total cost (14). Furthermore, SNV mainly relied on self-evaluation, with the risk of 'flaws with respect to the required objectivity' (13). Mennes, member of the advisory council AIV and involved in the discussions with the MFA about the evaluation, confirmed these shortcomings.³⁰ He found SNV's performance unsatisfactory and its accountability insufficient, and he was surprised by the MFA's generous funding, with hardly any independent control. He also criticised the fact that the MFA blocked the publication of the rather negative evaluation report.

PSO

PSO aims at the provision of know-how to (usually smaller) Dutch NGOs to enable them to carry out capacity building for civil society organisations in developing

³⁰ Interview with prof. L.B.M. Mennes, ex-director of the Dutch international investment bank FMO, Wassenaar, 29-11-2007

countries. Subsidised by the MFA, PSO also finances the NGOs' projects, it identifies potential projects itself and scouts suitable NGOs to carry them out. An example: PSO scouted a Dutch NGO to support miners to get higher wages and to reduce environmental pollution in a developing country (PSO 2005, p 20). But it is unlikely that such support leads to success. The miners' work does not require much education, and therefore the salary will be only marginally higher than the next best alternative occupations, e.g. farming. And in a clientelist society local patrons will not force the mining company to take costly measures to protect the environment, as that would reduce the profit and, consequently, the patrons' share. PSO's projects try to influence social culture, which is hardly possible from the outside in (6.2). Most other PSO projects are similarly unrealistic. PSO transfers valuable capacity building capabilities to Dutch NGOs, but it encourages the NGOs to pursue unattainable goals. It is unlikely that the NGOs' efforts with respect to these goals have any effect.

NCDO

The NCDO's aim is to strengthen public support for development cooperation in the Netherlands. The NCDO presents many successful projects in its publications. On its website it shows many examples, and it invites the visitors to support these projects or to submit new initiatives. The NCDO then helps to obtain MFA subsidies, that cover a major share of the costs, up to 75%, depending on the kind of project. But Schulpen investigated a fair number of these 'private initiatives' in Malawi and Ghana and found that they generally concentrate on sending funds and goods, e.g. for health care and primary education. He concluded that these gifts do not change the situation that causes the lack of such provisions, and therefore they do not have any lasting development effect (Schulpen 2007, p iii-v). Furthermore, the NCDO hides the fact that it is 100% financed by the Ministry, it suggests that it is just an NGO promoting development cooperation. In this way the Ministry is furtively promoting its own policy with money intended for aid. This is misleading, and it concerns an inappropriate use of aid funds.

IMD

The Institute for Multi-party Democracy, IMD, supports political parties to develop a true democratic structure in as yet undemocratic countries. According to the evaluation carried out by ECDPM (2005) in some countries the IMD has achieved tangible results. For instance in Guatemala it helped to reduce antagonism, which led to a shared national agenda and the political participation of indigenous people (ECDPM 2005, p 22-23). But as discussed (7.5) there is no evidence that good governance brings economic development. In addition, Davenport and Armstrong II found that only if the degree of democracy rises 'above a certain level', the human rights situation improves. In an insufficiently functioning democracy changes in the 'democratic level' have no effect (Davenport and Armstrong II 2004). It is also questionable whether democracy

can be sustainably advanced from the outside in. As discussed, democracy is first of all a result of economic development and the emergence of a middle class (6.2.2). Therefore, though the IMD can support colleague politicians a bit, the long term effect will be very limited. Furthermore, the politicians that established the IMD and finance it with MFA funds also carry out missions for the IMD, i.e. they decide about their own MFA-paid international journeys. This implies a conflict of interests.

8.8.5 Advisory councils

AIV

To take care of its advisory function to the MFA, the AIV counts several committees and numerous specialists and (ex-) politicians. Advisory teams are created depending on the issue. It was found that the quality of the advice varies considerably. Most reports are quite theoretical and their recommendations are unspecific and sometimes unrealistic. An example is the report 'A human rights based approach to development cooperation' (AIV 2003). It advises 'strengthening regional strategies; peace negotiations and peace keeping; and strengthening human rights organisations' (p 24). But the intended results are no further specified, and the report does not give any suggestions how they should be achieved. The report also firmly recommends that 'aid should only be given to countries where it can make a real contribution to the promotion of human rights' (p 42). This would imply that, where poor people suffer from human rights violations that aid cannot stop, they are also refused help to overcome poverty.

Much clearer, and more helpful to formulate an aid strategy and concrete actions is the report 'Private sector development and poverty reduction' (AIV 2006). It argues that, because in general, per capita income of the poor increases about as fast as for the population at large (p 9), under the right conditions economic growth should also cause poverty reduction (10, 12). To stimulate economic growth the report recommends incentives for entrepreneurship and investment, increased productivity through competition and innovation, harnessing international linkages, improving market access and functioning, and reducing risk and vulnerability (11). Besides, foreign direct investments should be especially promoted because business investments are more difficult to withdraw and therefore they are more stable than loans. In addition, they lead to knowledge transfer, e.g. concerning production, management and marketing (12). The report's recommendations are relevant and practical. It can be concluded that some reports are quite concrete and useful, but most of AIV's reports are unspecific and unrealistic and are not helpful to formulate an effective aid policy.

WOTRO

WOTRO advises the MFA on research proposals to subsidise. The advice is based on MFA guidelines, i.e. that the research should address the MDG themes poverty and

hunger, global health, sustainable environment and global relationships, and should serve to improve the Dutch aid (WOTRO 2006). In 2006 all thirteen Dutch Universities were supported, total subsidies amounted to € 7.3 million (NWO 2007a). But none of the research organisations specifies the poverty relevance of the research, and in most cases that relevance is not clear. An example is a research plan regarding 'the capacity of the Amazon forests ecosystem to absorb climate change and land-use stress', e.g. logging (NWO 2008b). This could be poverty relevant in the sense that logging destroys the original ecosystem, which threatens the livelihood of the indigenous people. But that is known for a long time already. The problem is that the Brazilian government does not halt the logging and more research does not change that. Furthermore, as discussed, the rich countries in Europe cleared almost all their primeval forests and became very prosperous, which illustrates that the relation with poverty reduction is not at all obvious. In addition, no effects of the research on poverty reduction are presented.

8.8.6 Universities and research institutes

CERES is the coordinating body for social science research in The Netherlands, and publishes descriptions of dozens of programs and projects of its participants. Many are relevant to the situation in the developing countries. Some examples: Dynamics of fisheries management in Hambantota District, Sri Lanka; Bridging the urban-rural divide - multi-spatial livelihoods in Nakuru town, Kenya; Twenty semi-quantitative land use histories, North Cameroon (University of Amsterdam 2007) and 'The Nambikwara Indians, a description of their languages and of their cultural identity' (NWO 2008a). The ISS is exclusively engaged in post-graduate university education and research in social issues. The emphasis is on governance aspects, like the design of political plans for gender equality and education. Most of its 350-400 students are from developing countries (ISS 2008). The International Institute for Geo-Information Science and Earth Observation (ITC) gives post-graduate courses to students from developing countries on the techniques and the application of satellite photos to estimate soil conditions and potential soil use (ITC 2007a). An example is the program Food Security in Space and Time (ITC 2007b). The students can use their knowledge to improve agriculture and combat environmental degradation in their home countries. The African Study Centre (ASC), carries out research on socio-cultural themes in three theme groups. Examples: Understanding socio-cultural transformations in time and space; Culture, politics and inequality - formations of power and identity; and Economy, ecology and exclusion (ASC 2009).

Universities also carry out development related research under their own programs, sometimes (but not always) sponsored with funds from the Dutch budget for development cooperation. An example is the certification of African smallholders to enable them to match the quality standards for food export to the EU, carried out by

Wageningen University, Sustainable Economic Development Department (Wageningen International 2008).

The MFA has an own research fund as well, the IS Academy, focusing on main issues of the Dutch development cooperation agenda. By mid-2006 five partnerships between the MFA and researchers were up and running: HIV/AIDS, Education, Policies on poverty and good governance, Civil society, and The African state (MFA 2008f). The goals with respect to 'Civil society' illustrates the nature of this research. The main objective is: 'to unravel the development discourse and the strategic alliances that are used in the advocacy of northern and southern NGOs in international negotiations on access, rights and ownership of global goods and services'. To this end, the research investigates, among other things, 'the influence of northern NGOs on democratisation processes in the South through relationships with southern ones' (MFA 2008c).

With respect to the poverty effects of the research, it can be seen that the activities of Wageningen University (land certification) and ITC (satellite photos for soil use) address practical problems, and can be expected to lead to poverty reduction. But in many cases the research is not of a nature that allows application. For instance, the study of the Nambikwara Indians is very valuable because of the imminent extinction of their language, but the research results have no practical applicability. Most of the research is focused on the Dutch aid goals and, as discussed (Ch 7), these goals are generally not attainable, sustainable or poverty relevant. This also applies to the main goal of the research supported by the IS Academy: 'unravelling the discourse' on 'access, rights and ownership of global goods and services' cannot be expected to lead to any concrete, poverty relevant result. And, as discussed, influencing the 'democratisation processes in the South' is not an attainable goal (6.2.2).

In summary, under certain conditions the Dutch research programs can contribute to development and poverty reduction. The use of research results and other scientific developments is generally successfully applicable where it is made available in proven methods and technology that solve concrete, development related problems. In most cases the research aims at problems that cannot be solved by aid or are not poverty relevant. In general the sponsored research will contribute little to poverty reduction.

8.8.7 Private sector support organisations

CBI

CBI's target for 2007 is to bring 270 local companies to export to Europe (MFA 2007b, p 59). CBI's support services comprise EU market information, export development, company matching, the development of local business support organisations (BSOs), and training of exporters and BSOs. CBI's documents show that it focuses on modern,

medium-size companies that can compete internationally, in the field of manufacturing or specialist agricultural products (CBI/IPL Consultants 2004). This focus is logical because small traditional enterprises hardly offer products suitable for export, whereas large internationally oriented companies do not require CBI's advice. CBI's efforts are quite commendable. The poorest groups will not benefit directly from CBI's activities, but more export strengthens development and increases economic growth, which in the long run contributes to employment and higher wages. Countries like China and Vietnam illustrate this (7.5.2). Data about quantitative effects of CBI's efforts, for instance in terms of increased export volume by CBI supported companies, is not available, though. In addition, many companies from developing countries seem to manage to export to the EU without CBI support. That means that there is no evidence that the CBI makes a difference.

FMO

In its Annual Report and on its web site the FMO presents several examples of companies that benefited from its loans (FMO 2006a). The loans are in the range of € 1 million - 100 million. The FMO mainly targets medium and large size commercial companies. Under the Massif Fund (MFA 2009b) sponsored by the MFA, the FMO also extends loans in local currency to small companies via local banks, e.g. for 'upgrading motor vehicles, machinery and equipment' and 'inventory, renovation, construction and expansion' (The Commonwealth 2007). The micro-financing extends loans as small as \$ 27 (FMO 2008, p 13). The FMO's loans should fulfil the condition of additionality, meaning that the companies cannot obtain the loans (against reasonable conditions) in another way (Algemene Rekenkamer 1998, p 18). Furthermore, the FMO offers 'technical assistance' to its borrowers through the 'Capacity development program'. In the past it focused on financial management only (FMO 2007), but at present it also comprises corporate governance and business processes of the partner banks it cooperates with (FMO 2009).

It can be expected that the FMO's activities indeed have a positive effect on the companies supported. It helps companies to expand, which contributes to economic growth and to the creation of employment, and so to sustainable poverty reduction. So, the FMO's activities are commendable. Unfortunately, there are no evaluations that estimate the effect of the FMO's loans on employment for the poor. Furthermore, the condition is that the loans are paid back, but often, poor, uneducated people (smallholders, landless labourers, slum dwellers) do not have the skills to carry out activities that generate sufficient money to pay back the loans. That means that the majority of the poor will not benefit from the loans.

ORET

ORET is a fund administrated by FMO. For a description and evaluation see section 3.4.3. Summarising: through subsidies for investments of Dutch companies, mainly in public facilities, employment was generated both in the Netherlands and in the developing countries. But the costs were excessive: several times more than the employed people earned over many years. Because only projects were financed that were not economically viable, most facilities will not be reinstalled after service live. That means that they are not sustainable, and that most of the created employment will be temporary. All in all, the ORET subsidies do not contribute to poverty reduction. Probably because of the poor results, the evaluation report over the period 1999-2004 is no longer available at the MFA's website (IOB 2008b). In 2008, the ORET program was replaced by the ORIO program (ORET 2008). Employment generation is no longer a condition, the objective is the creation of development-relevant infrastructure, including exploitation and maintenance, the subsidy maximum is increased to 80%. This implies that there is no contribution to economic development anymore. Because the Dutch partner takes care of operation and maintenance, local institutional development around these tasks is not developed either. Therefore, the sustainability is reduced even further. The ORIO program does not contribute to sustainable poverty reduction.

PSOM

PSOM is a fund somewhat similar to ORET. Two evaluations were carried out: for the period 1998-2001 and 2002-2004, both by Ecorys (Ecorys 2002 and 2005). The program's main objectives are 'creation of employment, income and knowledge and contributing to poverty alleviation' (second evaluation, p 9). The evaluations show that regarding all objective results were achieved. The projects also generated a fair amount of additional private investments after completion, which shows that the initiatives were financially sustainable. The subsidy share was 50 to 60% (Ecorys 2005, p 15). In the period 1998-2001 the subsidy spent per directly created local job was € 4500/job created, or 9.4 man-years local minimum wage, and 1.4 man-years minimum wage if indirect jobs are taken into account as well (appendix 10). In 2008 the PSOM program was expected to create 3000 jobs (MFA 2007b, p 81) with a budget of € 55 million (Koenders 2008), i.e. even € 18300/job. That is far too high to justify the subsidies. But in the first phase (1999-2002), in the most cost effective project (poultry farm equipment for China) 3820 indirect jobs were created, and the cost/job were only 0.2 man-years minimum wage. Projects of that kind would generate employment at reasonable costs. It should be noted that the subsidy under the PSOM program causes unfair competition, and it is logical to expect employment losses too, for instance in poultry farms and in poultry farm equipment manufacturers that were not subsidised. These effects are ignored, both in the program design and in the evaluation. But it is not unlikely that the problems can be solved: cost/job could be reduced by focusing on the

most promising projects, and a control group analysis could determine whether the PSOM program really makes the difference. Probably, in this way the PSOM program could become a valuable tool to generate employment and poverty reduction.

PUM

PUM dispatches Dutch (ex-)managers to support private companies in developing countries. In 2006 it achieved 28000 advisory days in about 1800 visits. The managers are only paid expenses. The support concerns all types of aspects, e.g. technology, marketing, quality management and general management (PUM 2007a). But according to the 2007 evaluation, the content of the activities of PUM volunteers and the effects on the company were not assessed by PUM (NIB Consult 2007). And neither the PUM web site nor its Annual Report presents any information about lasting results. The 2002 evaluation by Ecorys found that 'tangible effects on the performance of enterprises were limited' (Ecorys 2003, p 10). From the project descriptions at the PUM website (PUM 2008) it can be concluded that this is a consequence of the dispatched ex-managers' approach. They explain the solution to the problem and often solve it themselves, and sometimes they also give training. But the typical visit lasts only two weeks and focuses on the problem at hand. As a rule, companies in developing countries suffer from a lack of knowledge and capabilities in many fields, e.g. product development, production technology, cost calculation and marketing.³¹ The individual support projects are helpful, but they do not provide a solution for the general lack of knowledge. One manager advising a restaurant in Laos concluded: 'What this country misses is a good hotel and catering school'. Therefore, PUM's advice will certainly help, but its contribution to employment and lasting poverty reduction can only be very limited.

8.8.8 Multilateral organisations

IFIs

The international financing organisations (IFIs) provide loans and to some extent also grants for the developing countries' development plans. The World Bank is the largest and most influential IFI. It comprises various financing instruments, e.g. the IBRD (mainly loans), IDA (loans and grants for poor countries), the IMF (balance of payment problems, monetary policy) and the IFC (loans for private companies). There are several smaller regional development banks with a similar financing approach. This assessment is restricted to the World Bank and it is assumed that the conclusions are representative for all IFIs.

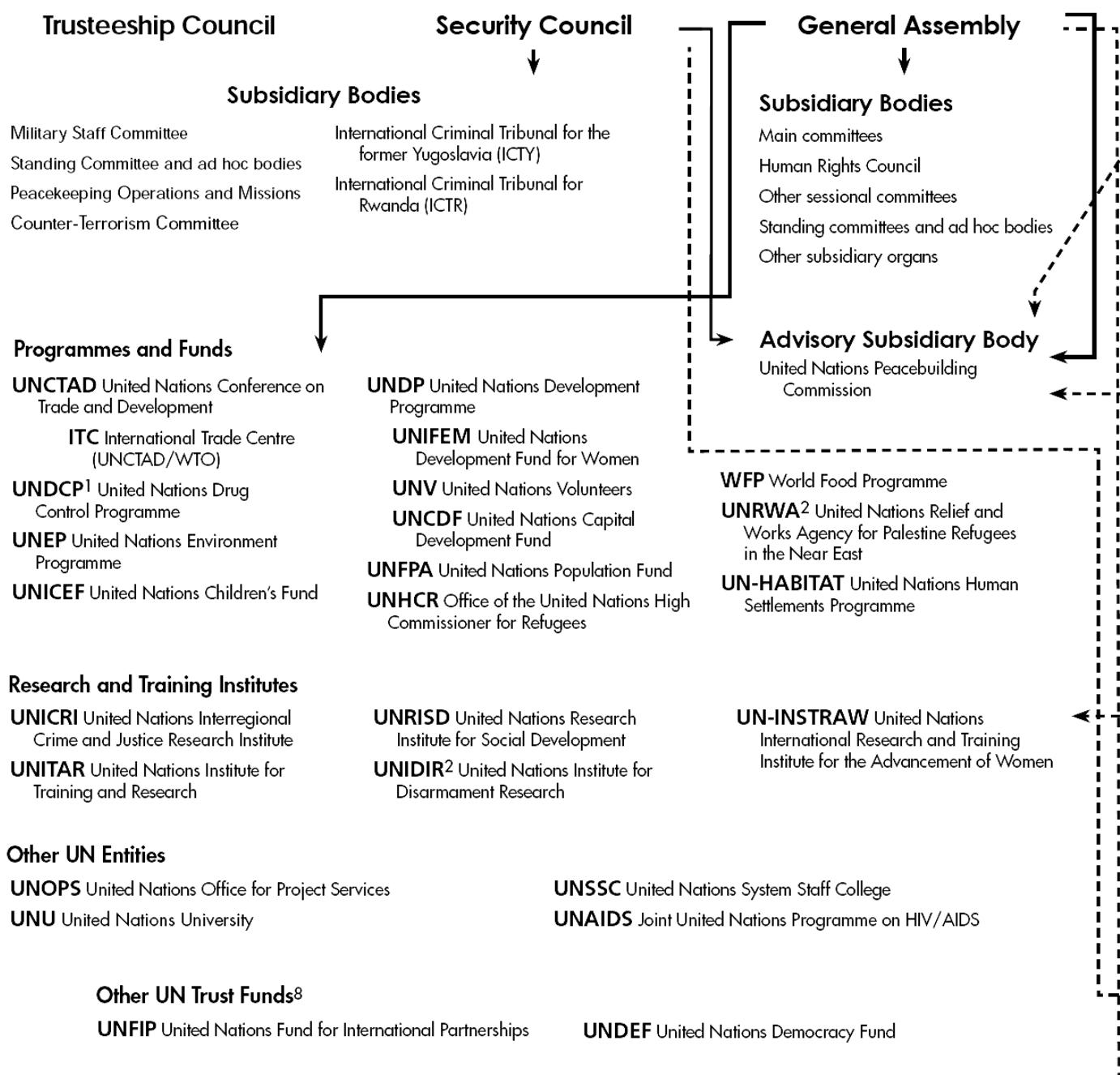
³¹ Experience of the author, on assignments in Russia, Rumania, Peru and Argentina

Most of the Bank's aid addresses the common development goals, e.g. water supply, health care and good governance, but as discussed in chapter 7, activities in these areas do usually not contribute to poverty reduction. In addition, according to the Bank's evaluation group, 40 percent of the Bank's programs, -mainly in smaller or poorer countries- did not meet the development objectives (World bank 2008c, p xv). In many countries economic growth was supported, but increasing income inequality often diminished the poverty-reducing effect of the growth. This was especially the case where growth occurred in sectors that generated little employment and where the poor lacked the skills or mobility to take advantage of the opportunities, e.g. in rural areas. In Georgia, the oil transport sector was a major driver of growth, but it created little employment. Furthermore, the Bank's strong support in the field of governance and public finance management was often unsuccessful. Causes are insufficient enforcement capacity, and 'limited political commitment' to ending the 'traditional role of the public service as a vehicle for large scale patronage appointments' (World Bank 2006b, p xii-xv). The Bank does not comment on the fact that corruption endangers the repayment of the Bank's loans. But if about a third of the funds disappears (6.2.4), only two-thirds remains for investments, and the returns may be insufficient to pay back the loans. Also, during recent years an increasing number of studies criticised the one-sided open market approach promoted by the World Bank. For instance, Rodrik pointed at countries that developed successfully, ignoring the Bank's advice, and at countries that did follow the advice but did not develop (Rodrik 2006). He blamed the Bank's 'one-size-fits-all' approach and stressed the importance of adopting more country-specific solutions. The Bank's standard economic policy is seriously questioned now. The findings and considerations show that the Bank's performance is mixed at best.

United Nations

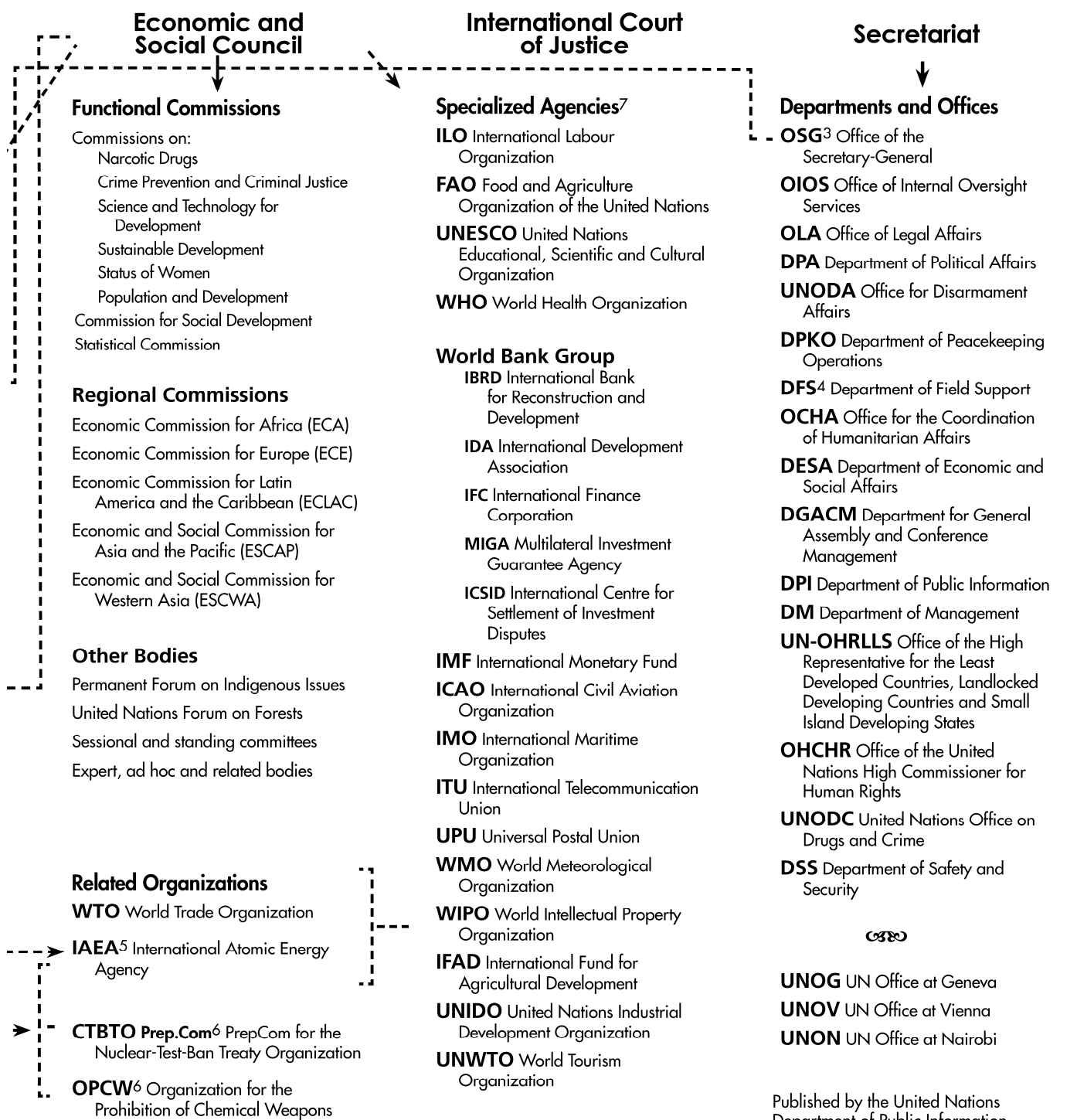
Nearly all countries of the world participate in the UN. The UN's main tasks concern five topics: peace & security, human rights, economic & social development, humanitarian affairs and international law. The UN's organisation is large and complex. The organisation chart is presented in figure 8.1. On the UN's website quantitative data on its many organisations are not easy to find. According to a pro-UN NGO in the United States, UN's total budget was \$1.9 billion in 2006 (UNA-USA 2006).

Figure 8.1: The UN's organisation chart



NOTES: Solid lines from a Principal Organ indicate a direct reporting relationship; dashes indicate a non-subsidiary relationship.

- 1 The UN Drug Control Programme is part of the UN Office on Drugs and Crime
- 2 UNRWA and UNIDIR report only to the GA
- 3 The United Nations Ethics Office, the United Nations Ombudsman's Office, and the Chief Information Technology Officer report directly to the Secretary-General
- 4 In an exceptional arrangement, the Under-Secretary-General for Field Support reports directly to the Under-Secretary-General for Peacekeeping Operations
- 5 IAEA reports to the Security Council and the General Assembly (GA)
- 6 The CTBTO Prep.Com and OPCW report to the GA
- 7 Specialized agencies are autonomous organizations working with the UN and each other through the coordinating machinery of the ECOSOC at the intergovernmental level, and through the Chief Executives Board for coordination (CEB) at the inter-secretariat level
- 8 UNFIP is an autonomous trust fund operating under the leadership of the United Nations Deputy Secretary-General. UNDEF's advisory board recommends funding proposals for approval by the Secretary-General



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But UNDP's budget, including program related contributions, amounted to \$ 4.5 billion that year (UNDP 2008). The UN's office in Nigeria mentions the number of UN employees world wide (excluding the World Bank and its various financing organisations): they were 56,600 in 2004 (UN 2007c). The number of employees per UN department or program could not be found. With respect to its activities, the UN uses a chaotic mixture of classifications. At the UN website various different lists are used and in the UN reports different ones again. The same categories are applied in a different meaning, the same issues are addressed by various branches, and issues at a lower hierarchical level are subdivided such that issues at the higher level reappear. As a result, it is unclear where information about a specific item can be found, or which unit is responsible.

It can be observed that the organisational structure is rather confusing and that it does not match the description at the website. And in addition to the organisational units in the diagram, at the website many more units are found. Under 'Agencies' (UN 2007e) the 'United Nations System' lists 108 UN units (UN 2008c), most of them already mentioned elsewhere in the website, but also many new ones. Furthermore, under 'Institutes' a UN University, a UN Research Institute, a UN Institute for Training and Research, and a UN International Research and Training Institute for the Advancement of Women were found (UN 2007e). Moreover, under 'Institutes', 'Thematic areas of focus', several dozens of other UN research institutes are listed (UN 2007g). It is not unlikely that at other web-pages more units appear. It can be concluded that the organisation is cluttered and lacks structure. There are numerous units not shown in the chart of which their position in the organisation is unclear. The hierarchical relations between the organisational units are often unclear as well. Responsibilities are not clearly defined and overlap each-other, and therefore it is not known which organisational unit is responsible for which themes and activities.

The UNDP is the largest UN aid organisation. Evaluations of its activities are carried out by its own evaluation office (75%) or by the units responsible for the programs (25%), which casts doubts about their independence. Two evaluation reports were analysed: the country evaluations of Ethiopia and of Bangladesh. According to the evaluation of the aid to Ethiopia (UNDP 2006b), the UNDP played a leading role in the determination of national policies and strategies. But the UNDP budget was only 3% of total aid to Ethiopia whereas the US donated 40%. The UNDP's contribution was limited to modest, somewhat impractical inputs to the government's plans, and it did not provide any financial or material aid itself. Therefore, it is quite unlikely that the US and the other donors would allow the UNDP to determine their development agenda. The conclusion is that the quality of this evaluation is quite poor and that the UNDP's contribution was of little value. The second UNDP evaluation report, the one for

Bangladesh, was of better quality (UNDP 2006a, p 37-50). Also the UNDP's aid was more successful in this case. For instance, it supported the change to compressed natural gas (CNG) for motorised traffic in Dhaka to reduce particle emissions, it improved urban solid waste management and it supported various other local government initiatives. The report assesses that its efforts to set up a micro credit scheme for village communities was unsuccessful, and it analyses the causes. The activities were supported with UNDP's aid funds. But none of the aid efforts generated income, neither for the government nor for the population, and therefore they are not likely to be sustainable. The UNDP's transaction costs/person could not be estimated because data on personnel cost or on the number of personnel could not be found.

It can be concluded that the UN's structural organisation is cluttered and fragmented. The definition of themes and responsibilities is erratic. This can be expected to negatively affect its management. The UNDP's aid is of varying quality, as are its evaluation reports. Because of the focus on public services the UNDP's aid will generally be unsustainable.

EU

The EU's development cooperation is the responsibility of Direction General (DG) 8 for Development, although DG 1, External Relations, is involved as well. The EU web site comprises a quite clear presentation of the EU aid. The goals are similar to those of the MFA. The EU's aid focuses on the former colonies of the EU countries, i.e. sub-Saharan Africa as well as the Caribbean, the Pacific and the Indian Ocean, the so called ACP countries, 79 in total. For the period 2002 – 2007 € 16.4 billion was available. Moreover, the European Investment Bank (EIB) contributes a total of € 1.7 billion from own resources (EU 2007b). In addition, DG 1 provides some aid to developing countries in Latin America and Asia. Studied evaluation reports showed that the evaluation approach as well as the findings are comparable to IOB's evaluations. For instance, an evaluation of the European Commission's cooperation with the Central African Region found that many roads had been improved, which had caused transport costs to reduce. But the participating recipient countries had failed to make available sufficient funds for road maintenance (Development Researchers Network 2006, p 52). Therefore, the roads will soon deteriorate, and the aid results will not be sustainable. The EU aid is similar to that of the MFA, and it faces the same problems. Its results will be similarly limited.

8.8.9 The people in the developing countries

The people in the developing countries do not belong to the MFA's partner organisations. The MFA acts only at 'macro' level, i.e. with organisations that receive the development funds and cooperate with local partners to reach the population in the

developing countries. But whereas modern management books increasingly address themes like client needs, customer satisfaction and front office functions, the MFA employees have no direct contact with their final customers, the poor. They also disregard the local 'front office': the local low level government employees (health workers, school teachers, field workers of local NGOs) who implement the aid programs. Only one interviewed employee occasionally visited the supported projects ³².

In addition, the MFA employees have only little knowledge of the aid themes, and of the way poor people live (see 8.11). As a consequence their understanding of the effects of the aid on people's lives is limited too. Therefore the employees lack the capabilities to develop aid measures of a more practical nature, that lead to sustainable improvements in the situation of the poor.

8.8.10 Reflection regarding the partner organisations' activities

The MFA has made sure that there are partner organisations (NGOs, semi-government organisations, funds...) for all activities relevant to development. Some organisations carry out activities that have the potential to contribute to sustainable poverty reduction, at least to some extent (FMO, PUM, PSOM, CBI), because they help people to earn an income. If their aid stops, the people can continue to earn their income, which means that the aid results are sustainable. But of many organisations (e.g. PSO, ASC, MDI, Dutch NGOs, UN) the development relevance, the effectiveness and the sustainability of their activities is questionable. In none of the investigated documents and websites of these organisations, evidence of realised sustainable poverty reduction could be found. Only the NGOs present examples of concrete results, e.g. regarding improved health care, primary education and water supply. But as discussed (Ch 7), such results do not lead to sustainable poverty reduction.

In addition, leaving the aid implementation to local partner organisation, i.e. the governments of developing countries and the local NGOs, comprises the risk of poor performance and misuse of funds, a risk that is insufficiently recognised. It can be observed that the partners' aid approach is quite similar to the MFA's, and therefore it can be expected to be similarly unsuccessful, possibly with the exception of some of the activities of FMO, PUM, PSOM, and CBI. Except the IOB, the MFA does not comment on the poor performance of most of its partners, and of the reasons behind it. The critical evaluations that show the limited aid results do not lead to a review of the aid approach.

³² Interview with MFA employee 13, The Hague 25-11-2005

8.9 Processes, description

8.9.1 *Bilateral aid: the track record analysis*

The main processes are those between the MFA and its partner organisations. The most important process concerns the decision making about the amount of funds to extend per partner. The amount of funding depends on the degree to which the partners pursue the MFA's goals and objectives. Especially for bilateral aid and aid via NGOs, lengthy and complex procedures are used. To guide the decisions on bilateral aid, the embassies assess the country's 'track record'. The guidelines count 172 pages and some 400 detailed questions about the recipient government's policy and its commitment regarding poverty reduction; its economic policy and the business climate; its degree of 'good governance'; as well as regarding the quality of the dialogue between the embassy and the government (MFA 2004a). Under the 'good governance' assessment also the degree and structure of the corruption is investigated. The main result of this process is the determination of the 'modality', i.e. the degree of freedom the recipient government will be given to spend the aid funds at its own discretion. The better the results of the track record analysis, the more free the modality.

Most of the information to assess the track record is collected through documents from the country's government and interviews with local officials and politicians. Other information may be used as well, e.g. recent PRSPs or Public Finance Management (PFM) evaluations. As a reference, the World Bank's CPIA and Kaufmann indicators are used (6.3), as well as the judgement of the IMF whether a country is 'on track' or not 'on track' (IMF 2008a). Where the embassies' findings deviate from these reference indicators it has to be explained why. For instance, the embassy may use a different definition of an issue. Based on the dialogue with the government the embassy also proposes the development issues to address and the amount of Dutch funds to be contributed. In case general budget support is intended (the most free modality), a risk analysis PFM is carried out. Per country, a team of MFA employees is involved in the track record analysis for several weeks. After a consultation with the team, the MFA management takes the final decision regarding the modality, the funds and the themes to address. The whole decision procedure takes months.

In the actual provision of the aid the recipient government's plans are 'leading'. The MFA employees check whether the plans are consistent and in line with the Dutch policy priorities. If not, in a dialogue with the government (and, if applicable, other donors) possible adaptations are suggested. Because the aid may not be forthcoming if these suggestions are ignored, the dialogue generally leads to acceptable plans.

8.9.2 *The assessment of the Dutch NGOs*

Until 2006 the decision procedure regarding subsidies to NGOs distinguished between the large 'Medefinancieringsorganisaties' (co-financing organisations) or MFOs and the smaller ones. The subsidy to the MFOs was based on an assessment of their development program for the next year. In 2006 a new regulation was adopted, which is described in the MFA report *Beoordelingskader Medefinancieringsstelsel 2007-2010* (Assessment framework co-financing system 2007-2010; MFA 2005c). The subsidies are decided upon through a tender procedure: the NGOs have to submit their plans, and those complying best to the MFA's requirements are sponsored, in whole or in part. The procedure is specified in Annex 2 to that report (MFA 2005b). Main issues addressed are the suitability of the organisation; its strategy and that of its partner organisations; the aid program, and if it addresses the MFA's priorities; the approach; and the quality of its management. Especially the MFOs have to supply large amounts of information. The assessment is based on information of the NGOs themselves.

8.9.3 *Processes concerning other partner organisation*

Many other partner organisations receive subsidies as well. In a letter to the House the Minister for Development Cooperation informs the members about the amount of subsidy extended to the organisations PSO, SNV and NCDO (MFA 2006j). In an annex to this letter the Minister refers to some criteria similar to those applied for the subsidies to the NGOs (MFA 2006k). The report *Subsidieregeling BZ + Toelichting* (Subsidy Regulation MFA + Explanation) describes the general procedure for the assessment of issues and organisations the MFA may subsidise (MFA 2006b). The Regulation is based on the *Kaderwet Subsidies BZ* (Framework Law Subsidies MFA) of 1998 (MFA 2006j). These regulations comprise only formal criteria, they do not include a clear decision model.

8.10 Processes, evaluation

8.10.1 *The Track Record Analysis*

As follows from the description, the analysis of the track record of the partner countries' governments concerns a very lengthy and complex procedure that occupies a team of employees for each partner country over several weeks. It is questionable whether the high investments in time and energy are justified by the received information and the use that is made of it, though. A major part of the information, for instance the financial information, is (necessarily) generated by the same government that is judged. But the clientelism system causes the politicians and high officials to gather the highest amounts

of funds possible, in order to reinforce their position and that of their network. To hide this, taxes and other funds received are under-reported and expenses over-reported, and the books are doctored to make everything tally (6.2). It is an illusion to think that the official financial data are correct. Similarly, the development plans may be quite satisfactory, but they are not necessarily realised as described. As one MFA employee put it: 'there is a large difference between paper and reality, but not everyone wishes to see that'.³³ It must be feared that the track record data gathered by the MFA are quite unreliable.

Furthermore, it is not clear what the additional value of the Dutch investigations is, on top of the assessments of the World Bank or of other organisations. The German GTZ published a list of eleven donor organisations that elaborated their own good governance index (GTZ 2005). Furthermore, there is the performance assessment for support to a PRSP. It does not seem likely that the MFA arrives at fundamentally different conclusions than the other donors do. It is unclear why the MFA does not just apply the World Bank's and/or other donors' data. Last but not least, in many cases the scores in the track record were varnished over because the embassy and/or the ministry wished to provide general budget support anyway. Reasons were: to exert influence in the discussions with the recipient government and the other donors, to advance the dialogue with a new government, or to match the internationally agreed level of budget support. Quite often the outcome of the track record analysis was even entirely ignored (IOB 2007b, p 356-364). All in all, the amounts and types of aid to a partner country and the recipient government's freedom to spend it, are determined through a highly complex and time consuming process. But the data and the results are quite unreliable, and frequently the findings are ignored in the decision making.

8.10.2 The assessment of the suitability of the Dutch NGOs

To decide about the subsidies to Dutch NGOs, the MFA has developed a subsidy tender too. In principle, that is quite practical. But the tender procedure is very complex. Just the description of the procedure counts 30 pages. Especially for the large NGOs the amount of information to be prepared is huge: according to ICCO, the documentation submitted for the 2006 tender comprised files of over a thousand pages (KIT, SNV, ICCO 2006). Like the track record analysis for the Dutch partner countries, one could question the value of such an amount of information.

But the key shortcoming in the tender is that to assess past results the MFA uses only the NGOs' own data. There has never been an independent evaluation of the NGOs' projects in the developing countries. The closest to an evaluation was an assessment by

³³ Interview with MFA employee 5, 10-05-2005

IOB of the internal evaluation practices of the 5 large NGOs, published in 2006 (IOB 2006a). The conclusion was that it was unsatisfactory in several aspects. In addition, the NGOs often do not even know the results of their projects, as they leave the implementation to their local counterpart NGOs. An example: in 2002 together with some friends the author donated Cordaid € 1100 for an ongoing project for vocational training of street children in Columbia (Cordaid 2004). But when two years later Cordaid was asked (repeatedly) about the results of the project (what percentage of the children achieved what level of education, what percentage got a job, et cetera) it could not tell. In summary, the MFA bases the funding of the NGOs only on information from the NGOs, and only information about the quality of their plans. Therefore, the MFA lacks any guarantee that poverty relevant results are achieved. Often, the NGOs themselves do not even know whether such results are realised.

8.10.3 The process regarding the other partners

The MFA's decision-making process for subsidising other Dutch partner organisations and funds is not described in the Ministry's documentation. For instance, for the donations to the multilateral organisations (on top of the obligatory contributions) there is no decision procedure. In practice, qualitative performance criteria are used, but no clear conditions are set. Some organisations are evaluated, according to the evaluation calendar in the Explanatory Memorandum (MFA 2006e, p 64, 76). But for several ones no evaluation could be found, e.g. the Dutch institutes for research and higher education (ISS, ITC, ASC). In other cases the latest evaluation is very long ago, e.g. CBI's latest evaluation concerned the period 1990-1996. It can be concluded that for most partner organisations the funding decisions are not clearly founded.

8.10.4 Reflection regarding the processes

The MFA's involvement in the activities of its partner organisations consists mainly of the development of funding criteria and the ex-ante assessment of the fulfilment of these criteria. Past development impacts hardly play a role. For some partner organisations the processes are highly complex, but based on unverified (ex-ante) information of these organisations only. For many other organisations the assessment procedures are flimsy or missing altogether. Overall, the MFA's information about its partners is not useful to judge their performance. The funding decisions are not well founded. In addition, the findings of the complex assessments for the bilateral aid are often ignored.

The MFA's involvement in the activities of the partner organisations is generally very modest. As discussed (section 8.6.1, 8.6.7) this causes the MFA to be poorly informed about the practical problems of the aid implementation, and it cannot provide support when problems occur. Before 1992, nearly all aid was carried out through projects, and the MFA employees and their consultants determined to a large extent the plans and

their implementation. This caused a lack of ownership by the recipient government. To advance ownership, the approach was changed and since then the recipient government is responsible for the plans and their implementation. This explains the MFA's present lack of involvement. But there is no reason to assume that a supporting role of the MFA should endanger local ownership, so this strict non-involvement strategy is unnecessary. And more involvement creates many opportunities to make the aid efforts more effective. Furthermore, cooperation between the MFA's partner organisations is not encouraged. For instance in the field of business development, cooperation between NGOs, SNV, CBI, PUM, FMO and funds like ORET and PSOM could be mutually reinforcing, as would be a shared private sector strategy. In theory, the country PRSP and the local ministries should coordinate the donor organisations' activities per sector. But not everything is addressed under the PRSP. For instance, there is generally no common approach towards education quality and curriculum and therefore basic education is often of little value to the pupils. More involvement of the MFA could correct such shortcomings.

In principle the realisation of the MFA's goals through cooperation with partners is commendable, but the way the cooperation is organised is inadequate. The way it is organised now, the procedure does not allow to assess whether the cooperation contributes to poverty reduction.

8.11 Capabilities

Description

About a third of the MFA employees, the 'policy advisors', are active in services regarding foreign policy and development cooperation and also in diplomatic services. The rest of the employees carry out supporting tasks, e.g. administration, human resources management and ICT. The employees for these supporting processes are recruited through common procedures, whereas the MFA applies a special recruitment procedure for the policy advisors. This description is limited to the policy advisors, and the term 'employee' will be used here to denote the policy advisors only³⁴.

Key requirements for a job at the MFA are a university degree, some international experience and language skills. The procedure also comprises a heavy selection on personal skills, especially communication skills. No knowledge or experience in other fields is required. Each employee is supposed to be able to fulfil almost any kind of job. Jobs are rotated approximately every four years, no matter in The Hague or abroad, causing the experience of the employees to be quite similar too. A small part, about 8%

³⁴ Interview with MFA employee 9, 27-07-2005

of the policy advisors, consists of theme specialists. The employees receive a very basic training with regard to the main themes. A more comprehensive description of the recruitment procedure and the employees' capabilities is presented under chapter 9, 'internal management' (9.7.1).

Evaluation

From the interviews it was found that the MFA's employees are all quite motivated to carry out the activities in the field of development aid. But because of the focus on diplomatic skills and the small number of theme specialists, the employees have only very limited knowledge about the practical aspects of the aid, and of the conditions and processes in the developing countries that obstruct the realisation of the development goals. For instance, the MFA documents do not refer to the practical problems of providing proper health care, water supply or education, nor to the effects of limited social capital, or the Dutch disease effect of aid (Ch. 6).

Also the training is extremely limited. The basic training on development cooperation lasts five days, which means that the time spent per theme is often just two hours. Occasionally, e.g. once a year, the employees follow a one or two days course on a specific theme (MFA 2005h). It is obvious that in such a short time no professional knowledge can be acquired. In addition, the principle that all employees are expected to do almost any job within the Ministry and that they are changing jobs every four years renders it impossible to build up specialist knowledge and institutional memory (interview with Mr. Bukman ³⁵).

Furthermore, the attitude of the employees is not suitable for dealing with practical problems. Because of the recruitment procedure a homogeneous type of persons is selected.³⁶ In the interviews, the employees showed typical behaviour like: very consensus driven, conflicts never in the open, perception and reputation are very important, adherence to procedures is more important than results, risks are avoided. That is not an attitude suitable to solve practical problems. The consultants Stoppelenburg and Vermaak arrived at similar findings in their study regarding cooperation and behaviour in the MFA's organisation (Stoppelenburg and Vermaak 2005, p 24). And in the interviews a certain professional pride was noticed, possibly because of the employees' extremely heavy selection: 3% of the applicants get through. Stoppelenburg and Vermaak call it 'esprit de corps' (Stoppelenburg and Vermaak 2005, p 5). Like most highly skilled specialists they prefer to do the jobs they are good at and are hired for.

³⁵ Interview with Mr. P. Bukman, former Minister for Development Cooperation, The Hague 20-06-2004

³⁶ Interview with MFA employee 8 and 12

The MFA does not see the lack of content-related capabilities as a problem, because it does not consider the aid implementation its responsibility. There is generally some contact at central government level, but at the lower level there hardly is. In case of aid through projects, consulting companies or NGOs are hired to take care of the implementation. Therefore, the employees see no need for content and implementation related knowledge. For instance, in case of technical issues, one of the interviewed employees would consult one of the local staff who had 'a technical background', though the employee could not say in what field or of what level. He also commented that the local government had 'quite some technical knowledge'.³⁷ Even for theme specialists, content-related knowledge of the theme is not considered necessary. The function description for employees of theme directions (e.g. health care, education) counts four pages of small print, and it comprises just one sentence on required knowledge: 'Sufficient knowledge of the aid policy and of the themes defined therein, knowledge of the policy field of the theme direction and of the relevant (international) main issues' (MFA 2005i). The kind of the knowledge is not further specified.

There seems to be a 'chicken and egg' problem. As a result of the recruitment system, the MFA employees lack the knowledge, the attitude and the problem awareness to get involved in the practical aspects of the aid. That explains why they are not attracted to this involvement. But because they are not involved they do not see that the practical problems are often the reasons why the aid fails to bring the intended effects. Therefore, they see no need to get involved. But the evaluations show that in many cases, in the implementation problems occur, and that often they are not noticed and not remedied (3.4.2, 3.4.5). As a result, the limited thematic knowledge of the MFA employees has an adverse effect on the results of the aid.

8.12 Structure

The structure of the external organisation concerns the relations between the Netherlands with the developing countries and its other partners, e.g. the other donor countries, multilateral organisations, NGOs (local, Dutch, international) and organisations like the WTO. Most aid organisations have relations with many other ones, as well as with partners in developing countries at central and decentral level. This causes the number of contacts to be quite high. To simplify the coordination with other donors, donor alignment and harmonisation are pursued. As one employee explained: 'On various occasions the MFA has established 'delegated cooperation', also called 'silent partnership' with other donors. This means that the MFA finances the aid

³⁷ Interview with MFA employee 8 and 12

program of another donor, or the other way round'.³⁸ With some countries (the Scandinavian ones, UK, Germany, Canada) the cooperation works quite well, but with others (e.g. USA, Japan) it is quite difficult, as they have their own agenda, based on their specific political interests. Donor cooperation is also stimulated by the introduction of the Poverty Reduction Strategy Papers (PRSP) some years ago. A PRSP states the developing country's plans concerning development and poverty reduction. Many donors just contribute financially to these plans. This requires that the donors and the recipient country agree about the content of the PRSP. The degree of donor cooperation also affects the level of influence the donors have on the recipient government. According to the employee: 'in general, providing good aid is easier in a country where all donors give budget support and speak with one voice'.³⁹

Notwithstanding the efforts to cooperate with other donors, the structure of the international development cooperation causes an enormous number of communication lines. 22 OECD countries and 15 large multilateral organisations each provide aid to, on average, some 50 out of the 150 developing countries (DAC 2008a). This generates about 2000 aid relations. In addition, each donor works via several dozens of partner organisations. This results into several 10,000s of cooperation contacts. To illustrate the complexity, a graphical presentation was made of the communication between a small number of aid organisations, see figure 8.2. The figure presents the aid flows for three donor countries, three multilateral organisations, and three recipient countries. Donor NGOs and private sector organisations, and local NGOs and decentral government organisations, are presented as one partner only. In fact the NGOs, the private sector and the regional government institutions consist of a large number of individual organisations. The number of contacts would be much higher still, if all countries, donor organisations, NGOs and other involved partners were separately shown. It is hardly possible for the MFA to keep track of all these contacts. Therefore, donor coordination is essential. Also not shown in the diagram, is that all donors and large NGOs are active in a large variety of themes. Specialisation is not common. Separate structure diagrams can be drawn for each theme, all different, and they may also differ per country and region. The lack of specialisation further adds to the complexity.

8.13 Monitoring

In case governance quality is poor, the aid is carried out through programs and individual projects under supervision of the MFA's embassies.

³⁸ Interview with MFA employee 3

³⁹ Interview with MFA employee 14

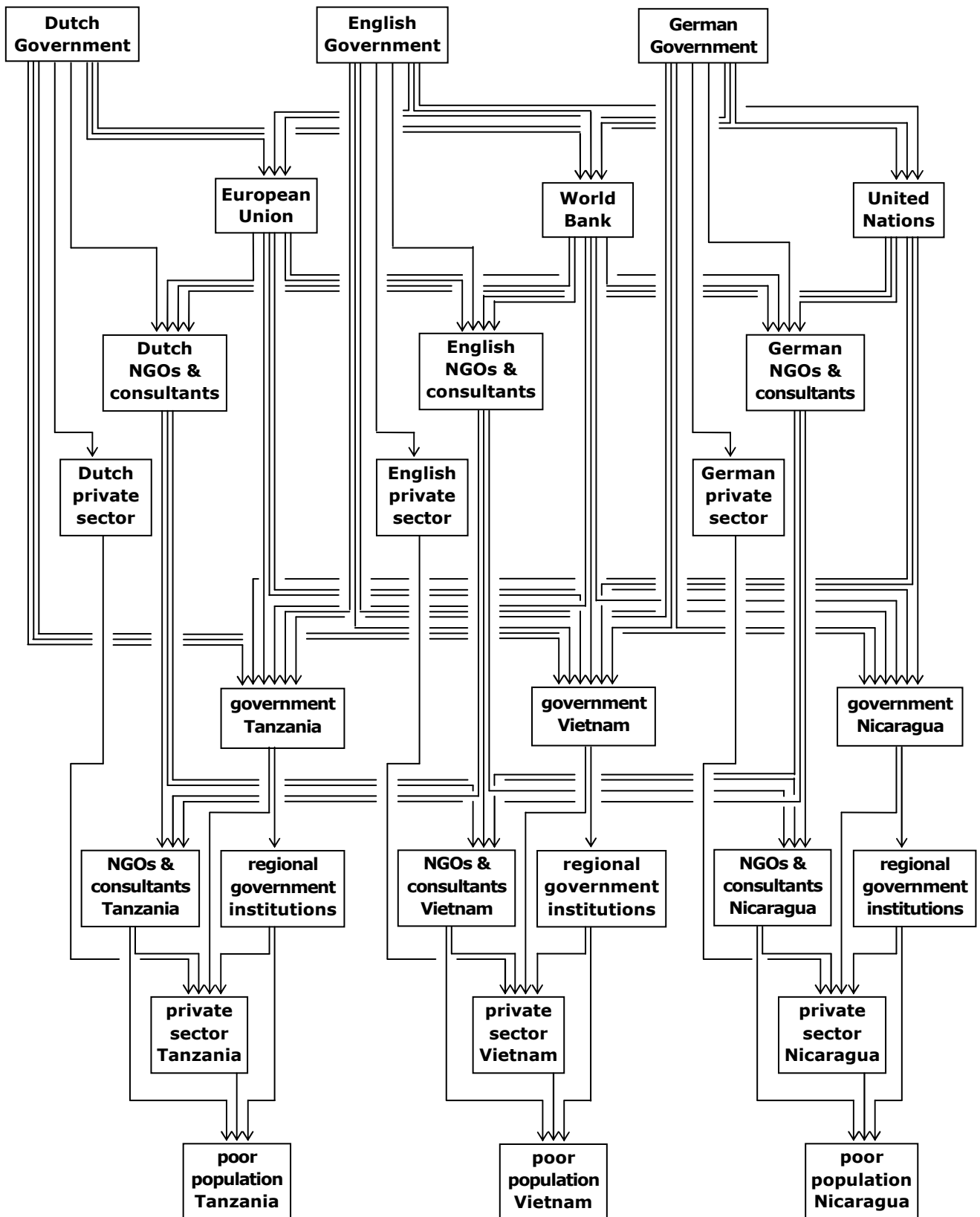


Figure 8.2: Structure of the aid flows, example for three donor countries, three multilateral organisations and three recipient countries

The IOB evaluation of the sectoral approach found that between 2000 and 2004 52% of the aid was still given as project aid (IOB 2006b, p 11-12). MFA employees take care of the monitoring of these programs and projects. It consists of assessments of the progress at regular intervals during the year, as well as more comprehensive yearly investigations about the performance. The other partners organisations operate more independently. They are usually subject to control once a year, but since a couple of years they monitor themselves. Answering questions of the House of Commons, the Minister confirmed that: 'Each organisation supported by The Netherlands, through Thematic Co-Financing (TMF), the Co-Financing System (MFS) and through bilateral and multilateral channels is required to submit annual reports regarding their programs and projects. Furthermore, the MFS partners, i.e. the large Dutch NGOs, are required to submit a monitoring protocol, in accordance to the 'tailored monitoring system', for the entire subsidy period' (MFA 2008d). This system requires that the NGOs formulate key indicators regarding input, output, outcome and sustainability, to be approved by the Ministry (Weber 2008). Furthermore, the MFA collects actual information about the conditions in the developing countries that affect the results of the aid. The employees of the MFA's Regional Directorates systematically gather country information, in order to achieve a tailored, coherent policy per country and region. Examples are the 'country annexes to support humanitarian aid' for Sudan, Chad and Central African Republic (MFA 2008e).

Several sources report that the MFA's monitoring is quite weak. In previous years, the Dutch embassies had the task to monitor the aid programs and projects of all partners. The IOB evaluated this monitoring and found that: 'Monitoring during implementation was defective: data was deficient and only based on information of the implementing organisation without verification' (IOB 2004, p 10, 48, 73, 76). This also applied to the activities of the NGOs. The evaluation of the thematic co-financing programme (the smaller NGOs) concludes: '...the monitoring by BM (MFA employees-LJ), since standard procedures or norms lack, is subjective and dependent on the knowledge, interest and time of the BM. Some seem to lack the capacity or interest to comprehend the monitoring by contract-organisations they are supposed to monitor'. (MDF/IAC 2006, p 68-69). The reliability of the monitoring of the bilateral aid that is implemented through projects, was found to be doubtful because it was carried out by the very embassy employees responsible for the realisation of these programs. In addition, the fact that now most of the monitoring is left to the partners, means that the MFA does not collect independent information about the performance of its partners' activities anymore. It should be taken into account that most Dutch partner organisations leave the implementation of the aid measures to local partner organisations. Often the Dutch organisations do not even know the results of these local partners (8.10.2). In addition, the MFA hardly verifies the information of the partner organisations.

Where the MFA employees do try to gather independent information about the partners' efforts, they generally lack the knowledge to assess the quality of the aid (8.13). They cannot judge whether the aid content is adequate. For instance, they can observe whether there are health workers but not if these are well educated and provide the right care. They can assess whether the water pump produces water, but not whether it is the right pump for the conditions, whether quality and quantity are adequate, and whether the users are capable to carry out maintenance and repair. In addition, since the change in policy in 1992, in those cases that the aid concerns budget or sector support, the implementation is considered the responsibility of the government.

The conclusion is that the MFA hardly monitors the funded aid efforts. Nearly all information stems from the implementing partner organisations. That means that the MFA does not have independently collected information about the performance of running aid programs and projects. As a consequence the MFA is not adequately informed about their performance.

8.14 Intervention measures

Description

The term 'intervention' is used here as: a measure that modifies the existing situation or procedure. Because the MFA is hardly involved in the aid implementation and has only little information about the performance of running programs, it also hardly intervenes in these programs. Only the projects directly supervised by the embassies may be subject to interventions. But the MFA can influence the characteristics of future aid. Its main instrument is: to modify the criteria for financing its partner organisations. These criteria may concern all kinds of characteristics: the theme, the target group, the implementation process, and the knowledge to be transferred. By changing the criteria the MFA intervenes in the characteristics of the aid.

Each year, interventions are announced in the Explanatory Memorandum, e.g. new budgets, new goals and objectives, and new partners. For instance, in the 2008 Explanatory Memorandum a new activity, cooperation with private investors in public infrastructure, was announced. For this new activity a new partner organisation was found too: PIDG, a specialist in financing private investors in infrastructure (MFA 2007b, p 81). PIDG is an international 'multi-donor' NGO, which is something new too; so far the MFA worked with Dutch or local NGOs only. With respect to the financing of NGOs, in 2006, a rating system was developed for the evaluation of their plans and organisational capabilities, and now minimum scores are required in order to qualify for subsidy. Those who score too low do not receive subsidies. When the total of the

subsidy requested by the qualifying NGOs surpasses the available funds, the poorer performers receive less than requested (Adviescommissie MFS 2006).

Another intervention tool is changing the process to determine the 'modality', the degree of freedom of a recipient government to spend the bilateral aid. In 2007 the Strategic Governance and Corruption Assessment (SGACA) was introduced to obtain a better understanding of the governance in the partner countries (see 8.9.1, 8.10.1). This should improve the determination of the modality (Unsworth 2007). Terminating the relation with a partner country, or beginning the relation with a new one also constitutes an intervention. In 2003, the Dutch policy to increase the share of budget support triggered the (temporary) termination of the aid relation with India. The minister for development cooperation informed the House of Commons that India had declared it was no longer interested in the aid (MFA 2003b). At present (2008) minister Koenders intends to gradually terminate the aid relation with some partner countries as their economies are developing well (3.3.3).

Evaluation

The MFA's main intervention mechanism: adaptation of the criteria for financing its partners, is effective in the sense that it forces the partners to change their plans in accordance to the new criteria. The initiative to finance PIDG, an international multi-donor NGO, implies that from now on the MFA may also choose international NGOs, which means more competition for the Dutch ones. This could be a step towards a more professional approach. During the past years the procedure for funding NGOs was changed several times. One thing remained the same, though: the assessment focuses on the NGOs' plans and internal organisation and is based on the NGOs' own documentation only. But the NGOs' aid projects are nearly always implemented by local partner NGOs. The example of BRAC (8.9.2) shows that the local NGOs are just as well part of the clientelism system. The MFA has neither information nor influence regarding the activities of such local partners, and also the Dutch NGOs have only limited information about and influence on them (8.17). Therefore, the MFA does not really know what it is subsidising. The changes in the procedures do not change that.

The introduction of the Strategic Governance and Corruption Assessment (SGACA) is intended to lead to a better assessment of the partner countries' governance. The fact that SGACA comprises a description of the clientelism system in the assessed country is an improvement, previously the MFA largely ignored the issue. But the SGACA concept is rather superficial. It disregards the social function of the clientelist system in societies lacking a reliable judicial system. It does not take into account the networks in every corner of society and how these inevitably cause the corruption, the nepotism and the secrecy. The SGACA does not provide the MFA employees a proper understanding

of the mechanisms 'behind the scenes'. Furthermore, there is little the MFA can do about it. Choosing project aid in case of high corruption may give the embassy more control over the implementation, but it does not guarantee lower losses through corruption. Usually, all 'certified' local suppliers and sub-contractors are controlled by influential politicians, and they will make sure that the kickback is taken care of in their quotations. With respect to the termination of the aid to India, the minister did not properly inform the House of Commons. In a symposium organised by the Platform OS Beleid (Platform Development Aid Policy), Mr. Gopal explained that the Indian government would have welcomed the continuation of the aid relation in the form of projects, as the Indian counterparts highly valued the know-how transfer by the Dutch experts (Gopal 2003, p 18-23).⁴⁰ Apparently because of the minister's decision to change to more sectoral aid instead of projects, she was not willing to honour the Indian wish. The Indian preference for project aid illustrates that, whereas the MFA focuses on financing government expenses, India considers know-how a much more important factor in development.

It can be observed that most of the MFA's interventions are of little consequence, except the change to more budget support. It shifted the involvement of the MFA to the political level, e.g. to discussions about the PRSPs. It also reduced the amount of know-how transfer and shifted the focus to the transfer of funds. It is questionable whether that is an advantage.

8.15 Evaluation process, description

8.15.1 Applied evaluation process

The MFA's evaluation process is subject to evaluation as well. To avoid confusion it is necessary to clearly distinguish between these two levels of evaluation. First, the evaluation process of the MFA's aid activities is described. The next section concerns the evaluation of the evaluation process.

The MFA schedules the evaluations according to a program over several years (MFA 2006d). They are mainly programmed per operational goal, and sometimes even for different aspects per operational goal. The number of evaluations over the period 2004-2009 is 62. Most evaluations are carried out by the Inspectie Ontwikkelings-samenwerking en Beleid or IOB (Inspection development cooperation and policy), the MFA department officially responsible for evaluation. Sometimes also other organisations are assigned, e.g. Ecorys, MDF and Berenschot, as well as the Dutch

⁴⁰ Mr. Gopal worked for the Centre for Environmental Concerns, a large Indian NGO in the State of Andra Pradesh

embassies (so called decentral evaluations). Over the years the IOB carried out several hundreds of evaluations. The IOB's methodology is based on the principles of the OECD's Development Assistance Committee, DAC (IOB 2003c; DAC 1991). DAC defines 'evaluation' as: '... an assessment (...of a) project, programme or policy, its design, implementation and results. The aim is to determine the relevance (...), efficiency, effectiveness, impact and sustainability.' (IOB 2003c, p 2) These terms are applied as follows (quote, p 3):

- Efficiency refers to the degree to which achieved results, i.e. the output, offset the cost of the chosen means, the input'
- Effectiveness concerns the degree to which the direct results of activities, i.e. the output, contribute towards (sustainable) realisation of the programme's target(s), i.e. the outcome
- Relevance refers to the degree to which the effects of the activities contribute towards the realisation of the (development) target: the impact

The sustainability of the efforts concerns the degree to which the results will last after the aid has stopped (p 2). The IOB does not use it as a separate criterion but as an aspect of effectiveness (p 3). The IOB's evaluations are quite comprehensive. A typical IOB evaluation counts some 150-300 pages and generally includes field surveys. Various reports are published each year, normally they concern aid programmes in several countries. Most evaluation reports can be found at the IOB's web site (IOB 2008b). Other evaluating organisations generally apply the same definitions and a similar approach.

8.15.2 The Ministry of Finance's new evaluation process

The evaluation of the evaluation process can be carried out by assessing its effectiveness. It can also be carried out by comparing it to a standard. In 2006, the Ministry of Finance presented such a standard in its 'Regulation ... concerning the periodical evaluation investigation and the policy information of the national government' (Ministry of Finance 2006, p14). The procedure is summarised in a diagram (p 14), see figure. 8.3. It is supposed to be binding for the Dutch government in general, the development cooperation included. At first glance this procedure resembles the IOB procedure (8.15.1): measured are the efficiency, the effectiveness, and the two combined: the effects of the policy. But, in contrast to the IOB procedure, the intermediate results (outcome) and final results (impact) of the policy are not measured.

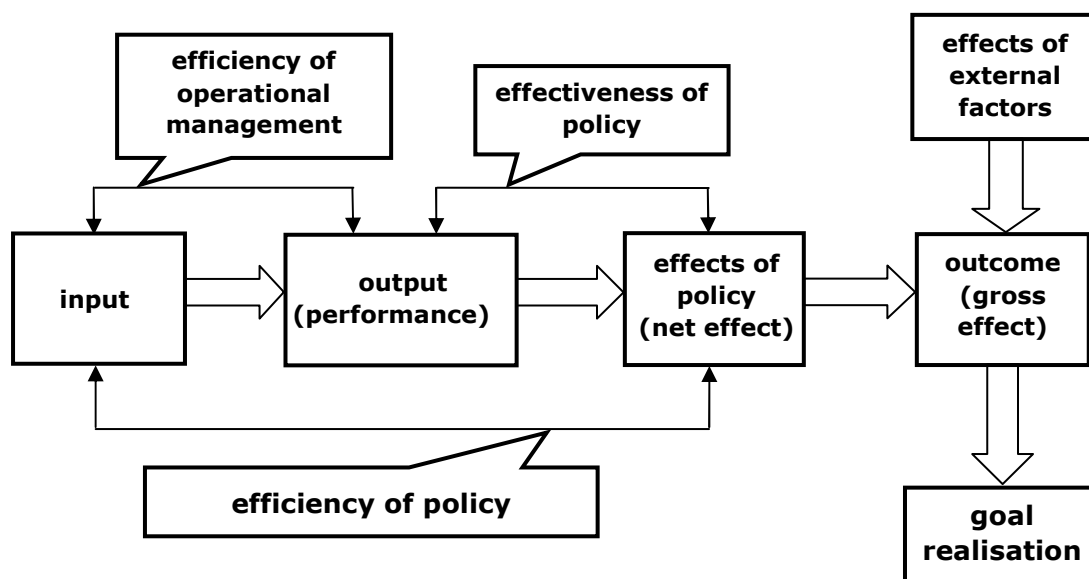


Figure 8.3: The evaluation process according to the regulation of the Dutch Ministry of Finance (Source: Ministry of Finance)

In terms of development cooperation: it is assessed whether the money is spent and whether the medicines are bought, but not whether the people received the medicines and whether their health improved. The argument is that 'the outcome is too much influenced by external factors' (p 13). This approach to evaluation deviates fundamentally from the one of the IOB. It means that the Dutch policy in any field is considered completely successful, even if, because of external factors, the goals are not realised at all. In the example: when, because of external factors (e.g. corruption) the medicines were not available for the people and their health did not improve, the Dutch policy is still considered fully successful. This regulation of the Ministry of Finance is unsuitable. It would imply that the MFA does not even have to try to achieve its main goals, but can be satisfied with the output of the aid, e.g. the medicines being sent. Fortunately the IOB evaluations ignore the regulation. Yet, the regulation may have had some influence. It may have triggered the MFA to restrict itself to financing partner organisations. And it may have inspired the National Audit Office to evaluate only the intermediate effect of the aid, and not whether it reached the target group or whether it had an impact on poverty. The new regulation is not further considered here.

8.16 Evaluation of the evaluation process

The evaluation of the evaluation process focuses on the effectiveness of the process to arrive at useful conclusions about the results of the aid. The analysis comprises a comparison of the evaluations by the IOB with those of other organisations, and their

weak and strong points; a discussion of the evaluation of the Dutch aid policy by the JIN; and an analysis of the causal chain applied by the DAC and the IOB: input, output, outcome and impact.

8.16.1 Evaluations of IOB and other organisations compared

Both the IOB evaluations and those of other Dutch evaluation organisations are based on the approach presented in section 8.15.1. As mentioned in section 3.4.1, the IOB evaluations are generally more critical and more thorough than those of other evaluation organisations, and they pay more attention to the practical implementation. They often provide useful findings that go beyond the Terms of Reference (TOR). For instance, the assessment of the aid in the health sector (IOB 2002a), is not restricted to the question whether the programs and projects were in line with the Dutch and the recipient government's policy (they were), but it also concludes that these programs and projects were not based on a needs analysis (p 3). And where it states that for the poorest people the prices for the health services are often too high, it adds that on other occasions the prices of the drugs are very low but, probably for that reason, they were not available in the health centres (p 5). In addition, it points at another reason why the subsidised drugs are often not available: the corruption (p 6). Because the evaluation questionnaire does not comprise these issues, the evaluators did not have to include these remarks. But the remarks do add to the value of the evaluation. Furthermore, the IOB does try to assess the impact on the poor population although, according to the official guidelines of the Ministry of Finance, that is not required (section 8.15.2).

The other evaluating organisations generally do not dig that deep. An example is the evaluation of the PSOM program by Ecorys. According to the evaluation matrix in the TOR the intended impact of the PSOM program is employment creation in the developing countries (MFA 2005j, p 6). Ecorys' evaluation acknowledges that a satisfactory number of jobs were created and that the cost/job (subsidies) is considerably lower than in the ORET program. But it does not assess these cost in relation to a relevant local parameter, e.g. minimum wage. Assessed in years minimum wage PSOM turns out to be an extremely expensive way to create jobs (8.8.7). Ecorys fails to arrive at that conclusion. That is understandable, because Ecorys is a commercial enterprise, and it will not go beyond its terms of reference. It has to make some profit and cannot afford to invest extra man-days. In addition, a company like Ecorys may avoid to be too critical about its client, the MFA, because it would not like to endanger another contract. And it has reason to be careful: the MFA did not publish Ecorys' critical 2006 evaluation of the SNV (8.8.4). In the reports of the other commercial evaluation organisations a similar pattern can be observed. In contrast, the IOB is part of the Ministry, and the House of Commons looks after its independence, and therefore it does not face these problems.

Overall, the concept of the aid evaluations makes sense, and the evaluations satisfy the MFA's requirements. The IOB evaluations are usually more detailed and more critical than those of contracted evaluation organisations.

8.16.2 Evaluation of the evaluation process by the JIN

A couple of years ago an effort to evaluate the evaluation process was made by the Joint Implementation Network (JIN), a Dutch research organisation regarding topics related to joint implementation. In 2002 – 03 it carried out an evaluation of the Dutch development policy, including the evaluation process, based on existing studies. The JIN uses a wider concept of 'evaluation', also comprising issues like the suitability of the main goals, and the division of the aid over the goals and the partner organisations.

The JIN report (Joint Implementation Network 2003) concludes that the aid results are generally very limited (p 12 – 21). But its main criticism concerns the methodology of the evaluations. Often the question regarding the contribution to poverty reduction is not posed (p 2). Besides, the evaluations do not comprise cost – effect analyses, nor a comparison between the situation with and without the development efforts, rendering the assessment of the efficiency of the measures impossible. Also, the JIN finds that the terms efficiency and effectiveness are used in different meanings (4). Furthermore, the independence of the evaluator is not discussed, although there is always a certain risk that the evaluator is reluctant to be too outspoken, fearing that he may not get another assignment (4). To find the answers to questions concerning the (lasting) effects of the efforts on the overall goal, the situation in the developing country should be monitored for several years after the termination of the intervention, but that does not happen (8). Furthermore, the questions on a strategic level are not systematically discussed, like the choice of the partner organisation, the country or region, or the theme. And if an evaluation shows that a program has little results, that has little consequences for the program's budget.

The JIN criticises many aspects of the evaluation process. But many issues the JIN finds missing require an effort far beyond the scope of the present evaluation, i.e. according to the process applied by the DAC and IOB (8.15.1). For instance, the JIN concludes that the impact of the aid measures on poverty is usually not determined, but to trace the Dutch influence among the multitude of other influences ('attribution', 2.8.1) requires a detailed analysis of all factors that could affect the living conditions of the poor in the country in question. Furthermore, the JIN criticised the evaluation process because it does not assess issues like the suitability of the main goals, and the relative effectiveness of aid to different partners, regions and themes. Such an assessment would also require a very large effort. Assessing all issues mentioned by the JIN would require far more time than the present evaluation takes, usually two year or more, and it would

take much more resources. And some issues may be impossible to assess. But the JIN is right that without such wider investigations the impact of the aid cannot be assessed.

8.16.3 The causal chain: input, output, outcome and impact

Another aspect of the IOB's evaluation method (8.15.1) that deserves more attention is the applied causal chain between aid effort and poverty effect. The standard chain, consisting of input, output, outcome and impact is often inadequate. The shortcomings concern the following:

- The cause-effect chain may be longer or shorter. In practice, the causal chain is often longer (training students from developing countries in the field of aerial surveying, so they can analyse soils and advise agriculturists, who can advise farmers in developing countries to plant more suitable crops, so they have higher yields from their fields, so they earn a better income). In other cases the chain may be shorter (teach people relevant skills, so they get jobs, so they earn an income).
- In each causal step there is both 'effectiveness' and 'efficiency', as usually
 - there is a certain degree to which the cause brings about the effect, and
 - there are efforts and costs involved for each cause to bring about the effect.The fact that the MFA pays only at one point in the causal chain does not mean that in the rest of the chain no costs occur. Example: the MFA pays the extra school, but extra teachers' salaries and the books must be financed locally.
- Often various simultaneous causal factors come together, and/or various results are brought about (Hospers 1997, p 146). E.g. a surplus of agricultural products plus market access plus sufficiently high prices cause a better income for the poor farmers, only one of these factors will not be sufficient. Better waste management in a city causes less vermin and smoke, but also less clogging of the drains by waste, and therefore less inundations. Many causal factors and effects may play a role, and the causal chains are generally branched.

The IOB's evaluation process is based on the DAC's cause-effect model (8.15.1). It does not comprise the possibility to apply a longer or shorter cause-effect chain; to consider effectiveness and efficiency per causal step; nor to use branched cause-effect chains. Therefore, the performance of an aid project or program cannot be judged properly. Another aspect that is often ignored, is a careful assessment of the begin situation before aid activities start. Since the 1980s, the German development cooperation organisation, GTZ, analyses its programs and projects according to a complex analysis process called 'Ziel-orientierte Projektplanung' or ZOPP (goal oriented project planning; GTZ 1997), which comprises a description of the begin situation, and the elaboration of the 'problem tree' and the 'solution tree'. Also the GTZ evaluations follow the ZOPP method. As far

as the author's experience goes, the other development organisations ignore the complexity of the causal chains, including the MFA and the JIN.

It is quite possible to remedy the found shortcomings and to assess the issues mentioned by the JIN, though. The evaluation process could be expanded to include an analysis of causes and effects according to the 'problem tree', and in each step effectiveness and efficiency could be assessed. It could also comprise base-line studies and it could take into account the influences of all relevant actors and factors in the environment during the implementation period. To enable that, data should be collected before the start of the program. In addition, to assess the long term effects, an extra evaluation could be carried out a couple of years after program termination. Such an evaluation would be a lengthy and costly operation, even if only one theme would be addressed. But, it would contribute considerably to clarity about the poverty effects of the aid.

8.17 The influence of the conditions in the developing countries

Several key conditions in the developing countries were analysed in chapter 6. Also the findings of chapter 7, about the attainability of the main goals, comprises information about the conditions. Many other conditions play a role as well. Here, the focus is on the way the MFA takes them into account. The MFA's regional departments gather data on a wide array of subjects. As part of the comprehensive track record analysis, the embassy employees collect information on the actual economic, political and social situation. Also, political and other local tensions are studied, as well as the corruption in the recipient country. As from 2007 the MFA tries to obtain a better understanding of the degree and the structure of corruption at government level, through the SGACA approach (8.14). Previously the MFA only applied the CPI values of Transparency International, and information of Dutch companies about the business climate.

The MFA's analysis of the situation in the partner countries is elaborate, yet misses essential aspects. It largely disregards or misinterprets the influence of the issues discussed under chapter 6, Conditions in the developing countries, and also the mechanisms described in chapter 7. Therefore, the expectations regarding the success of the aid efforts are too optimistic. The role of social culture in the development process is insufficiently taken into account. For instance, the MFA's initiatives to introduce democracy in low developed countries disregards the fact that these societies generally lack the required social capital. The SGACA approach misinterprets the necessary role the clientelism system plays throughout society in developing countries. The efforts to advance good governance fail to consider that the style of governance is rooted in the social culture too. The role of the social culture is also underestimated in efforts to

improve the position of women, especially with regard to sexual and reproductive health and rights. In addition, the importance of the quality of governance as it is usually measured (i.e. through the CPIA indicators) to achieve development, is overestimated. It is also insufficiently taken into account that the high amounts of foreign exchange brought to the developing countries cause Dutch-disease, which has a negative influence on development. When exporting low-priced, often subsidised food to developing countries, the disturbing effect on local markets is insufficiently taken into account. Furthermore, the aid efforts in the field of water supply and health care fail to consider the resulting increase in the number of children and the aggravating malnutrition. The support to primary education ignores the fact that poor children seldom attend any further education, and that primary school alone does not teach them the skills required to earn an income.

The MFA's main instrument to take into account local conditions in the decisions about aid is the 'track record analysis' (section 8.10.1). As discussed the analysis is based on unreliable data. A more serious shortcoming is that it does not investigate the issues described above, e.g. whether the society in the partner country is ready for more democracy, what the Dutch disease effect of the aid will be, or to what extent the primary education is helpful for the children. Therefore, it is of limited value for the success of the aid. The fact that the MFA employees are not involved in the practical implementation of the aid plays a role in their limited awareness of the influence of the mechanisms that inhibit the success of the aid. More involvement would confront them with these mechanisms.

It can be concluded that the MFA has insufficient information about relevant conditions in the countries it operates in. Therefore the effects of these conditions are often not taken into account in the Dutch development cooperation, which negatively affects the results of the aid.

8.18 The model of the external management applied by the MFA

Description

Under this research, also the model applied by the MFA of its external organisation and its environment is assessed. The MFA does not use an explicit model, only some elements are well described, e.g. its goals and its main process. From the available information the implicitly used model can be derived:

- The MFA as a whole acts as the management of the Dutch development cooperation and is responsible for the Dutch contribution to poverty reduction.

- The main goals of the external organisation comprise sustainable poverty reduction through the realisation of the MDGs, and the human rights and safety goals according to the DAC, as well as environmental protection, good governance, and private sector development in the developing countries.
- The MFA's strategy comprises guiding principles like coherence, ownership and non-involvement, harmonisation and alignment, budget support (in case of good governance), and aid through cooperation with Dutch, local and international partner organisations. The aid plans and their practical implementation are left to the partner organisations.
- The MFA tries to influence its partner organisations (e.g. governments of developing countries, multilateral organisations, Dutch and local NGOs, semi-government organisations, research institutes, consulting companies) in such a way that they contribute to the achievement of the Dutch aid goals.
- The MFA's main process consists of the assessment of the suitability of the partners' intended activities and of their organisations, and financing the partners' development efforts when they match the MFA's criteria.
- The MFA employees' capabilities consist of diplomatic skills. A small percentage has specialist knowledge with respect to the development themes.
- The structure of the MFA's external organisation concerns the contacts between the MFA and the various aid organisations at all levels.
- The MFA monitors the partners' activities in order to check the progress.
- The MFA's interventions concern changes in the conditions for financing the partner organisations, and efforts to influence the recipient government's governance quality.
- The evaluation concerns the assessment of the results of the development efforts realised by the MFA's partner organisations.
- The environment consists of the political, social and economic conditions in the developing countries.
- The MFA does not use an explicit management model.

Evaluation

From the description of the implicit model applied by the MFA, it can be observed that it is complete in the sense that all aspects are covered. But the weakness in the MFA's model is that the elements themselves are addressed inadequately:

- The MFA takes care of the management to some extent, but it does not assume responsibility for the realisation of the goals; it restricts itself to financing and leaves the implementation of the aid almost entirely to its partner organisations.
- The main goals comprise those mentioned above. But most goals are found to be generally unattainable, unsustainable, or irrelevant to poverty reduction. The MFA's

assumptions about the effectiveness of the aid efforts to achieve these goals are unfounded.

- The main shortcoming of the strategy is that the MFA leaves the implementation to the recipient government and the partner organisations and is not further involved. As a result it is not informed and cannot provide support or intervene if required. When a program does not perform it may go unnoticed and unremedied.
- The partner organisations pursue the same goals as the MFA, and often they also leave the aid implementation to local partner organisations. Consequently, in general their efforts do not lead to the realisation of the aid goals. Only where poor people are supported to earn an income the aid may lead to sustainable poverty reduction.
- The processes, the decision making procedures to subsidise partner organisations, focus one-sidedly on objectives, and are almost exclusively based on unverified information provided by these partners. For the partner countries and Dutch NGOs the processes are overly detailed, for other partners they are hardly described.
- The capabilities of the MFA's employees are insufficient with regard to knowledge of the aid themes, of the content of the aid programs, and of the conditions and mechanisms in the developing countries that affect the results.
- The structure of the external organisation is very complex because of the high number of partners and other aid organisations to cooperate with, but the MFA is quite active in the field of cooperation to reduce coordination needs.
- The information process (monitoring) is largely inadequate and generates only limited information about the performance and progress of the programs.
- The interventions, i.e. the changes in the criteria for funding partner organisations, are not very relevant to the success of the aid. Because of the employees' limited knowledge of the aid themes and of the role of the local conditions, the changes do not address the main shortcomings.
- The evaluations of aid programs carried out by the IOB are quite critical and detailed, more than those of commercial companies. But as a rule, the cause-effect relations constituting the aid process and its results, are not adequately described. Besides, the effects on the poor cannot be determined because often base-line data are missing, and local conditions and efforts of other parties are disregarded. The long term effects of the aid are not investigated.
- The role of the conditions in the developing countries is insufficiently understood. Key aspects are disregarded, e.g. the role of social culture, clientelism, Dutch disease and malnutrition, and the limited relevance of primary education.
- The MFA does not use an explicit model of the managed system and, as is found here, the implicitly used model is inadequate. Therefore, the MFA's expectations regarding the effects of the aid are too optimistic.

In summary, the model (implicitly) applied by the MFA is inadequate. It does comprise the twelve aspects of management according to the research model, but the MFA's understanding of the elements is insufficient, and important factors are missing. As a consequence, the MFA's policy is based on invalid assumptions regarding cause-effect relations. Therefore, the expectations about the results are too optimistic. The results regarding poverty reduction are very limited.

8.19 Conclusions

The MFA's external management is not successful. The evaluation of the model (section 8.18) comprises already the main conclusions regarding the external management. The most important shortcomings are:

- The MFA's main goals are often unattainable, unsustainable or irrelevant to poverty reduction
- The MFA is not involved in the aid implementation and therefore poorly informed about running programs, and unable to intervene
- The MFA's decision making process regarding the partner organisations to support, the themes to address and the funds to spend, is based on incomplete and unreliable information
- The MFA's employees lack knowledge of the themes and of the content of the aid
- For various reasons the evaluations fail to assess the contribution of the aid to poverty reduction
- The MFA's implicitly used management model is inadequate; key conditions in the developing countries that inhibit the results of the aid are not taken into account
- Because the MFA has insufficient information about the conditions in the developing countries and their effects on the aid results, its expectations regarding the results are too optimistic.
- As a consequence, in many cases the goals of the Dutch development cooperation are not achieved (sections 3.4, 7.6, 8.8.10).

The overall conclusion is that in the external management of the Dutch development cooperation the twelve aspects of management were addressed, but in most cases not in such a way that they contributed to the achievement of the goals. Therefore, the external management of the Dutch development cooperation is not professional.

CHAPTER 9: THE INTERNAL MANAGEMENT

9.1 Introduction

The chapter focuses on research question 3, sub-question 4:

How professional is the internal management of the Dutch development cooperation?

The internal organisation is analysed separately from the external organisation because of the difference in focus (section 5.3). The internal organisation supports the external organisation in the realisation of the development cooperation activities, through instruments like regulations and procedures. It is not directly involved in development cooperation. The analysis of the internal organisation focuses on the way the regulations and procedures affect the well-functioning of the external organisation and so, indirectly, the aid results. Based on that analysis the professional level of the internal management is determined. The analysis is carried out according to the twelve management aspects of the research model, adapted to the characteristics of the internal organisation (section 5.3).

9.2 The managing entity

The managing entity of the internal organisation consists of a number of MFA's top managers: the deputy secretary general and the four directors-general of the four main organisational units involved in the primary process, the Directorates General (MFA 2008a). The abbreviation 'DG' can stand for both 'director-general' and 'Directorate-General'. For the development cooperation the DG International Cooperation, DGIC (in Dutch DGIS) and its director general are the most important (8.4). From the interviews it was learned that the managing entity is supported by a small administrative staff, plus an assistant for communication and coordination.

The top managers, the directors general and the department managers, constitute a suitable managing entity. In 2007, the Ministry handled € 3762 million of ODA (MFA 2006f, p 13), or over 80% of MFA's 'net' budget. (Total ODA was larger but part of the aid belongs to the budget of other ministries.) Because aid is the largest budget component, for the Ministry providing guidance and support to the external organisation in the field of aid is a major task.

9.3 Goals

Because the MFA does not distinguish between the internal and the external organisation, the goals of the internal organisation are not explicitly stated as such. But they do exist. A major goal of the internal management is the formulation of a set of intermediate objectives that should lead to the main aid goals (section 8.3, 8.4). From the interviews it was learned that the Explanatory Memorandum to the budget is used as the main reference with respect to the intermediate objectives and targets.^{41, 42} The thematic experts contribute considerably to their formulation.⁴³ For instance, for the Memorandum to the 2006 budget, employees of DCO/OO (Department Cultural Cooperation, Education and Research, Division of Education and Development) participated in the preparation of the education section.⁴⁴ Another important goal of the internal organisation is to elaborate guidelines for the assessment of the partner organisations, for the determination of the kind of cooperation, and for the amount of funding. A third goal is the elaboration of guidelines for administration and reporting to control the adherence of the internal and the external organisation's activities to the other guidelines, as well as the actual control itself. The MFA leaves the implementation of the aid to its partner organisations, it is not actively involved in the achievement of the aid goals (Ch 8). Therefore, there is no need for the internal management to provide guidance in the achievement of the aid goals.

The external organisation requires guidelines to carry out the Dutch policy in the field of development cooperation and to achieve its main goals. Therefore, the overall goal of the internal management, i.e. support and guidance to the external management, is a suitable goal. The main goals under this overall goal: the elaboration of the intermediate objectives of the Dutch aid; of guidelines for the activities of the external organisation; and of procedures for controlling the adherence to the guidelines, as well as the actual control; are all suitable goals. They seem sufficient to steer the external organisation. But the fact that the MFA employees develop the intermediate goals and targets of the aid, implies that the MFA defines its own targets. The employees may try to avoid criticism of being insufficiently ambitious, and at the same time try to minimise the chance of failure. As found in section 3.3.5, 8.4.2 and 8.4.3 this often results in intermediate objectives being ambitious, but also not specific and non-committing.

⁴¹ Interview with MFA employee 6, 01-04-2005

⁴² Interview with MFA employee 5, 07-04-2005

⁴³ Interview with MFA employee 3, 10-05-2005

⁴⁴ Ibid.

9.4 Strategy

Like the goals, the internal organisation's strategy is not explicitly stated, but from the interviews it was learned that it intends to carry out its guidance of the external organisation through procedures for all aspects of management. This approach is based on the consideration that most external activities are of a repeating nature, e.g. the decision process for funding the partner organisations. Also the control of the adherence to the procedures is governed by procedures. Only the activity of the thematic experts: the elaboration of next years' intermediate objectives, is based on knowledge in the field of theme related aid policy.

The choice to steer the external organisation through procedures has important consequences for the way the MFA operates, and is a major strategic decision. There are arguments in favour and against. Because content-related knowledge hardly plays a role in the MFA's external activities, the internal MFA organisation's choice for a bureaucratic approach based on procedures seems logical. But for certain activities following strict procedures may lead to unsatisfactory results. The internal organisation mainly operates in the ministry in The Hague, a well organised, rather stable environment. But most of the external organisation operates in the developing countries, a more unstable environment. Because of the clientelism system, information is unreliable, and the behaviour of people and organisations is often quite unpredictable. The dialogue with local partners can be quite complex and requires special knowledge and experience. The employees will be inclined to base their decisions on their own judgement and to engage in contacts and cooperation with other parties as they think best. This behaviour is characteristic for what Mintzberg calls an 'adhocracy': an organisation where 'specialists' work together in ad hoc themes. Coordination takes place through interaction, and the specialists are given considerable decision making power (Mintzberg 1979, p 431-436).

It is clear that the work at the missions requires some freedom for decision making based on skills and experience, an argument against steering through procedures. On the other hand, where the employees' activities are based on skills and experience they are hard to assess and control. And because the MFA is a government organisation and has to be accountable, it tends to avoid activities it cannot control. That is an argument in favour of steering through procedures (Berg 1998, p 48-50). If the organisation relies entirely on procedures, the internal organisation becomes what Mintzberg calls a 'machine bureaucracy'. In that case 'standardisation of work processes' is the dominating coordination principle and management is focused on control (Mintzberg 1979, p 316-319). The bureaucratic approach guarantees that all activities are documented and all

decisions can be defended by referring to the procedures. In this way accountability is guaranteed. But the consequence of the bureaucratic approach is that the MFA's activities may lose touch with the real situation, and become less relevant to achieving real results and solving real problems. That means that there is a tension between achieving concrete results regarding poverty reduction and being fully accountable as a government organisation. The MFA chooses for accountability. But that can be expected to be at the expense of aid results.

9.5 The organisational units

Most of the Ministry is somehow involved in the activities of the internal organisation. Therefore this section comprises the Ministry in general. The Ministry counts four main Directorate Generals or DGs. They count numerous departments, subdivided in divisions. In addition to the departments under the DGs there are 16 supporting departments, directly under the top management. Furthermore, around the world the Ministry has numerous 'missions': 110 embassies, 27 consulates-general, some 360 honorary consulates with more limited responsibilities, 15 multilateral missions and permanent representations to international organisations, as well as several other representations (MFA 2008a). The MFA counts advisory bodies on various issues, e.g. international affairs and development assistance research. To the MFA belong the agency for the promotion of imports from developing countries, CBI, and the 'autonomous' unit for generating public support for development cooperation, NCDO. In addition there are a number of 'special appointments', e.g. a human rights ambassador and an ambassador for combating AIDS. Several lower units are involved in specific aid activities, like scientific research and aid evaluation (MFA 2008a). The interviews revealed that it also comprises a unit for the development of procedures. More about the organisational units is presented under section 9.8, Structure.

With respect to development cooperation, the MFA's organisation is suitable in the sense that it comprises organisational entities for all its tasks. The unit for the development of procedures is a crucial one because it determines to a large extent the decision-making for funding the partner organisations, for the choice of the goals to be supported, and for the amount of funds to spend per partner and goal. But although this task is of strategic importance, the responsible unit is a sub-unit of a supporting department: the division Financial Management under the department Financial and Economic Affairs (MFA 2005a). For such a strategic function, that is an unsuitable position, too far away from the top management. Furthermore, the fact that this function is part of Financial Management confirms the MFA's one-sided focus on financial accountability.

9.6 The processes

9.6.1 Processes, description

Multi-Annual Strategic Plan, Annual Plan

Because the activities of the MFA employees are to a large extent determined by the procedures, an assessment of these procedures is necessary to judge the MFA's functioning. The two most important internal procedures guide the preparation of:

- the MeerJaren Strategisch Plan (Multi-Annual Strategic Plan) or MJSP;
- the Jaarplan (Annual-Plan).

The development of procedures for the track record analysis (section 8.10.1) and for the funding of the NGOs (8.10.2) is rather complex. However, once established they do not change much, and they do not require much effort from the internal organisation. But all internal and external organisational units, at all levels, have to prepare their own Annual Plan and MJSP, which is quite an effort. Especially relevant to the aid are the embassies' plans for the bilateral cooperation with the 36 partner countries. For individual countries the plans are confidential, but the author was allowed to study examples of the MJSPs for the period 2004-2008 for three different countries, their Annual Plan for 2005, as well as the MFA top management's appraisal reports (Appendix 8.1). The MJSP consists of an overview of an MFA unit's plans for a period of four years. For the bilateral aid the MJSP comprises issues like a short analysis of the situation in the country and of the government's policy, the selection of the development goals to be supported (e.g. an improved health service in the field of HIV/AIDS), determination of the results at output level, and an estimation of the Dutch financial contribution for the next 4 year period (MFA 2004b, p 1-2). The analysis of the situation in the country, especially of the governance quality, may be quite outspoken and critical, which is the reason why the MJSP is confidential.

The Annual Plan is structured similar to the MJSP, it comprises a short analysis of the situation in the country, an evaluation of the previous year (annual report), the intended aid measures for the next year, the Dutch financial contribution per theme, and the proposed aid modality, i.e. the government's degree of freedom to spend the aid as it sees appropriate (MFA 2005d, p 12-13). The Annual Plan shall not exceed 10 pages (p 5). As an annex to the Annual Plan, the track record analysis is included (section 8.10.1).

Appraisal procedure

The embassies' plans are then presented and appraised in 'The Hague', also according to a procedure. All 110 missions, all representative offices, as well as all organisational units in The Hague submit their Annual Plan at the end of the calendar year. Various co-reading departments and units comment on each plan. It is checked if the combined financial volume for bilateral aid meets the input targets (e.g. 15% of the funds to education) and if not, the plans are adapted till they match the targets (MFA 2005d, p 7). The choice of the modality also depends on the embassy's capacity and capabilities. In case more project aid is intended, the embassy may require more personnel (MFA 2005d, p 24-26). A similar procedure is followed for the appraisal of the MJSP. In case budget support is intended, the procedure for the comprehensive 'Risk analysis public finance management' must be followed. In addition, for monitoring the aid measures the 'Beoordelingsmemorandum' (Appraisal memorandum,) according to the 'Beoordelingsjabloon' (Appraisal format) was developed (MFA 2005f; MFA 2005g). For individual aid measures as well as for sectoral aid the 'Waarderingsysteem' (Appraisal system, MFA 2002c) is used to judge the congruence of the intended aid measure with the Dutch development priorities and strategic principles.⁴⁵

Procedures for other partners

The internal organisation also plays a role in the elaboration of the appraisal procedure for plans to support other partners. The procedures for the 'waarderingsysteem', the 'appraisal memorandum' and the 'appraisal format', are used for all partners, but their character is mainly administrative. Only the aid for the NGOs, and programs like PSOM and ORIO are tendered. Apart from that, the cooperation with other partner organisations does not seem to be guided by detailed procedures. For instance, there is no track record analysis for the World Bank, or a subsidy tender for PUM or PSO.

Other internal procedures: HBBZ, Course financial management

In addition to the mentioned procedures for dealing with partners, there are procedures for almost all other internal activities. The Handboek Bedrijfsvoering Buitenlandse Zaken (Handbook operations foreign affairs) or HBBZ, published at the Ministry's intranet, contains dozens of pages with detailed descriptions and instructions regarding the operational procedures, as well as forms and formats of documents. Furthermore, the division Financial Management (FEZ/FM) prepared the reader for the 'Course financial management', over 200 pages of internal processes and administrative procedures (MFA 2002a), and the 'Risk analysis financial management' to support the decision on the modality in case budget support is intended.

⁴⁵ Interview with MFA employee 5, 07-04-2005

9.6.2 Processes, evaluation

Similar to the process for the approval of the partner organisations, the MJSPs and Annual Plans are approved if they satisfy the internal organisation's criteria. This is a reasonable approach. But the result of the procedures is rather meagre, taking into account the high effort they require. This is especially the case for the complex procedure for bilateral aid. When an embassy has carried out all procedures, the only result is the amount of money to be spent on each of the themes proposed for its partner country, and the aid modality. If its plan is not accepted, then its plan to spend for instance € 15 million on education in Tanzania in the form of budget support is changed in € 10 million as sector support. As it is impossible to predict what the poverty effect will be in either case, it is also impossible to decide which alternative is to be preferred, and therefore the complex decision procedure is of little value. Furthermore, as discussed, in many cases the conditions in the developing countries interfere with the aid measures, and an effect on poverty is hardly achieved. An example is the primary education plan in Zambia (section 3.4.7). The MFA only checks whether the plans aim to contribute to basic education. It is not the MFA's task to assess the relevance of the curriculum or the quality of the education process, as that belongs to the 'ownership' of the recipient government. The education in Zambia is extremely poor, it is irrelevant to the pupils' future (section 7.4.1) and the education plan did not contain any efforts for improvements. In line with the procedures, the MFA financed it generously.

Large numbers of employees of many units and departments participate in the assessment of the MJSPs and Annual Plans. Each department tries to have its plans approved. Informal associations are formed between units and individual employees, where the parties promise to support each-others' plans, and oppose the competitors' ones. Stoppelenburg and Vermaak have studied this phenomenon and called it the 'negotiation game'. They quote an employee stating: 'One's real enemy is generally only one floor away', and 'Not fighting for one's own limited agenda reflects badly on the functioning of the unit and its employees, but fighting for it leads to sub-optimisation' (Stoppelenburg and Vermaak 2005, p 14). These internal conflicts lead to abundant communication and to a poor efficiency. It should be noted that the 'negotiation game' is essentially a 'zero-sum game': € 5 million extra for, say, health care for Chad will be at the expense of other allocations, e.g. water supply for Congo. And it is almost impossible to determine which is to be preferred. Therefore, the negotiation game does not contribute to the quality of the aid.

The decision making is also governed by the intermediate objectives of the Dutch aid, as stated in the Explanational Memorandum. Their development is not governed by procedures but by the theme specialists' knowledge. However, often these objectives are

unsuitable. As shown in section 3.3.5 the intermediate objectives change considerably over the years, but arguments for the changes are missing and the choices appear to be arbitrary. As discussed, many objectives in the Explanatory Memorandum to be unspecific and non-committing (3.3.5, 9.3).

It can be concluded that the procedures to guide the aid are very complex and lead to abundant formal and informal communication. But they do not add to the quality of the decisions. They only concern the decisions about the division of the funds over goals and partners and, in case of bilateral aid, about the modality. There is no check on the likelihood that an aid plan will contribute to poverty reduction.

9.7 Capabilities of the employees

The employees' capabilities were already analysed under section 8.11. The employees' capabilities can be assumed to be sufficient to elaborate the internal procedures.

9.8 Organisation structure

9.8.1 Structure, description

The MFA's organisation chart 2007 is presented in figure 9.1, section 9.8.2. Many units are active in internal as well as external management. Therefore the figure and the description comprises both (MFA 2007a).

The diagram is of an unusual, somewhat confusing format. It uses a mix of horizontal and vertical relations and the chain of command is unclear. The use of acronyms instead of unit names complicates the interpretation. The embassies are not related to any higher unit. Because of the unusual format, classifications based on seven different colour codes are used to indicate groups of units of a specific character. In a traditional organisation chart that information can be derived from the position of the units in the diagram.

For easier interpretation the diagram is translated into a traditional configuration (figure 9.2, section 9.8.2). Based on information of the ministry's web site, development-relevant units not presented in the MFA's diagram were added, e.g. special ambassadors for specific themes, and advisory bodies. The supporting departments are presented as one group, as they are generic, and common for all large international organisations. The bold lines and boxes indicate the units most relevant to development cooperation.

9.8.2 Structure, evaluation

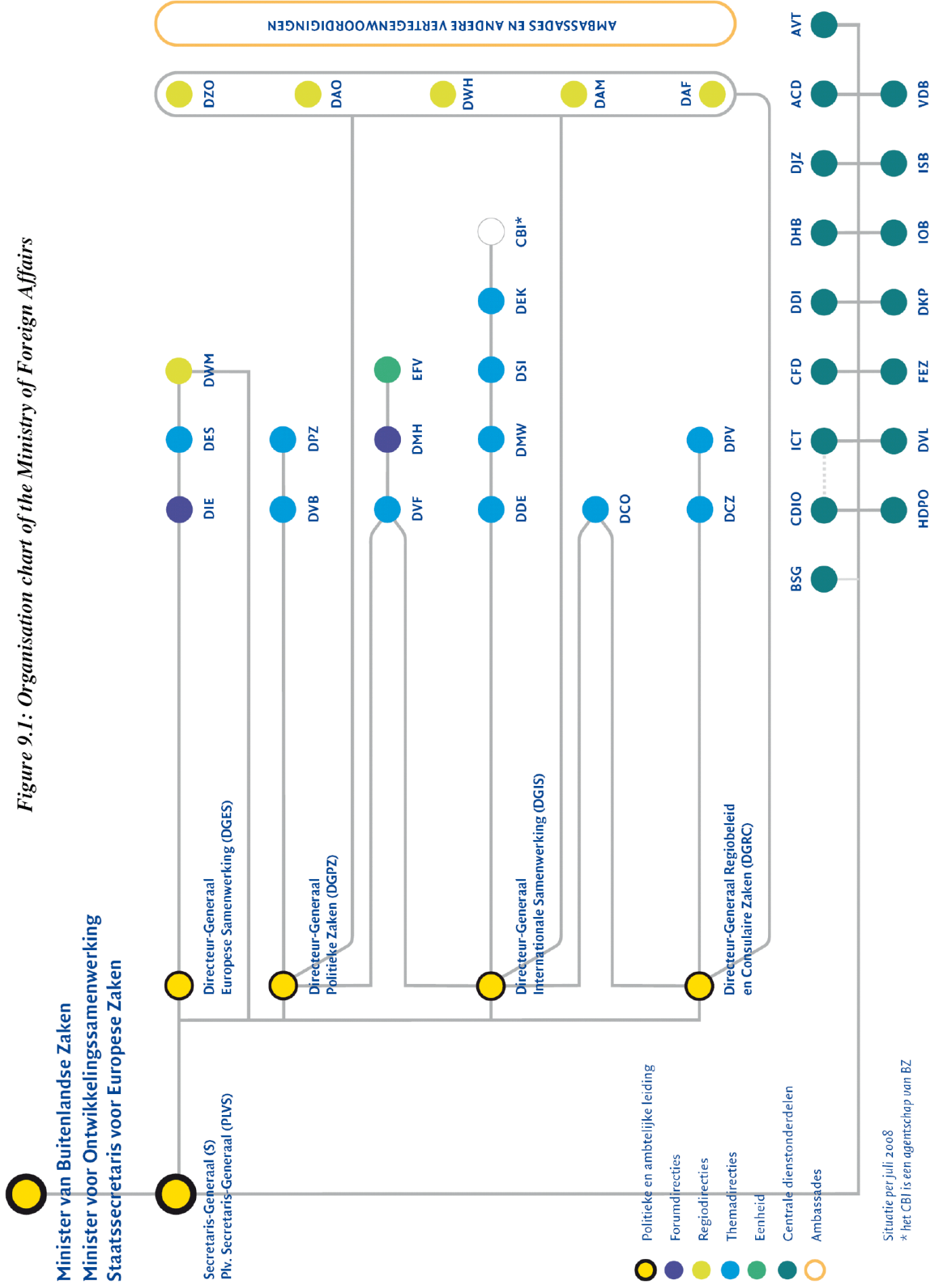
The diagram in figure 9.2 clearly shows the hierarchical levels, the position of the staff functions and the lines of command. The structure is in line with the description of the organisational units in section 9.5. The embassies are located under the DG for regional affairs as that seems the most likely arrangement.

The fact that several departments belong to more than one DG is not according to common practice (Mintzberg 1979, p 37). Normally, a constellation like this implies that an employee of the unit in question has two superiors: one determining the tasks to carry out, and the other determining the professional standards of his work. This is known as a matrix organisation (Griffin 1990, p 323). But, at variance with management theory, in the MFA the responsibilities of the superiors are not neatly divided. The two superiors can be expected to have competing demands regarding the task to be performed by the employee. In addition, it is not clear which of them is responsible if in the lower unit mistakes are made. This may lead to confusion.

It is common to base the organisation's division in units (under a common supervising unit) on one characteristic only, e.g. geographical area, or type of product. But at DG level different classification criteria are used simultaneously: geographical area for DGES (European cooperation), type of process for DGPZ (defence and security) and DGIS (development co-operation), and type of 'product' for DGRC (regional information and consular services). These are incompatible classification criteria, and some issues will fit more than one DG, others none of them. When this three-fold classification is systematically applied, it constitutes a three-dimensional matrix organisation. This is quite unusual, and it would be very difficult to manage. In many cases it will be impossible to tell which DG is responsible for a certain activity. And because of the insufficiently discriminative classification of the DGs and departments, with respect to many issues employees all over the organisation may feel they have something at stake, and will join the communication process.

The large number of organisational units without a clear structure cause a fragmented organisation, which further complicates management. In addition, it can be observed that in some areas of the organisation the span of control is extraordinary large. For instance, under the Secretary General 28 units reside: 16 support services, 4 DGs and 7 Special Appointments. According to Mintzberg, in case of complex, interrelated tasks, unit size should be small, i.e. below 10 (Mintzberg 1979, p 139-143). For one superior, this large number of units is very hard to manage. Some self-organisation may develop, though. With some exceptions, the MFA's departments consist of divisions where, per division, the employees have similar specialisms or tasks. As most problems comprise

Figure 9.1: Organisation chart of the Ministry of Foreign Affairs



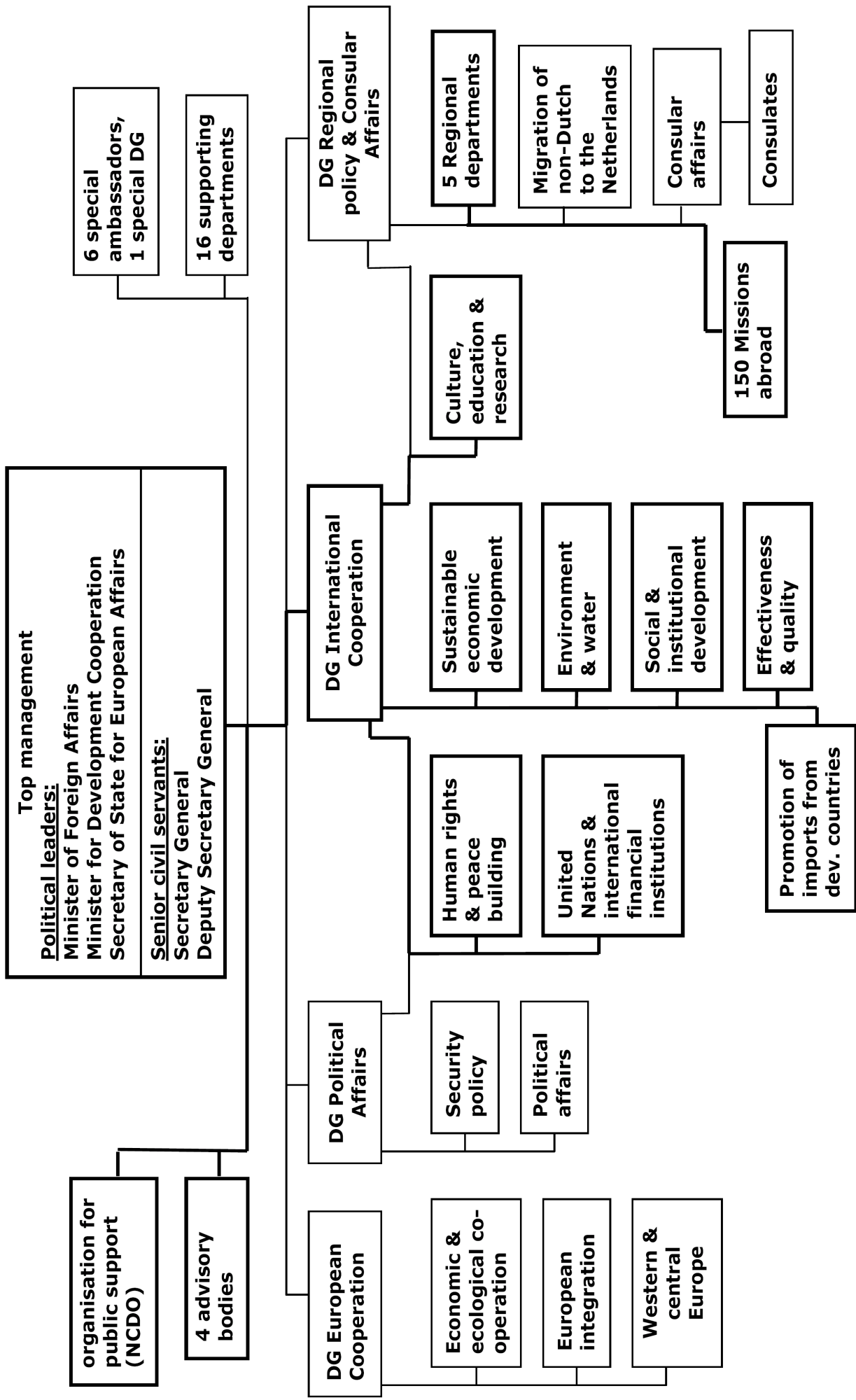


Figure 9.2: Alternative presentation of the organisation chart

many aspects of foreign policy, they will require the contribution of people of various specialisms, i.e. from many different divisions. This requires much coordination between all organisational units, especially where responsibilities are unclear. This coordination should be guided by the middle managers, but Stoppelenburg and Vermaak found that they were insufficiently involved (Stoppelenburg and Vermaak 2005, p 18). But, according to Mintzberg, it is common that people working at interdependent complex tasks easily cooperate with colleagues from other units and form small groups around informal leaders. In the absence of formal authority informal ways of decision making and of conflict solving take over (Mintzberg 1979, p 142). Indeed, during the interviews at the Ministry the author observed that cooperation in informal groups and networks is common. That means that the actual (informal) unit size will be much smaller than the organisation chart suggests. Although in itself this self-organisation is positive, the drawback is that it creates a lot of informal communication, and that it is hardly manageable. It is not possible for the higher hierarchical levels to know what is going on and they will lose grip on the lower levels.

It can be concluded that the present organisation structure based on grouping people according to specialism or task has serious drawbacks. It incites abundant communication that does not contribute to better results. This comes on top of the large amount of informal communication incurred by the 'negotiation game' with regard to the annual Plans (9.6.2). All this makes the MFA quite inefficient. The present structure is not necessarily the only option, though. To illustrate that there are other possibilities, an alternative is presented in appendix 11, a mix of the front office - back office concept and product lines. The alternative illustrates that other arrangements of structural organisation may be worth considering.

Summarising: The MFA's organisation structure is inadequate. The responsibilities are not clear, the span of control under the top management is too large, and the role of the middle managers is unclear. Furthermore, because the MFA is structured according to specialism, e.g. theme, for every problem the involvement of many departments and divisions is required. This causes confusion, opaque decision making, and 'self-organisation'. The effect is a large amount of negotiations, communication and coordination, both formal and informal, that is unnecessary. This makes the MFA quite inefficient.

9.9 Monitoring

Once the external organisation's plans are accepted by the internal organisation, the internal organisation monitors the realisation of the plans through the administrative

procedures described under 9.6.1, i.e. through the Appraisal Memorandum and the guidelines in the handbook operational management, HBBZ. The communication is supported by a custom made, MFA-wide computer system called Piramide. It contains a comprehensive library of documents, among these numerous formats for reports. Access is restricted, depending on the employee involved.

The internal monitoring is administrative; it is a normal generic process, not specific for the MFA. It is not further analysed here.

9.10 Intervention measures

Both in the internal and the external organisation the most important intervention instrument is changing the criteria for the approval of the plans (section 8.9, 9.6). Here, only the changes in the internal plans are considered. In 2004 the present procedure for the preparation of the embassies' aid plans was adopted, comprising the MJSP and Annual Plan. Furthermore, since 2005 the embassies do not have to specify the individual activities under bilateral aid anymore, and consequently neither the monitoring measures (section 8.13, MFA 2005d, p 4). As a result, monitoring is not mentioned anymore in the Brochure Annual Plan Cycle. Furthermore, in 2007 the SGACA approach was added to the appraisal procedure of a partner country's government. It provides a somewhat better insight in the corruption in the country (8.14).

Whereas the MFA cannot change the organisation of its partner organisations, the MFA's internal organisation can very well change the MFA's own organisation. In the course of 2005 the principle of 'all employees can do all types of jobs' was revised somewhat and some more employees could become theme specialists.⁴⁶ But that did not mean that the 'non-involvement' principle was abandoned. The task of the 'specialist' is still restricted to the partner country's policy and to the elaboration of intermediate objectives for the Explanatory memorandum.

During the past years the intermediate objectives to achieve the main goals of the Dutch aid changed continuously. Only few really new 'aid products' were developed. Examples are the introduction of the objectives 'vocational education' in 2006 (3.3.5), and 'health insurance' in 2007 (8.4.2, operational goal 5.4). But these objectives were no further specified in terms of budgets, or results to be achieved.

⁴⁶ Interview with MFA employee 8 and 12, 09-12-2005

Thus, in the past years there were some changes in the internal organisation of the MFA, but mainly minor procedural issues. Apart from that there was very little change. That is not untypical for government organisations, they tend to resist change. Stoppelenburg and Vermaak confirmed this resistance to change in the MFA (Stoppelenburg and Vermaak 2005, p 3-4).

9.11 Evaluation process

Together with the Annual Plan the MFA's organisational entities at all levels produce a Annual Report. It states whether funds were spent as intended, which deviations took place and why. The Annual Report is entirely the responsibility of the organisational unit itself. Also the Dutch National Audit Office carries out a yearly investigation. It focuses on administrative and financial issues. It is based entirely on the MFA's own reports (Algemene Rekenkamer 2006). The 'Report to the Annual Report' of the MFA basically states to what extent the Ministry has spent all the funds as intended and where and why it deviated from the plans (MFA 2006g). There is no systematic evaluation of the internal organisation's efforts to elaborate or adapt the MFA's procedures. It does engage external reviews, though. From time to time the MFA assigns external consultants to investigate its operations and to advise on improvements, e.g. PWC, Turner, and Stoppelenburg and Vermaak. Their reports are not publicly available. It can be observed that the evaluation of the internal organisation focuses on the inputs and on the disbursement of the funds according to the procedures. That is understandable as it is the task of the internal organisation to focus on these issues. But it provides little information about the contribution of the internal organisation to the aid and to poverty reduction.

9.12 The influence of the environment

Apart from the external organisation, the internal organisation is not subject to external influences that affect the achievement of the internal goals.

9.13 Model of the managed system and the environment

Description

The MFA does not use an explicit management model of its internal organisation. But from its documents, its web site and through interviews the implicitly applied model can be derived reasonably well.

- The managing entity consists of the deputy-secretary general and the four DGs. For development cooperation the DG and deputy DG of DGIC are the most important managers. The internal and the external management are not distinguished as such in the MFA organisation.
- The internal goals comprise guidance to the external organisation, especially with respect to the assessment of the MFA's partner organisations and the funding decisions, and controlling the adherence to the guidelines. Another important goal is the elaboration of intermediate aid goals.
- The internal organisation's strategy consists of the development of procedures to enable the guidance of the external activities. The emphasis is on administrative and financial procedures.
- The organisational units of the managed system of the internal organisation consist of the MFA's organisation, i.e. the organisational units and their employees in The Hague and at the missions, that deal with development cooperation.
- The internal processes aim at the realisation of the internal goals:
 - the determination of the intermediate aid objectives
 - the preparation of procedures for the appraisal of Annual Plans and MJSPs;
 - the preparation of procedures for other processes and assessments, e.g. the Track record analysis and the 'Risk analysis public finance management'.
- The capabilities of the employees focus on diplomatic skills, especially skills in the field of communication and leadership
- The structure for the total MFA is as presented in the organisation chart; it is structured according to similarity of specialism or task
- The monitoring focuses on controlling the MFA units' adherence to the procedures.
- Over the last years few interventions in the internal organisation took place, and they were of little consequence. Reportedly, there is quite some resistance to change in the MFA organisation.
- The evaluation of the internal organisation's activities consists of the Annual Reports of the MFA and of its departments and units, and the report of the Dutch National Audit Office. The reports focus on financial and administrative issues, they are not relevant to the aid results.
- The internal organisation does not apply an explicit management model of its managed system, but the implicitly applied model is as described here.

Evaluation

The model implicitly used by the management of the internal organisation is reasonably complete. The managing entity consists of the MFA's top management, which is logical. But the model has some shortcomings and several elements are inadequately taken care of. Important shortcomings are:

- The goals of the internal organisation: establishing guidelines for funding partner organisations, and for developing intermediate aid objectives, imply that the MFA determines to a large extent its own targets. In several cases this leads to the MFA formulating non-committing objectives.
- The strategy to manage by means of procedures enhances accountability. But because involvement in aid implementation would compromise accountability, the MFA restricts itself to financing the partner's aid plans and therefore it has only little influence on the achievement of the aid goals.
- The internal processes mainly concern the development and control of procedures. Apart from administrative issues, the procedures concern decisions regarding the division of the funds over partners and goals. They are very complex, but they do not comprise a check whether a partner's plan will contribute to poverty reduction. In many cases the plans do not. The procedures lack relevance.
- The capabilities of the MFA's employees can be assumed to be sufficient to develop the procedures concerning the assessment of the partner organisations' plans, and the division of the funds.
- The MFA's internal organisation structure is effective but not efficient. The efficiency is affected by the top management's large span of control, the unsuitable classification criteria for the DGs, the ambiguous hierarchical relations, the structural organisation according to similarity of specialism or task, and the unclear role of the middle management. The structure incites the 'negotiation game' among the units regarding the approval of the Annual Plans, which causes abundant and lengthy formal and informal communication. All this contributes to a low efficiency.
- The monitoring of the adherence of the internal and external organisation's activities to the guidelines, seems to function well. It is a normal administrative process and not specific for development cooperation.
- The evaluations of the internal management, e.g. by the Dutch National Audit Office, focus on the financial accountability and bear no relation to aid results.
- The MFA does not use an explicit model of the internal organisation, and the implicitly used model is unsatisfactory. Various management aspects are not taken adequately into account.

The (implicit) model of the internal organisation is unsatisfactory. It causes the internal organisation to steer the external organisation on financial and administrative aspects. These aspects are of little relevance to the results of the aid. Furthermore, the inappropriate structural organisation causes large amounts of communication and a low efficiency.

9.14 Conclusions

The internal organisation provides guidance to the external organisations with regard to the to realisation of the development cooperation, by means of objectives, criteria and procedures (section 5.3). The procedures developed by the internal organisation to guide the aid guarantee administrative and financial accountability, but they are of little relevance to the overall goal, poverty reduction. The procedures are restricted to decisions about the division of the funds over the partner organisations and the aid themes. With respect to the content of the aid, it is only checked whether the priorities of the Dutch aid are addressed. Because the MFA focuses on accountability, it avoids the uncertainties of involvement in the implementation of the aid. In addition, it does not check whether the partners' plans are likely to contribute to the overall goal: poverty reduction. And as was found in the previous chapters, in many cases that is generally not the case. It was found that the internal organisation does take into account the twelve management aspects of the general research model. But these aspects are addressed in such a way that they do not contribute much to the achievement of the MFA's goals.

Furthermore, the MFA's organisation structure is inefficient. It creates abundant communication, especially regarding the decisions about the Annual Plans for bilateral aid. The most important shortcomings are: ambiguous hierarchical relations, the units being created according to specialism or task, and the unclear role of the middle management. This causes the participation of numerous employees from many different units in the discussion, and it incites lengthy informal, uncontrolled negotiations among these units, that do not contribute to the quality of the decisions. The poor efficiency means that of the available budget for development cooperation a fair share is lost to activities irrelevant to the overall goal.

The conclusion is that the management of the internal organisation does address the twelve aspects of management, but in an inadequate way. It is primarily focused on financial accountability, not on achieving poverty reduction, and consequently it does not contribute much to poverty reduction. Therefore, the internal management of the Dutch development cooperation is not professional.

CHAPTER 10: CONCLUSIONS AND RECOMMENDATIONS

10.1 Main findings

10.1.1 The preliminary investigation

To develop a suitable research approach, a preliminary investigation was carried out, focusing on the goals and results of the international and the Dutch development cooperation. Furthermore, it was investigated which aspects of the management of the Dutch development cooperation are the most relevant to the aid results.

The overall goal and main goals of the international development cooperation are sustainable poverty reduction through the realisation of the Millennium Development Goals (MDGs) and the DAC 'capabilities'. The MDGs comprise specified improvements in the fields of income, health, education, water supply and sanitation, malnutrition, equality between men and women, environmental sustainability and a number of other aspects of poverty in all poor countries, to be achieved by 2015. The DAC 'capabilities' focus on economic growth and on social issues like human rights, public safety, protection of the poor against 'shocks', and democratisation. In addition aid is provided in fields like good governance, fighting corruption, debt relief, fair trade, and energy supply.

The results of the aid are generally difficult to detect because other influences have an effect on poverty as well, e.g. foreign investments in developing countries, the policy of the government, initiatives in the private sector, and activities of other donors. The Dutch aid is too small to generate effects on poverty statistics that can be distinguished between all other influences. Therefore, the effect of the combined international aid was investigated for the world as a whole and per world region.

The results of the international development cooperation were found to be very limited. In many developing countries the economy is growing and poverty is reducing, but statistically no correlation with aid can be found, neither per world region nor world wide. The correlation between total aid and economic growth in the developing countries since 1970 is reverse. Sub-Saharan Africa, the poorest region and also the one that, per capita and as % of GNI, received the highest amounts of aid, has not developed at all. Over the last decades life expectancy did not increase, malnourishment did not reduce, and the percentage of people living on less than \$ 1/day purchasing power did

not diminish. In contrast, most countries in East Asia, the poorest region 25 years ago, received very little aid/capita and developed very fast, and poverty dropped substantially. Furthermore, the progress towards the Millennium Development Goals is slow and it is quite unlikely that they will be met by 2015. The answer to the first question of the preliminary investigation is that the goals are commendable but that, if there are results at all, they are too modest to be detected among the effects of other influences, both at world region level as well as world wide.

Regarding the Dutch development cooperation, it was found that the main goals are similar to those of the international aid. The results of the Dutch aid were investigated through analyses of several evaluation reports of Dutch aid programs. In none of the programs, evidence of a lasting contribution to aspects of poverty (e.g. health, income) could be found. It could be that results were achieved that were not detected, as the effects of the Dutch contribution are often hard to distinguish between those of other influences. Also, in various cases the results could not be assessed because of missing data. But results achieved, whether or not detected, were generally not sustainable because in most cases they consist of improved public facilities and services. And usually neither the target group nor the government had the funds for their operation and maintenance and for replacement after service life. The conclusion is that the results of the Dutch development cooperation were very modest too. The analysis of the evaluation reports also allowed the identification of the key management aspects that play a role in the achievement of the goals of the Dutch development cooperation. The are: goals, external conditions, strategy, processes, cooperation with partners, the employees' capabilities, organisation structure, monitoring, interventions, and evaluation.

10.1.2 The research model

The research addresses the questions whether the management of the Dutch development cooperation is professional. Based on the findings in chapter 2 and 3, in chapter 4 the research approach was developed. Analysing model theory, two more relevant management aspects were found: the management (i.e. the managers), and the management model applied by the management.

Existing models were found not suitable to accommodate the key management aspects identified. Therefore, a new research model was developed in chapter 5, based on system theory and knowledge theory. In an intermediate step, a general model was developed for management problems that comprises many aspects simultaneously. The model was then detailed according to the characteristics of the MFA to obtain the model for this research (figure 5.2). The model is based on the idea that adequate management requires a suitable model of the managed organisation and its environment. Therefore

the research model also comprises an analysis of the model applied by the MFA. The research model was found to be a suitable instrument to investigate the professional level of the management of the Dutch development cooperation. It enabled to assess whether in the management of the responsible organisation, the MFA, all aspects were taken care of. It also allowed to assess whether that was done effectively, i.e. whether these aspects contributed to the achievement of the Dutch development goals.

10.1.3 Conditions in the developing countries

The research question regarding the professional level of the management of the Dutch development cooperation is divided into four sub-questions. The first one concerns the way the conditions in the developing countries affect the aid results.

Three issues relevant to development were investigated: social culture; good governance; and aid, trade and local markets. An important aspect of social culture is social capital (trust, institutions, social norms, social networks, reliable impartial organizations...). It plays an important role in development. The amount of social capital is a result of the history of state formation, it accumulates over long periods of time. In the developing countries social capital is often scarce, which causes the public system to be weak. Another aspect of social culture is the way power in society is structured. In developing countries the clientelism system dominates. It is based on informal, personal relations and mutual obligations between a person with some influence (patron) and others with less influence (clients), at all levels of society. Between patron and clients deals are made where personal interests prevail over laws and regulations. This causes poor governance and high corruption. Roughly a third of the government budget disappears, and that also concerns the aid funds. Especially in developing countries with limited social capital, e.g. most SSA countries, the remaining part of the funds is not very well used either, and economic development stagnates. But 'good governance' (according to the commonly applied criteria) is not very relevant to development. Countries with more social capital, like India and China, achieve fast private sector development and poverty reduction, in spite of poor governance and high corruption. In some cases the government deteriorates to such an extent that it stops taking care of its main functions, like public safety, infrastructure and education. Especially SSA countries now and then develop into such 'failing states'.

The high amounts of aid to SSA countries contribute to Dutch disease: a too high value of their currencies. The resulting high price level (on average 50% higher than India) makes the production of tradable goods (agriculture, industry) uncompetitive, which hampers economic development. High amounts of aid (>15% of GDP) also reduce government responsibility and accountability. Furthermore, to secure political support from the city population the governments import subsidised food from the EU and the

US. But in this way the smallholders are out-competed and pushed into subsistence farming. Food aid disturbs the markets even further. As a result of the influence of these local conditions, especially in SSA the aid has little effect, and poverty pertains. The conclusion is that the investigated conditions in the developing countries often obstruct the realisation of the aid goals.

10.1.4 Attainability of the Dutch main goals

The second sub-question concerns the attainability of the main Dutch aid goals.

The following main goals were analysed in detail: the MDGs in general; water supply and health care; primary education; and good governance. With respect to the MDGs the aid is way too little to realise the required improvements, often public services. On average, in the ten world regions only 40 % of the sub-goals under the MDGs are expected to be met (7.2). Better water supply and health care cause population growth and where food is scarce child malnutrition increases and the health effect is lost (7.3). Because in most cases aid in these areas is aimed at very poor people who are often malnourished, most of this aid has no effect on poverty. Primary education does not teach poor children any skills to earn an income. Because poor children rarely attend secondary education, the primary education is irrelevant to poverty reduction (7.4). Because of lack of funds for maintenance and replacement, aid to improve public services is generally unsustainable. Aid cannot bring about good governance because the clientelism system prevents that. But although very poor governance causes more poverty, there is no convincing relation between good governance (according to the common criteria) and development (7.5.2), nor between aid to well governed countries and development (7.5.3). Furthermore, donor efforts to achieve good governance are generally unsuccessful (7.5.1). Too much aid even has a negative effect, as it causes aid dependency and poorer governance (7.5.4), as well as Dutch disease which affects competitiveness of companies and farmers (6.4.1). The mechanisms described here may explain why, per world region and world wide, no evidence of an effect of aid on poverty could be detected (2.8.2, 7.5.3). There are examples that an economic policy that is tailored to the countries conditions may contribute to development, though (7.5.2). The conclusion is that the main goals of the Dutch aid are largely unattainable, unsustainable or irrelevant.

10.1.5 The external management

The third sub-question concerns the professional level of the external management of the Dutch development cooperation.

The external management of the Dutch development cooperation comprises the MFA's efforts to influence the partner countries and partner organisations it finances. This was

analysed according to the twelve aspects of management in the research model. In most aspects serious shortcomings were found. The most important ones are:

- The MFA is responsible for the management of the development cooperation, but it limits its efforts to funding governments and aid organisations.
- The Dutch aid targets the international aid goals, but as discussed they are often unattainable, unsustainable or irrelevant because local conditions interfere. Also goals like gender equality, democratisation and combating corruption are difficult to achieve, because they concern aspects of social culture, which are very hard to change from the outside in.
- The most important shortcoming of the strategy is that the MFA is not involved in the aid implementation. As a result, it is insufficiently informed about what happens in practice, and it cannot support or correct programs that do not perform.
- The partner organisations funded by the MFA apply the same unsuccessful aid approach; only where poor people are helped to earn an income (e.g. some of the PSOM and FMO projects) sustainable poverty reduction results.
- The main processes concern the decisions regarding the funding of the partner organisations. They are based on ex-ante evaluations of these partners only, and solely on information provided by these partners, that is not further verified.
- The capabilities of the MFA's employees consist of excellent communication skills but their knowledge of the themes and of the content of the aid is very limited.
- The structure of the external organisation is very complex because of the numerous partners and other aid organisations to cooperate with. The MFA tries to reduce the complexity by participating in groups of donors that support the same aid program.
- The MFA's monitoring of the aid processes hardly generates information about their intermediate results. Often the MFA's Dutch partner organisations (e.g. NGOs) leave the implementation to local partners, that are not effectively monitored either.
- The interventions are restricted to changes in the criteria for funding the partner organisations, e.g. with respect to the objectives of their aid programs. But these criteria bear little relation to the aid quality.
- The evaluations effectively assess the aid inputs and outputs. But as baseline data are missing and external influences are insufficiently assessed, the evaluations cannot assess the poverty effects of the aid.
- The role of the conditions in the developing countries is insufficiently understood, e.g. the role of social culture, clientelism and Dutch disease, and the limited relevance of primary education.
- The MFA does not use an explicit model of the managed system and, as is found here, the implicitly used model is inadequate. It causes the MFA's expectations about the effects of the aid to be too optimistic.

It can be observed that the twelve aspects were addressed indeed, but not in an effective way. The contribution of the MFA's efforts to the achievement of the goals and to poverty reduction is very limited. The external management of the Dutch development cooperation is not professional.

10.1.6 The internal management

The fourth sub-question is about the professional level of the internal management of the Dutch development cooperation.

The internal management of the Dutch development cooperation concerns the MFA's own organisation. It was analysed according to the twelve aspects of management in the research model. The various management aspects were addressed indeed, but several shortcomings were found. The procedures developed by the internal management to guide the Dutch aid are quite complex, but they only lead to decisions about the division of the aid funds over the goals and the partner organisations. There is no check whether the partners' plans are likely to contribute to poverty reduction. Aid efforts have to be tailored to the changing conditions in the developing countries, which requires knowledge and experience rather than formal procedures. In addition, the MFA focuses on procedures and accountability, which causes it to keep away from the uncertainties of aid implementation. Furthermore, the internal organisation structure is inefficient: it creates large amounts of formal and informal communication that does not contribute to the quality of the aid. Because of the inadequate way the internal organisation guides the external organisation, the contribution of the external organisation to the overall goal, poverty reduction, is very limited. The internal management of the Dutch development cooperation is not professional.

10.1.7 Overall Conclusion

The Dutch aid efforts were found to be largely ineffectual. Evidence of a lasting effect could seldom be established. The most fundamental shortcoming is that goals were pursued that were unattainable, unsustainable or irrelevant. Especially financial sustainability is a problem: because of lack of local funds for recurrent costs and replacement, after some time aid financed activities and facilities stop functioning. In other words: the aid does not address the reasons why these activities and facilities are missing. Further main shortcomings are: the MFA's bureaucratic approach; the limited capabilities of the MFA's employees with regard to the aid themes; the MFA's insufficient understanding of key local conditions; and its lack of involvement in the aid implementation. All this reduces the possibilities to tailor aid to local situation and to find solutions for the problems encountered. Too much aid can even be counterproductive: it may create aid dependency and Dutch disease. Aid efforts that can be expected to lead to sustainable poverty reduction are those that generate income for

the poor, e.g. programs of the FMO and PSOM. The FMO loans can be expected to contribute to economic development which generally contributes to poverty reduction. But the loans are of little assistance to people who lack the skills to generate products that earn them an income. And only one project under the PSOM employment creation program could be found that created jobs at reasonable costs.

10.1.8 Reflection on the conclusions regarding the Dutch aid

The question arises what is the root cause of the unsatisfactory management of the Dutch development cooperation. When in an organisation almost all aspects of the management show shortcomings over a longer period of time, to such an extent that the goals of the organisation are not achieved then, apparently, there is something fundamentally wrong with the management. Reviewing the mechanisms that cause the disappointing results, patterns can be seen that suggest that the development cooperation is based on a basic assumption that is invalid. That assumption is that poverty can be reduced by giving aid to people and countries that are poor, for example health service, infrastructure, food and schools, and also by arranging things for them in society, like democracy, public safety and gender equality. But the cause of poverty and of an inadequately organised society is not addressed. The question why poor countries, and especially poor people in these countries, lack all these things is not posed. The problem of poverty is interpreted as a lack of goods and services like water, health care and food as well as a lack of human rights, democracy and public safety. The aim of the aid is to make all this available. The main conclusion of this research is that the aid fails to achieve that. But even if all pursued goods and services were achieved at some moment in some country, that would not solve the problem because these goods and services have to be maintained, operated, reinforced, replaced and adapted to the circumstances, continuously. The aid recipients would still be unable to do that themselves. The problem of poverty is not that many things are lacking, but that they are not created by those who lack them. Where people lack the capacity to generate their own goods, services and social organisation, creating all that for them will not change that lack of capacity. The aid results are not sustainable. When the aid stops, the results deteriorate.

The Dutch development cooperation focuses mainly on providing goods and services (including social organisation) for the poor. Accepting that concept, the management approach of the MFA is quite logical. Then, involvement in the implementation is not necessary, it suffices to finance the schools, the water supply, the health centres, the efforts for gender equality and institution building. The government and the people in the country will take care of the teaching, maintenance and repair of the water supply, the health care services, and the democratic elections. In that case it is not necessary for the MFA employees to have knowledge of the aid themes, to monitor the programs, and to intervene if problems occur. The recipient governments will make good plans and

give the right instructions, and everything will function and will continue to do so. But that concept is invalid. Especially in SSA the capacity to generate, apply and re-create goods and services is very limited, since the required knowledge, capabilities and social capital are missing. The consequence is that no sustainable results are achieved. The concept which the aid is based on is at fault.

10.2 Contribution to science

As concluded in section 10.1.2, the research model applied in this research was quite helpful to assess the management of the Dutch development cooperation. The research model is an application of the general management model that was elaborated in this research (fig. 5.1). The general management model accommodates twelve aspects of management, that were found to play an important role in the management of the Dutch aid. The twelve aspects are commonly addressed in operational management in other fields too. They fit the classical theory of organisation, adopted for this research in section 4.4, an approach that focuses on planning, organising and controlling (Griffin 1990, p 48, 49).

The general management model developed under this research could also be suitable in other organisations where issues of the classical theory have to be dealt with. Especially where many management aspects should be assessed or changed in view of their contribution to the organisation's goals, the model can be quite useful. To the knowledge of the author, for this kind of management problems no other suitable models exist. The general management model developed under this research can be a useful contribution to management science.

10.3 Insights gained

The management of the Dutch development cooperation

With respect to the professional level of the management of the Dutch development cooperation, most of the conclusions comprise new insights through combining findings of various sources. Two findings in this research are based on one source only though. The first one is the conclusion that there is no statistical correlation between international aid and development, also if aid to well-governed countries is concerned (Easterly 2003). The second one concerns the inadequate monitoring of current aid programs and projects by the MFA (IOB 2004). Some other conclusions in this research are based on a small number of sources. An example is the conclusion that aid cannot bring democracy in developing countries, because it requires the development of a

middle class first. It is based on publications of Moore (1966) and Anderson (1972). Another example is the limited relevance of primary education to poor children, which is based on Bergmann (2002), TADREG (1993) and Freeman and Faure (2003). The reason to present these findings in this research is that they are applied to arrive at new conclusions about the professional level of the MFA's management. In case of the mentioned sources, the conclusion of this research is that certain objectives pursued by the MFA are unattainable or that its activities are ineffectual.

Most other conclusions regarding the management of the Dutch development cooperation deviate from those in other sources, or are not mentioned in other sources. With respect to the external management this concerns the conclusions about all management aspects investigated, except those mentioned above. Many of these topics are discussed in part or from another angle in other publications. Stoppelenburg en Vermaak (2005) analysed the MFA's organisational problems from a behavioural perspective. They found that the employees engage in abundant formal and informal communication that contributes little to the quality of the MFA's decision making. But Stoppelenburg en Vermaak fail to mention how the organisational structure and the large span of control contribute to this extensive communication. In many cases, conclusions are based on IOB evaluations. They focus on the results of the Dutch aid, but also address other management aspects. An example is the evaluation of the MFA's Africa policy. Various topics are investigated, e.g. budget and sector support, water supply, basic education, urban development, and good governance (IOB 2007b). The analysis comprises a concise analysis of external conditions and of the activities of other donors as well. Its conclusions mainly concern the effectiveness of the aid programs and the way they are implemented. But the IOB limits its conclusions to the projects and programs in question. It does not question the general viability of the MFA's approach, e.g. whether the main goals are attainable, sustainable or relevant in principle, and whether the non-involvement approach is basically effective.

Many sources discuss individual aid programs and conclude that they fail to achieve the intended effects. Often, also the side effects or local conditions that caused the failure are mentioned. But no sources could be found that conclude that in that type of programs these side effects or conditions will inhibit the effects *as a rule*. In this research six publications were used to formulate conclusions on Dutch disease, and most sources provide evidence that large amounts of aid contribute to it, and that the over-valued currency hampers the competitiveness of tradable goods sectors and inhibits economic growth. Combining these sources with those regarding the stagnation of SSA's manufacturing industry and with data on price level per world region, this research concludes that the Dutch disease effect of aid is a serious obstruction to

development in general. Rajan and Subramanian (2006) hint at this, stating that their findings about Dutch disease should be 'reason for concern' for the aid organisations.

One source, the Joint Implementation Network (2003), criticised the MFA's evaluation practice because it does not comprise the determination of the poverty effects of aid. But the criticism is of little use because the JIN does not explain how to attribute development results to a particular aid program. In this research a process is presented that would facilitate the attribution. It mainly consists of investigating all other relevant influences before and during aid implementation (8.16.3). Studies presenting a clear view regarding the other conclusions of this research are very scarce. For instance, a source that questions the MFA's view, that it can curb corruption in the developing countries or advance the position of women with respect to sexual health and rights could not be found. Other management aspects, e.g. processes (the inadequacy of the MFA's appraisal process for funding its partner organisations, 8.10), or capabilities (the limited capabilities of the MFA's employees with regard to the aid themes, 8.11), are hardly discussed in other sources. With regard to the overall conclusion of this research: that the management of the Dutch development cooperation is not professional, no other source could be found commenting on it.

Whether aid can reduce poverty at all

About the reason behind the inadequate management of the MFA: the faulty assumption that the problem of poverty is a lack of goods, services and social organisation, whereas it is the lack of capacity to create all this (10.1.8), no other authors could be found. The aid fails to achieve lasting results because it does not address the real problem. Several often quoted scientists concluded that aid has no effect, and that it may even be counterproductive. Moyo stresses the reduced accountability of the recipient government as a result of large amounts of aid and easy access to 'rents' (Moyo 2009). Many other authors found this negative effect in earlier years already, e.g. Knack (1999), Braütigam (2001), Braütigam and Knack (2004), and the IMF (2005). But they do see positive effects of the aid too, e.g. in the field of education attendance and health care. Easterly presents many examples of aid programs that failed to have an effect because the conditions in that particular situation were not taken into account. He argues that such programs could be effective if only the mistakes were avoided (Easterly 2006). Collier also blames the poor results on local conditions. He distinguishes four main conditional factors: violent conflicts, poor governance, countries being land-locked, and abundant natural resources. Such natural resources have the same effect as aid: the large amounts of funds weaken government accountability (Collier 2007). But no sources could be found that concluded that many aid goals are necessarily unattainable, unsustainable or irrelevant because of the mechanisms described in this research (Ch. 6 and 7).

The alternative approaches suggested by the quoted experts are not convincing. Moyo proposes to stop the aid and let the developing countries seek loans at the international capital market. But generally, the economies of the poorer countries are too weak and insufficiently stable to obtain commercial loans at reasonable conditions. Easterly advocates to carefully tailor aid programs to the local conditions in each individual case but, apart from ad hoc solutions, he does not present tangible recommendations how that should be done. Collier recommends to improve governance by making aid conditional but that cannot be expected to be successful. Governance quality is to a large extent a product of social capital in society, and very hard to influence from the outside in (section 6.2, 7.5). All three remedies ignore the problem that the poor countries lack the capacity to create the goods and services that constitute welfare. In the next section this research presents an alternative approach that does address the capacity problem.

10.4 Opportunities for improvements

10.4.1 Elements of a new strategy

As mentioned in section 4.3, a better understanding of the MFA's present management practice could facilitate the identification of opportunities for improvement. The conclusions of this research show that the main aid goals are unsuitable to achieve the overall goal, sustainable poverty reduction. In section 10.1.8 it was concluded that the very concept the development cooperation is based on, is inadequate. In this chapter an alternative concept is developed. Because the MFA's inadequate concept is abandoned here, it is not useful to try and remedy all identified shortcomings in the twelve aspects of the MFA's management. Thus, the opportunities for improvement elaborated here do not refer to inadequacies in the MFA's management.

Five conclusions of the research are adopted as starting points to guide the search for a new approach towards development cooperation.

1. The overall goal of the international and the Dutch development cooperation, sustainable poverty reduction, is commendable and should be maintained (2.9.2).
2. The main goals of the Dutch development cooperation are unsuitable to achieve sustainable poverty reduction. They should not be pursued (Ch. 6 and 7, section 8.19.2).
3. Social culture is very hard to change from the outside in. It is hardly possible to achieve improvements regarding corruption, governance, gender equality, democracy, and human rights through aid (6.2.2, 6.2.5, 7.5.1, 8.4.1-operational goal 5.3). Efforts in these fields are generally in vain.

4. The main problem regarding poverty is not lack of goods, services and rights, but the lack of capacity to create these (10.1.8).
5. Income generation by the poor can be expected to lead to sustainable poverty reduction (7.5.2, 8.8.10).

The development of new solutions for all twelve management aspects of the research model is not feasible within the context of this research. Here, the efforts are limited to the development of new goals and a new strategy. It can be observed that the starting points are interrelated. The lack of capacity to generate goods and services (including social organisation) also implies that people are not capable to earn an income. Therefore, the capacity to generate useful goods and services and to generate income is essential to achieve poverty reduction. Because aspects of social culture are very hard to change from the outside in, in the new approach no such efforts are considered. To find opportunities for successful aid, three examples are described of productive activities that lead to sustainable income generation by the poor. The first two examples concern agricultural programs supported by the MFA (box 10.1, 10.2). The third one concerns the Vietnamese policy to develop its manufacturing industry (box 10.3).

Box 10.1: Irrigated rice fields, Mali, 1982-2003 (IOB 2007b, p 279-282)

In 1978, 35.000 ha farm land along the Niger river was under irrigation, instead of 1 million, as originally planned. The system was poorly operated and maintained, the yield was 1 ton/ha, and hunger was common. In 1982 The Netherlands started to rebuild the irrigation system, and provided fertilisers, small machinery, and training. Encouraged by the IMF and other donors, among them The Netherlands, the responsible government department, the Office du Niger, became a public enterprise. The farmers' land rights were registered, and they were given more influence on the use of the irrigation fees. As a result, maintenance improved considerably. In 2003, yields had increased to 6 ton/ha. Two-third of Mali's rice production is grown in the project area. From a food importing country, Mali became a food exporting country. Next to rice also vegetables are grown now, and sold to the urban areas. Since the early 1980s, average farm income increased six-fold, and the area also offers work for many land labourers from other regions.

Box 10.2: Higher income for Peruvian farmers (Rengifo Vasquez 1982, p 40, 41)

At the Altiplano in the South of Peru rains are limited, and because of the altitude (4000 m) in the dry season it gets very cold. Extensive cattle breeding (sheep, lamas) are the dominant source of income but the proceeds are meagre and people are very poor. In the 1980s the MFA funded a project in the Melgar region to create irrigated pastures. Dutch experts recognised the opportunities for income generation through higher productivity. They analysed the market for wool, milk and meat of sheep, lamas and alpacas and they supported the construction of irrigation channels. But the main focus was on the transfer of knowledge and skills in the field of irrigation, better grass varieties, more productive cattle, cooperation at village level, and marketing. Also, loans were extended to invest in higher quality livestock. The incomes of the farmers increased substantially, especially of those farmers who best mastered the new techniques, and more employment was created. Because of the transferred know-how, the cooperation structure and the increased incomes, the improvements were sustainable. Operation, maintenance and repair of the infrastructure were sustainable, financially, organisationally as well as technically *.

* The author participated in this project in the early 1980s

Box 10.3: Vietnam's policy to develop its manufacturing industry

In the 1980s, Vietnam gradually allowed private enterprises to produce for the market ('Doi Moi'). This change of policy turned out to be quite successful: the economy began to grow and poverty began to reduce. But according to several of the CPIA criteria Vietnam's policy was rather poor, e.g. regarding the reform of state enterprises, the regulations for foreign investment, and corruption control (Van Arkadie & Dinh 2004, section 1). On another CPIA indicator it performed quite well, though: it maintained a quite low exchange rate and therefore a very low price level, about 0.2 between 2000 and 2005 (World Bank 2002, 2007c *). But one (non-CPIA) policy aspect made the difference (Van Arkadie & Dinh 2004, section 3.1). In the early 1980s already -before the period of fast economic growth- the government strongly advanced technical and professional training. The combination of a low exchange rate and skilled labour made Vietnam's export quite competitive. Between 1999 and 2007 export to the EU increased from € 3.4 billion to € 7.9 billion, an average growth of 11%/yr (EU 2009, p 40). Because the export consists for a major part of labour intensive industrial products (textile, shoes, small equipment), many people found jobs. During the last years, labour is becoming scarcer and minimum wages are increasing: from 35 \$/month in 2005 to 48 \$/month in 2007 (current US \$) (Japan External Trade Organisation 2006, NWPC 2008). As a result of economic growth, between 1990 and 2005 life expectancy increased from 65 to 71 years, and under five mortality reduced from 53 to 19%.

* Price level data for earlier years are not available

Comparing these cases, several conclusions can be drawn with respect to the issues that play a role in the promotion of income generation. First, measures to reduce poverty can be quite effective indeed. Donors can provide aid that really makes a difference. Furthermore, developing countries can elaborate a policy that advances private sector growth and employment creation and, over time, large scale poverty reduction. Furthermore, it can be observed that in all examples the acquisition of knowledge played a major role. In each case the entrepreneurs (companies, farmers) were supported in the acquisition of knowledge and capabilities that enabled them to improve their production process. In the last example also the workers were educated. The examples also show the importance of knowledge of the market. Often, development programs to advance small companies concentrate on professional skills only. But that is not sufficient. Like in the western countries, the company only has a chance if its products⁴⁷ meet a demand, are competitive and well marketed, and if they can generate a profit. This is illustrated by the fact that, to extend a loan, banks require a business plan that especially describes the marketing approach and the financial plan (IMK 1995). Private companies as well as craftsmen and shopkeepers working as entrepreneurs, have to find customers for their products and convince them to buy the products for a price sufficient to make a profit. Therefore, the entrepreneurs must for instance find out their clients' expectations regarding the products' performance and quality, and make cost calculations. The research model applied to analyse the MFA is not suitable here, and for small entrepreneurs it is also too complex. A different set of management aspects is required. Based on the considerations above, the following four aspects of management were selected to be part of a strategy to advance income generating activities of small entrepreneurs: marketing, production process, quality management and financial management. Workers require skills in their professional field only.

10.4.2 Education planning and business climate

Skills and education needs, and business development

To maximise the effect on income generation, it is essential that the offered knowledge and skills match the demand, and that the (sub-)sectors with the highest potential for employment generation are supported. Therefore, the most promising sectors should be identified. The opportunities in these sectors for the expansion of existing enterprises and for the creation of new ones should be estimated. The knowledge and business skills the entrepreneurs in these sectors require should be determined. It should be taken into account that often business opportunities are missed. Failing elements in the supply chain may go unnoticed, e.g. methods to preserve food products, or leisure activities for tourists. Furthermore, often chances to improve production technology, business

⁴⁷ The term product is meant to comprise services as well

processes or marketing are overlooked. The opportunities are often sub-sector specific. Sub-sector wide consulting could help entrepreneurs to overcome their problems and seize new opportunities. For instance, in 1992 the EU carried out a project to assess the opportunities for Indonesian companies to produce mechanical equipment for energy supply systems. A team of international consultants determined the required expansion of the technical infrastructure, and the equipment that could be produced locally. Obstacles for local companies were identified and taken away, e.g. technical standards in French or German were translated in English, and support was provided in the field of quality management and certification.⁴⁸

Based on such opportunity oriented market investigations, the expected amount of jobs per sub-sector should be assessed, and skills demand assessments should be carried out to determine the required numbers, vocations and skills of the workers. Skills availability assessments should be carried out to determine the present numbers of skilled workers. By comparing the two assessments, the skill gaps and training needs can be found. By assessing the existing types and capacity of education and training, the education and training gap can be determined. This allows the planning and implementation of market oriented education and training programs. A similar analysis should be made for entrepreneurs, including those running small, sometimes one-person, companies.

Apart from knowledge and skills, a conducive business climate is important for the success of the private sector. Rules and regulations should be straightforward, and permits easy to obtain. For international competitiveness, price level should be low (section 6.4.1). (Sub-)sector specific measures may be necessary. For instance, to advance agriculture the import tax on fertilisers and insecticides should be kept low. Furthermore, measures to improve the infrastructure may be necessary, e.g. transport and warehousing.

The role of the local government and of aid

The Vietnam example shows that the government can play an important role in income generation. Typical tasks of the government are maintaining a conducive business climate, especially for employment generating sectors like agriculture and manufacturing industries. Where the domestic market is small, the government should encourage local entrepreneurs to export. It should maintain a low domestic price level, improve infrastructure and simplify administrative procedures.

In most developing countries, both the government and the private sector lack the expertise to carry out a project with regard to skills transfer as described. Furthermore,

⁴⁸ The author participated in this project, in the field of renewable energy

expertise in the field of economic policy and business development is not always sufficiently available. This concerns for instance tailoring the economic policy to suit the situation in the country (Hausmann, Rodrik and Velasco 2006). An assessment should be made of the required expertise and of the expertise available in the country. The lacking expertise should be provided through international experts.

The experts should avoid blue-print solutions, also the education and training efforts should be tailored to the local conditions (Easterly 2006). These conditions may vary considerably. Sometimes the government support is limited to companies with good connections to influential politicians. In such cases the aid should focus on direct cooperation with groups of companies and with schools and training institutes. It also happens that the government is not really interested to remove obstacles. For instance, it may keep procedures for companies complex, because they offer attractive possibilities to extort bribes. Furthermore, in countries with large foreign exchange income from natural resources, it may be hard to avoid high price level. When in such countries local activities are protected from international competition by import taxes, e.g. on agricultural products, there may still be some opportunities for private sector development. Where such protection is missing, the opportunities may be restricted to the non-tradable goods sectors, like services and civil construction. The design and implementation of the aid program should be geared towards the available opportunities.

The role of the Dutch aid

The Dutch development cooperation has little experience with the kind of aid described here. The CBI provides information and training to entrepreneurs in the field of export to the EU, and to a limited extent also with regard to production techniques, e.g. iron casting. It also carries out market surveys, e.g. regarding engineering products (CBI/IPL 2004). PUM provides ad hoc management advice to companies in developing countries (NIB Consult 2007). The PSOM program subsidises Dutch companies that invest in developing countries (Ecorys 2002, 2005). The transfer of knowledge and skills is not a goal in the PUM and PSOM programs. Also in the PSOM's follow-up program, PSI, the transfer of knowledge and skills is no criterion. In a Letter to the House of Commons, the MFA describes the Dutch support to industrial development in Africa (MFA 2006n). Vocational and professional education and training are not mentioned in that document.

In other donor countries more knowledge and experience is available. An example is the German GTZ. Vocational and Professional Education and Training (VPET) is an important issue in the German development cooperation. GTZ supports VPET in many countries, not only financially, but also through sending experienced German teachers to technical schools in developing countries. Because children of poor families do not

receive any further education after primary school, in some cases practical vocational education in primary school curricula was supported (Bergmann 2002). Also the British development cooperation, DFID, is quite active in the field of VPET. A DFID Practical Paper describes the developments with regard to this kind of education in development cooperation world wide, the different ways of providing education and training (e.g. in school versus in companies), and the experiences with the various arrangements. It also lists the activities in this field of many other development cooperation organisations.

Because of its limited experience the MFA should expand its activities in this field by cooperating with the German and British aid organisations. In this way it can gather experience. With respect to sectoral expertise, there is quite some knowledge and experience in the Netherlands in areas like supply chain management, agriculture and water-related infrastructure. The Dutch aid should concentrate on these themes to avoid fragmentation of the aid and to accumulate experience. In the past, The Netherlands also counted numerous experts with experience in development cooperation. But since the introduction of the Sector Wide Approach and the ownership principle in the early 1990s, the experts found jobs elsewhere, and the universities considerably reduced education in development cooperation related topics, like tropical forestry. The MFA should consider to re-introduce the Dutch expert, and to stimulate universities to start relevant programs again.

The proposed new aid approach deviates from the traditional one in many respects. Its main characteristic is that it focuses on the transfer of knowledge and skills to enable the poor to earn an income. This allows the people to assume responsibility for their own lives as well as for the development of their society. Instead of remaining dependent on aid, people take their future in their own hands. The history of fast growing countries shows that economic development and more prosperity also lead to improvements in social services, human rights, and good governance. This applies to individual people as well as to groups of people and the whole society. Economic development also contributes to the accumulation of social capital in society. When a middle class develops, the political system tends to change into a western style democracy.

10.5 Recommendations for further research

How to design and implement analyses to prepare for skills development

In the previous section, a number of country analyses are recommended to prepare for aid programs in the field of income generation by the poor. There is some experience with these analyses already in the British DFID (DFID 2007) and German GTZ. They

also seem to have some experience with needs assessments for skilled workers and entrepreneurs and with the identification of new business opportunities and potential expansions. Where such experience is insufficiently available, research should be carried out to find out how to carry out the more comprehensive analyses proposed in section 10.4.2. The product of the research should be a description of the analyses. On the one hand it should comprise what the result of the analyses should be with respect to topics like country situation, relevant infrastructure, demand and supply of skills, numbers of potential trainees in different trades, and potential incomes. On the other hand it should specify what is required to create that result, i.e. what tasks have to be carried out, how many people should be involved, with what qualifications, and for what periods of time.

In developing countries, conducting such an analysis is much more difficult than in Western countries. In Western countries, the supply and demand for skilled labour and the chances for entrepreneurs in certain sectors can be investigated based on data from sectors organisations and schools for professional education. In developing countries such data is unreliable or not available. That pupils earned a certificate in some trade does not provide reliable information about their capabilities. Also the curricula of schools for professional education say very little, because the information about the content of the courses is often inflated. Local companies tend to provide overly optimistic information about their technical possibilities and product range. Therefore, the aid program should collect the data by inspecting the companies and their products and processes, and by testing the starting level of potential trainees. Similarly, the analysis of infrastructure and supply chains has to be carried out by checking issues like road conditions in the rainy season, warehouses, and truck movements. The approach for the analyses has to be developed through observations in practice and by trying different ways. That means that the research has the character of a pilot project as well. Apart from scientists also development cooperation experts should be involved in this research, especially in the activities in developing countries. Apart from a description of the analyses, a positive effect of the research would be that scientists and development experts accumulate knowledge and experience that can also be used in income generation programs with a different orientation.

How to include training of income-relevant skills in primary education

Related to income generation by the poor is the issue of the relevance of primary education. Poor children learn reading and writing, often only a little bit, and get no further education. They start working at the age of 10-12. Therefore, it is worth considering to incorporate simple, practical skills in the primary education curriculum. In this way they would have a better chance to generate an income. Some experience is available in this field already (Bergmann 2002), which can be used to design the

research. The results of the research regarding income generation could be helpful to determine the kind of skills to be taught in the primary school curriculum. The research should also comprise the question how teachers should be educated to match the revised curriculum. The research requires specialists on simple income generating skills and on child education. Also in this case research and pilot projects should be carried out to fine-tune the training and to adapt it to local conditions.

How to avoid Dutch disease through aid

Another factor affecting the success of efforts to advance income generation, is local price level. In SSA countries, price level is often too high because of Dutch disease. It affects competitiveness and inhibits the development of agriculture and of the manufacturing industry. In this way opportunities to generate large scale employment are missed. Aid, including the Dutch aid, is one of the flows of foreign exchange that cause Dutch disease. The MFA lacks an instrument to determine whether local price level is at a correct level. It also has insufficient understanding of the various other factors that determine price level and competitiveness. Therefore it has no suitable criteria to judge whether or not the Dutch aid is too high. But even if it would be found too high, the MFA does not have alternative ways to provide aid, in such a way that it does not contribute to Dutch disease. Therefore, it would be helpful to carry out research with regard to the criteria to judge local price level, and also with regard to forms of aid that do not contribute to Dutch disease, e.g. technical assistance and the transfer of knowledge and skills. Technical assistance could deal with issues like monetary policy, international trade and macro-economics. The transfer of knowledge and skills comprises program design and implementation i.e. non-financial aid. These two types of activities are not related, and the research should consist of two independent programs. The first one, about the Dutch disease, goes beyond the MFA's policy, it is an issue of the international aid as well. It could be carried out by specialist economists, for instance of the IMF, with participation of Dutch economists. The second issue, regarding non-financial aid, could be addressed by the same parties that investigate the income generation question.

Aid programs developed according to the described approach can be expected to contribute to income generation, and therefore to lasting poverty reduction.

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APPENDIX 1: PROGRESS TOWARDS THE MILLENNIUM GOALS

Table A.1: Progress towards the Millennium Development Goals

Major trends in the Goals, by region	Africa		Asia				Oceania	Latin America & Caribbean	Commonwealth of Independent States	
	Northern	Sub-Saharan	Eastern	South-eastern	Southern	Western		Europe	Asia	
Goal 1 Eradicate extreme poverty and hunger										
Reduce extreme poverty by half	on track	high, no change	met	on track	on track	increasing	no data	low, minimal improvement	increasing	increasing
Reduce hunger by half	high, no change	very high, little change	progress but lagging	progress but lagging	progress but lagging	increasing	moderate, no change	on track	low, no change	increasing
Goal 2 Achieve universal primary education										
Universal primary schooling	on track	progress but lagging	on track	lagging	progress but lagging	high but no change	progress but lagging	on track	declining	on track
Goal 3 Promote gender equality and empower women										
Girls' equal enrolment in primary school	on track	progress but lagging	met	on track	progress but lagging	progress but lagging	on track	on track	met	on track
Girls' equal enrolment in secondary school	met	progress but lagging	no data	met	progress but lagging	little change	progress but lagging	on track	met	met
Literacy parity between young women and men	lagging	lagging	met	met	lagging	lagging	lagging	met	met	met
Women's equal representation in national parliaments	progress but lagging	progress but lagging	declining	progress but lagging	very low, some progress	very low, no change	progress but lagging	progress but lagging	recent progress	declining
Goal 4 Reduce child mortality										
Reduce mortality of under-five-year-olds by two-thirds	on track	very high, no change	progress but lagging	on track	progress but lagging	moderate, no change	moderate, no change	on track	low, no change	increasing
Measles immunization	met	low, no change	no data	on track	progress but lagging	on track	declining	met	met	met

Table A.1 (cont.): Progress towards the Millennium Development Goals

Goal 5 Improve maternal health										
Reduce maternal mortality by 3/4	moderate	very high	low	high	very high	moderate	high	moderate	low	low
Goal 6 Combat HIV/AIDS, malaria, and other diseases										
Halt and reverse spread of HIV/AIDS	no data	stable	increasing	stable	increasing	no data	increasing	stable	increasing	increasing
Halt and reverse spread of malaria	low	high	moderate	moderate	moderate	low	low	moderate	low	low
Halt and reverse spread of TB	low, declining	high, increasing	moderate, declining	high, declining	high, declining	low, declining	high, increasing	low, declining	moderate, increasing	moderate, increasing
Goal 7 Ensure environmental sustainability										
Reverse loss of forests	less than 1% forest	declining	met	declining	small decline	less than 1% forest	declining	declining except Caribbean	met	low
Halve proportion without improved drinking water in urban areas	met	no change	declining access	high access, no change	met	met	high access, no change	met	met	met
Halve proportion without improved drinking water in rural areas	high access, little change	progress but lagging	progress but lagging	progress but lagging	on track	progress but lagging	low access, no change	progress but lagging	high access, limited change	high access, limited change
Halve proportion without sanitation in urban areas	on track	low access, no change	progress but lagging	on track	on track	met	high access, no change	high access, no change	high access, no change	high access, no change
Halve proportion without sanitation in rural areas	progress but lagging	no change	progress but lagging	progress but lagging	progress but lagging	no change	no change	progress but lagging	little change	little change
Improve the lives of slum dwellers	on track	rising numbers	progress but lagging	on track	some progress	rising numbers	no data	progress but lagging	low but no change	low but no change
Goal 8 A global partnership for development										
Youth unemployment	high, no change	high, no change	low, increasing	rapidly increasing	low, increasing	high, increasing	low, increasing	increasing	low, rapidly increasing	low, rapidly increasing

APPENDIX 2: PARTNER COUNTRIES AND FINANCIAL FLOWS

Appendix 2.1: Dutch partner countries

Table A.2.1: The 36 partner countries receiving Dutch bilateral aid (MFA 2008g)

Afghanistan	Burkina Faso	Guatemala	Nicaragua	Suriname
Albania	Cape Verde	Indonesia	Pakistan	Tanzania
Armenia	Colombia	Kenya	Palestinian Authority	Uganda
Bangladesh	Egypt	Macedonia		Vietnam
Benin	Eritrea	Mali	Rwanda	Yemen
Bolivia	Ethiopia	Moldova	Senegal	Zambia
Bosnia-Herzegovina	Georgia	Mongolia	South-Africa	
	Ghana	Mozambique	Sri Lanka	

During the last years also substantial aid was given to four other countries: Sudan, Burundi, Democratic Republic of Congo, and Kosovo (MFA 2009a).

Appendix 2.2: ODA and non-ODA financial flows

Table A.2.2: Total Dutch net financial flows to developing countries, 2006 (DAC)

Total Dutch financial flows 2006	\$ mln
Official development assistance (ODA)	5452
Other official flows	343
Private voluntary agencies	277
Private flows at market terms	22544
Thereof: Direct investments	6351
Private export credits	5713
Securities multilateral org.	- 248
Bilateral portfolio investments	10728
Total	28616

APPENDIX 3: THE ORET PROGRAM

Overview minimum wages

Randomly selected developing countries from those for which data was available:

Table A.3.1: Minimum wages in 2004

Country / source	Minimum wage \$/month, 2004	Minimum wage €/month, 2004
Ghana (US Department of State 2007a; The Statesman 2007)	26.0	21.0
Indonesia (US Department of State 2007b; US Library of congress 2004)	54.0	44.5
Mozambique (US Department of State 2007d; KEPA 2004)	43.5	36.0
Tanzania (US Department of State 2007c; National Bureau of Statistics 2004)	54.0	44.5
Thailand (Corporate Social Responsibility Asia 2004; Asian Human Rights Commission 2004)	75.0	61.5
Estimated average minimum wage	50.5	41.5

These wages are calculated based on data from the US Department of State and other sources, assuming that a year counts 250 paid days. Where different wages were applied for cities and rural areas the average is used.

Estimation of average minimum wage for 1997 in fl.

2004 minimum wages in \$ are converted in € at the exchange rate of 1-07-2004⁴⁹. From the \$ wage an average minimum wage for 1997 is estimated in Dutch guilders. The following numbers are used: a minimum wage in the developing countries of about \$50.5/month (table A.3.1) in 2004, an average purchasing power increase for least developed countries in \$ US of 1.6 % /yr in the period 1990-2004 (UN 2006, p 334), an inflation of the dollar over 1997-2004 of a factor 1.147 (DAC 2006b), and an exchange rate of the guilder of fl. 1 = \$ 0.509 in 1997⁵⁰. The average minimum wage is found to be $50.5 / ((1.016)^7 \times 1.147) = \$ 39.4/\text{month} = \$ 473/\text{yr}$. This divided by the exchange rate of the guilder makes fl. 930/yr.

⁴⁹ FXTrade Forex Trading; at 01-07-2004 \$ 1 = € 0.82, www.oanda.com

⁵⁰ FXTrade Forex Trading; at 01-07-1997 fl.1 = \$ 0.509, www.oanda.com

Estimation of the cost of employment creation 1994-1999

Assuming the program subsidies equally divided over the creation of local and Dutch jobs, the locally created jobs, 1,750 permanent and 3,600 temporary ones (p XX), cost $\frac{1}{2} \times 1$ fl billion / (1,750 + 3,600) = fl. 93,500 or € 42,400 each. In most developing countries it is not common that the minimum wage is really paid, but it is assumed that all Dutch supported projects did so. Table A.3.2 shows that wage in PPP is 5.25 times higher than the poverty line of 1 \$/day PPP. Based on 2004 data the minimum wage for 1997 was estimated to be about fl. 930 / year (see above) or € 420. So, cost per job equals about 100 man-years minimum wage. With respect to employment creation in the Netherlands, the 1,770 person-years created by the 30 (out of 118) investigated projects (p XXIV) required $\frac{1}{2} \times 1$ fl billion $\times (30/118) / 1,770 =$ fl. 71,800 or € 32,600 / person-year, twice modal Dutch wage in the early 1990s.

Estimation of the cost of employment creation 1999-2004

According to the evaluation report (p 36) the average cost per man-month for permanent jobs in the developing countries (grant) was € 590/month, assumed the cost is spread over ten years (p 37-38). But the evaluation assumes that all subsidy is used for jobs in developing countries. If a 50/50 division between Dutch and recipient country jobs is assumed, the cost in the recipient country would be € 295/month and over 10 years that makes $295 \times 12 \times 10 =$ € 35,400 / permanent job. The report does not present the cost of temporary jobs, but by subtracting the 'Total permanent' data from the 'Total temporary and permanent' data, it is found that grants of € 12,945,000 were spent in projects creating 4,617 person-months in temporary jobs lasting 5 years. Again assuming the 50/50 division of the grants, this equals $\frac{1}{2} \times € 12,945,000 / 4,617 =$ 1402 € / person-month, or $1402 \times 5 \times 12 =$ € 84,100 / temporary job. If the evaluation would not exclude the projects that created negative or zero employment, the cost per job would be higher still. From the 2004 minimum wage in \$ (table A.3.1) and corrected for inflation (see DAC deflators) in 2002 the minimum wage was about $50.5/1.292 =$ \$ 39.2 /month. With a purchasing power correction of 1.016 /yr and the exchange rate at 01-07-2002 € 1 = \$ 1 (www.oanda.com), minimum wage in \$ was $39.2/(1.016)^2 =$ \$ 37.9/month or € 454/yr (DAC 2006b). So, the cost per permanent job equals $35,400/454 =$ 78 man-years minimum wage, and for temporary jobs $84,100/454 =$ 185 man-years minimum wage. In 8 out of 22 investigated projects also jobs were created in the Netherlands, the costs were € 7,830/man-month, or € 94,000 per man-year (56).

Estimation of cost to lift 100 million people out of poverty

A rough estimate was made of the cost to lift 100 million people out of poverty and to reach an income of 1 \$/cap.day PPP (purchasing power parity, see 2.3.1). In the five countries for which minimum wages were determined, the relation between nominal

wage and PPP was obtained from data on GDP/cap and PPP/cap, see table A.3.2. (World Bank 2006f, table 1.1).

Table A.3.2: Minimum wage in \$ (nominal) and PPP , 2004 (WB)

Country	\$ GDP/ cap.yr	\$ PPP/ cap.yr	Minimum wage, \$/ month, nom.	Minimum wage, \$/ month, PPP
Ghana	380	2220	26	151
Indonesia	1140	3480	54	176
Mozambique	270	1170	43.5	187
Tanzania	320	670	54	113
Thailand	2490	7930	75	173
Average			50.5	160

For these countries the average minimum wage PPP is about 160 \$/month, or about 5.25 \$/day PPP. Provided the earnings are equally spread, 1 person with a minimum wage job can sustain 5.25 people (himself included) at an income level of \$ 1/day PPP. So, $100 \text{ million} / 5.25 = 19 \text{ million}$ people should find a job. Assuming the same costs / job as under the here investigated program, i.e. € 35,400 / permanent job, total costs would be $19 \text{ million} \times 35,400 = \underline{\underline{\text{€ } 670 \text{ billion}}}$ (Euros of 2004).

APPENDIX 4: TABLES OF CONTENT OF MANAGEMENT TEXTBOOKS

Griffin's textbook: 'Management', table of contents

- Part I: An introduction to management
- Ch 1: Managing and the manager's job
- Ch 2: The evolution of management thought
- Ch 3: Organisational environments and effectiveness
- Part II: Decision making and planning
- Ch 4: Managerial decision making
- Ch 4: Organisational goals and planning
- Ch 6: Strategy and strategic planning
- Ch 7: Tactical and operational planning
- Part III: The organising process
- Ch 8: Components of organisational structure
- Ch 9: Organisation design and culture
- Ch 10: Managing human resources
- Ch 11: Organisation change, development and revitalisation
- Part IV: The leading process
- Ch 12: Motivating employee job performance
- Ch 13: Leadership and influence processes
- Ch 14: Interpersonal processes, groups, and conflict
- Ch 14: Communication in organisations
- Part V: The controlling process
- Ch 16: The nature of control
- Ch 17: Operations management, productivity and quality
- Ch 18: Managing information systems
- Ch 19: Control techniques and methods
- Part VI: Special challenges of management
- Ch 20: Entrepreneurship and small business management
- Ch 21: Managing in the international sector
- Ch 22: Managing with ethics and social responsibility

Stoner and Wankel's Textbook: 'Management', table of contents

1. Managing and managers
2. The evolution of management theory
3. Ethics, social responsibility and the external environment of organisations
4. Making planning effective
5. Strategic planning
6. Problem solving and decision making
7. Aids for planning and problem solving
8. Operations management and productivity
9. Division of work and organisational structure
10. Coordination and organisational design
11. Authority, delegation and decentralisation
12. Staffing and human resource management
13. Managing organisational change and development
14. Managing organisational conflict and creativity
15. Motivation, performance and satisfaction
16. Leadership
17. Groups and committees
18. Interpersonal and organisational communication
19. Organisational careers and individual development
20. Effective control
21. Financial control methods
22. Information systems and control
23. International management

' Poly management pocket book', table of contents

- A1: What is management?
- A2: Management approach of problems
- B1: Management
- B2: Strategic management
- B3: Organisation
- C: Commercial function
- D: Development function
- E: Production function
- F: Financial function
- G: Social function

APPENDIX 5: CORRUPTION

Appendix 5.1: Corruption level of Dutch partner countries

*Table A.5.1: Transparency International Corruption Perceptions Index 2007 (CPI)
10 = not corrupt, 1 = very corrupt*

Rank	Country	2007 CPI
43	South Africa	5.1
49	Cape Verde	4.9
68	Colombia	3.8
69	Ghana	3.7
71	Senegal	3.6
72	Suriname	3.5
79	Georgia	3.4
84	Bosnia-Herzegovina	3.3
84	Macedonia	3.3
94	Sri Lanka	3.2
94	Tanzania	3.2
99	Mongolia	3.0
99	Armenia	3.0
105	Burkina Faso	2.9
105	Egypt	2.9
105	Bolivia	2.9
105	Albania	2.9
111	Rwanda	2.8
111	Moldova	2.8
111	Mozambique	2.8
111	Eritrea	2.8
111	Guatemala	2.8
111	Uganda	2.8
118	Benin	2.7
118	Mali	2.7
123	Nicaragua	2.6
123	Vietnam	2.6
123	Zambia	2.6
131	Yemen	2.5
138	Ethiopia	2.4
138	Pakistan	2.4
143	Indonesia	2.3
150	Kenya	2.1
162	Bangladesh	2.0
172	Afghanistan	1.8

Appendix 5.2: Mechanisms of corrupt practices

The mechanisms of rigging tenders

Donor organisations request international open tenders for all aid sponsored goods that exceed a certain sum. The international tender procedure is strictly regulated (ADB 2006). But the local officials in charge of the tender process are very clever in rigging the procedure. In case of domestic tenders (bidders are national companies) the intended winner and his bid sum are decided upon in advance. His bid sum is set at, say, 50% above the cost of the goods (including all costs and profit). The other bidders are requested to submit a bid with a bid sum somewhat higher than the intended winner's. The winner is paid the normal price only, the rest is for the officials. Suppliers that do not obey the 'rules' are once and for all excluded from future bidding. In case of international tenders (bidders are international companies) this method is not possible. Therefore an adapted procedure is followed: a deal is made with a 'trusted' supplier to submit a bid for a price low enough to beat all other bids, e.g. 90% of the lowest expected bid. That bidder delivers only part of the specified goods (50 or 60%) and he is paid for that lesser amount only ⁵¹. Often, the amount of goods and services mentioned in the tender documents is increased to compensate for the fact that less will be delivered. Especially expensive knowledge transfer and maintenance services are popular because it is very hard to assess whether they are actually supplied.

Covering up procurement corruption

The collusion between the contracting party and the bidders is such that the procedure can be rigged almost without any trace. In most cases it would not help if the donor counted and checked all delivered goods, the officials could just borrow them from the supplier and then send them back after inspection. Controlling the supplier's books is not the answer either. If the supplier gets paid only part of the bid sum (see the example above), his books do not balance, but he will make sure that on paper everything tallies: he will carefully doctor his administration, including fake delivery notes. To avoid problems, Western suppliers often supply their products to a local counterpart organisation that does the covering up.

It is clear that corrupt practices can be hidden quite effectively and that it is almost impossible for donor organisations to guarantee clean procedures.

Other mechanisms of corruption

Aid organisations should be aware not only of fraudulent procurement, but also of other kinds of corrupt practices. Some examples are presented here:

⁵¹ The author participated in this kind of tenders on many occasions

- the use of government backed trade monopolies to earn large amounts of money at the expense of the suppliers and buyers of the goods;
- the use of inflationary financing (printing excess bank notes) to facilitate state funds to be siphoned off;
- 'non-performing loans' of state banks to private parties that were never intended to be paid back;
- donations to and misuse of funds of 'charity' foundations and NGOs that are not controlled by the tax inspector, so the flow of funds cannot be traced;
- misuse of funds of public service organisations, e.g. water supply and electricity, by claiming that many users do not pay the bills, whereas in fact nearly all do;
- under-reporting of income and over-reporting of expenses by (semi-) government organisations and state companies, e.g. the national tax office, the state steel mill and the national railway company.

APPENDIX 6: WATER SUPPLY AND MALNOURISHMENT

Table A.6.1: Sample 1 - Improved water supply and child malnourishment, SSA, (WHO files)

HDI Rank	Country	Years of nutrition surveys	Improved water source, %		Population malnourished, weight, %		Children <5, malnourished, height, %		Idem, rural areas	
			1990-92 UN	2000-02 UN	1990-92 UN	2000-02 UN	Survey yr 1 WHO	Survey yr 2 WHO	Survey yr 1 WHO	Survey yr 2 WHO
138	Ghana	1993, 2003	54	79	37	13	26	30	30	35
144	Uganda	1995, 2000	44	56	24	19	38	39	40	40
145	Zimbabwe	1994, 1999	77	83	45	44	21	27	23	29
146	Madagascar	1993, 2003	40	45	35	37	49	48	51	49
148	Cameroon	1991, 2004	50	63	33	25	26	32	32	38
154	Kenya	1993, 2000	45	62	44	33	33	35	35	38
157	Senegal	1992, 2005	68	72	23	24	25	25	31	29
158	Nigeria	1993, 2003	49	60	13	9	38	38	41	43
159	Rwanda	1992, 2000	58	73	44	37	49	43	49	44
163	Côte d'Ivoire	1986, 1998	69	84	18	14	17	25	20	29
164	Tanzania	1991, 1999	38	73	37	44	43	44	45	48
165	Malawi	1992, 2000	41	67	50	33	49	49	51	51
166	Zambia	1992, 2001	50	55	48	49	40	47	46	52
174	Mali	1987, 2001	34	48	29	29	30	38	33	43
175	Burkina Faso	1993, 2003	39	51	21	19	33	39	36	42
177	Niger	1992, 1998	40	46	41	34	40	40	42	42

Table A.6.2: Sample 2 - Improved water supply and child malnourishment, SSA, (DHS files)

HDI Rank	Country	Years of nutrition surveys	Improved water source, %		Population malnourished wght, %		Children stunted, <5, height ,%	
			1990-92 UN	2000-02 UN	1990-92 UN	2000-02 UN	Survey year 1 DHS	Survey year 2 DHS
138	Ghana	1993, 2003	54	79	37	13	26	29
143	Togo	1988, 1998	49	51	33	26	20	22
144	Uganda	1988, 2000	44	56	24	19	25	39
145	Zimbabwe	1994, 1999	77	83	45	44	21	26
146	Madagascar	1992, 2003	40	45	35	37	54	47
148	Cameroon	1991, 2004	50	63	33	25	23	37
154	Kenya	1993, 2003	45	62	44	33	33	30
157	Senegal	1992, 2005	68	72	23	24	25	16
158	Nigeria	1990, 1999	49	60	13	9	43	45
159	Rwanda	1992, 2000	58	73	44	37	48	43
162	Benin	1996, 2001	60	68	20	15	25	27
163	Côte d'Ivoire	1994, 1998	69	84	18	14	25	25
164	Tanzania	1991, 1999	38	73	37	44	43	43
165	Malawi	1992, 2004	41	67	50	33	49	48
166	Zambia	1992, 2001	50	55	48	49	40	47
173	Chad	1996, 2004	20	34	58	34	40	41
174	Mali	1987, 2001	34	48	29	29	24	34
175	Burkina Faso	1993, 2003	39	51	21	19	30	39
177	Niger	1992, 1998	40	46	41	34	32	41

APPENDIX 7: GOOD GOVERNANCE AND ECONOMIC DEVELOPMENT

Table A 7.1 shows the 2002 and 2006 CPIA and the Kaufmann scores of four Dutch partner countries with firm economic growth. For 2006 average CPIA scores were available, for 2002 the average of the individual indicators was determined. In 2002 the scores used a scale from 1 to 5 (1 is best), in 2006 from 1 to 6 (6 is best). Because of the different scale only the relative ranking is significant.

*Table A 7.1: CPIA scores **

IRAI score 2002 and 2006 (2002=quintile)	economic policy (2002)	structural policy (2002)	social inclusion (2002)	public sector (2002)	portfolio management (2002)	ranking 2002	average 2006	Kaufmann indicators 2000	Kaufmann indicators 2006
Country									
Uganda	1	1	1	2	3	1.6	3.9	-0.82	-0.60
Tanzania	1	2	1	1	2	1.4	3.9	-0.51	-0.33
Ghana	3	2	2	1	1	1.8	3.9	-0.09	-0.05
Vietnam	1	3	1	3	3	2.2	3.9	-0.56	-0.50

* IDA 2003; IDA 2007b

It can be seen that, of these four, Tanzania had the best IRAI ranking and Vietnam the worst in 2002, whereas in 2006 they all scored the same. With respect to the Kaufmann indicators for 2000 and 2006, Vietnam is average and Ghana scores best. Table A 7.2 shows the gross domestic product per capita in constant 2000 dollars, i.e. corrected for inflation. Vietnam has by far the strongest economic growth.

*Table A 7.2: GDP per capita, PPP (constant 2000 \$)**

Country	1990	2000	2002	2004	2006
Uganda	829	1167	1219	1257	1313
Tanzania	518	521	564	604	650
Ghana	1618	1920	1997	2126	2300
Vietnam	1153	2040	2274	2557	2925

* (World bank 2009)

APPENDIX 8: INTERNAL DOCUMENTS AND INTERVIEWS

Appendix 8.1: List of consulted internal documents

Multi-Annual Plan, Annual Plan, Activity cycle

- Brochure Annual Plancyclus (Brochure annual-plan cycle), DGRC 2005
- Multi-annual strategic planning, DEK in co-operation with FEZ/FM, 2004
- Handleiding MJSP (Leaflet MJSP), DEK in co-operation with FEZ/FM, 2004
- Werkplan FEZ/FM 2004 (Work plan FEZ/FM 2004), FEZ/FM
- Meerjarig strategisch plan FEZ 2005-2008 (Multi-annual strategic plan FEZ 2005-2008), FEZ 2005
- Annual Plan FEZ 2005 (Annual Plan FEZ 2005), FEZ 2005
- Three examples of a Annual Plan and a Meer-Jaren Strategisch Plan (Multi Year Strategic Plan) or MJSP, and of the Beoordelingsmemorandum, i.e. the Ministry's judgement of the Annual Plan and the MJSP, 2004 (confidential)
- Activiteitencyclus (Activity cycle), FEZ/FM 2005
- Beoordelingsmemorandum (Appraisal memorandum), FEZ/FM 2005
- Sjabloon beoordelingsmemorandum (Format appraisal memorandum), FEZ/FM 2005

Context analysis

- An overview of policy objectives from the 2005 budget
- Duurzaamheidsranking (sustainability ranking), DVF/AS 2004
- Toelichting macro-economisch beleid (Explanation macro-economic policy), DVF/AS 2005
- Handreiking public finance management (Leaflet public finance management), DVF/AS 2004
- Scan ondernemingsklimaat (Scan business climate), DDE/NB 2004
- Toelichting ondernemingsklimaat (Explanation business climate), DDE/NB 2005
- Rapportage format 'Basisvoorwaarden goed bestuur' (Reporting Format 'Principle conditions good governance'), DMV/VG 2005
- Handreiking PRSP (Leaflet PRSP), DVF/AS 2004
- Rapportageformat 'Harmonisatie en alignment' (Reporting Format 'Harmonisation and alignment'), FEZ/FM 2005
- Sectorale benadering, organiserend principe voor de bilaterale ontwikkelings-samenwerking (Sector wide approach, organising principle for the bilateral development cooperation), Steungroep Sectorale Benadering, 2004

Elaboration of concrete aid measures (programmes, projects...)

- Activiteitscyclus (Activity cycle), FEZ/FM 2005
- Handreiking track record (Leaflet track record), DVF/AS 2004
- Track record (Track record), DVF/AS 2005
- Toelichting 'Kwaliteit beleidsdialoog' (Explanation 'Quality policy dialogue') DVF/AS 2005
- Beoordelingsmemorandum (Judgement memorandum), FEZ/FM 2005
- Sjabloon inhoud beoordelingsmemorandum (Format judgement memorandum), FEZ/FM 2005

Human resources management

- Leren werkt, organisatie en ontwikkeling 2005 (Learning works, organisation and development 2005), HDPO 2005
- BUZA basis cursus ontwikkelingssamenwerking (MFA basic course development cooperation), MDF Training & Consultancy, Ede 2006
- Normfuncties voor beleidsmedewerkers OS (Norm functions for policy employees development cooperation), HDPO 2003 (three examples)

Appendix 8.2: Interviewed persons

Table A 8.2.1: List of interviewed politicians

Person	Position
Mw. K.G. Ferrier	Spokeswoman development cooperation for Christian Democrat Party (CDA) in House of Commons
Mr. W.G.J.M. Van De Camp	Member House of Commons, party secretary CDA party
Mr. P. Bukman	Ex-Minister for Development Cooperation, president foreign policy committee 2005, CDA party
Mr. H. Van Bommel	Spokesman development cooperation for Socialist Party in House of Commons
Mr. D.M. Samsom	Spokesman development cooperation for Labour Party in House of Commons
Mrs. F. Karimi	Former spokesman development cooperation for Green Left Party in House of Commons
Mr. A.J. Bokestijn	Spokesman development cooperation for Conservative Party in House of Commons

Table A 8.2.2: List of interviewed experts

Person	Position
Mr. J.A. Meerman	senior consultant with PriceWaterhouseCoopers, regularly active for DGIS, MFA
Mr. J.W. Eenhoorn	ex-vice president Unilever Foods Division, member UN Task Force on Hunger, co-author of 'Sachs Report'
Mr. L.B.M. Mennes	ex-director of FMO, the Dutch development bank for private sector investments

Table A 8.2.3: List of interviewed MFA employees

Employee	Department/division
1	Effectiveness and Quality Department (DEK)
2	Policy & Operations Evaluation Department (IOB)
3	Cultural Cooperation, Education & Research Department (DCO)
4	Cultural Cooperation, Education & Research Department (DCO)
5	Cultural Cooperation, Education & Research Department (DCO)
6	Annual Plan Cycle, DG for Regional Policy & Consular Affairs (DGRC)
7	Financial & Economic Affairs (FEZ)
8	Assistant to one of the Deputy-Director Generals
9	Personnel and Organisation Department (HDPO)
10	Documentary Information Systems Department (DDI)
11	UN & International Financial Institutions Department (DVF)
12	Employee at Embassy Benin (DGIS)
13	UN & International Financial Institutions Department (DVF)
14	Employee at Embassy Yemen (DGRC)
15	Policy & Operations Evaluation Department (IOB)

Note: On request of the MFA, the interviews were anonymised.

APPENDIX 9: AID PER EMPLOYEE

In 2006 the UK's Ministry of Foreign Affairs counted 6000 employees (FCO 2006), 2500 of them working for the Department for International Development (DFID 2008) or about 42%. In 2005 they spent £ 5900 million on ODA or € 8850 million, i.e. € 3.5 million per employee. The bilateral aid will consume most of the employees' time, its volume is £ 2500 million or about € 3750 million (DFID 2006), which implies that the bilateral aid handled amounts to € 1.5 million per employee.

In 2006 the MFA's total operational costs (employees, buildings, travel costs...) amounted to € 791 million, and thereof € 206 million was classified as ODA, or 26%. Therefore, it can be assumed that the number of personnel involved in ODA was about 26% of the total of 3230 (2006, see section 7.2.1), is 840. In 2006 they spent a total amount of ODA of € 4320 million (MFA 2005k, p 10), i.e. € 5.1 million total aid per employee. Thereof they spent bilateral aid of 33% of total ODA (MFA 2006c), or € 1440 million, i.e. € 1.7 million per employee.

The transaction cost for the total Dutch aid are € 206 million out of € 4300 million aid, is 4.8%. In case total transaction costs are divided over the bilateral aid only, € 1440 million, it constitutes 14%.

APPENDIX 10: THE PSOM PROGRAM

In the first period, the cost per direct job created (calculated in full-time jobs) amounted to € 4472 (Ecorys 2002, p 18). In this calculation 3800 indirect jobs created by a large poultry farms project were excluded. If these indirect jobs are taken into account as well, the cost is only € 653/job (p 18). The subsidy for this project was € 450,000, which means that the subsidy/job was only € 118. The estimated average minimum wage (appendix 2.3.3) was \$ 50.5/month. The data was corrected for the conditions in 2001, taking into account an average purchasing power increase in \$ of 1.6 %/year and an inflation of the dollar over 2001 - 2004 of a factor 1.07 (appendix 2.3.3). The total correction factor is 1.27, which leads to an estimated average minimum wage in 2001 of \$ 39.5/month, or \$ 474/yr. So, the cost per direct job amounts to 9.4 man-years minimum wage, and including the indirect jobs to 1.4 man-years.

APPENDIX 11: ALTERNATIVE ORGANISATIONAL STRUCTURE

The alternative structure presented here is based on process oriented departments, each focusing on specific products, combined with 'client' oriented units. This is known as the front office - back office concept (Zomerdijk 2005). The basic idea is presented in figure A.11.

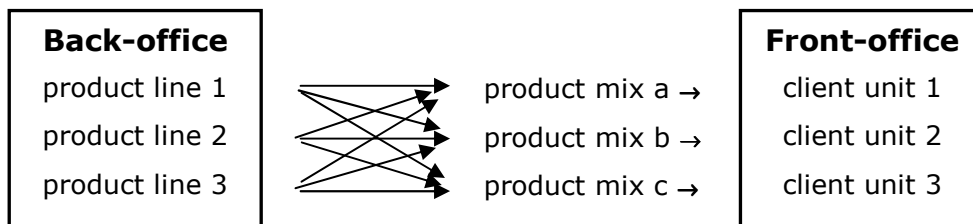


Figure A.11: A process oriented organisation, combined with the front-office / back-office concept

Explanation in MFA terms:

- An account manager is responsible for all contacts with a particular (group of) partner organisation (s), the client (s), e.g. the Dutch NGOs
- A line manager is responsible for his type of aid products, e.g. water supply programs
- Each account manager provides for a mix of aid products to a specific client;
- Together, the line managers and the account managers make sure that the back office supplies what the front office needs for its clients;
- Each line department and account department comprises all employees and capabilities that are regularly required, so they are largely independent.

The concept would clarify the responsibilities, and it would considerably simplify communication. Because of the specialisation of the product lines, efficiency could be increased. The development of concrete recommendations for so complex an issue as a change in organisation structure is beyond the scope of this research. But the sketched alternative shows that the present structure is not necessarily the only option and that better solutions might exist.