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Reaching the marginalized

Absorptive Capacity: From donor perspectives to recipients' professional views

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1. Introduction and background: optimism, pessimism, and the notion of absorptive capacity

The first decades following the end of the Second World War saw several developments that led to two simultaneous types of emergent "consciousness" in the richer countries, particularly, at first, among those on the victorious side. The events "driving" the new forms of awareness were the apparent success of the Marshall Plan, the successful formation of a new raft of international institutions, and the gradual emergence, culminating in the 1960s, of a whole new set of post-colonial nations. Two lessons of the aftermath of the First World War, in particular (amongst many others not relevant here, such as lessons learnt about monetary policy), seemed to have been learnt, to a significant degree, by the end of the Second World War: the importance of assisting rather than punishing or neglecting those whom circumstances had impoverished, and the importance of international collaboration, after the failure of the League of Nations to do anything particularly meaningful and the failure of some powerful nations to endorse the concept. The fact that specific individuals, such as Keynes, who had witnessed, studied, and presciently commented on the results of the Versailles peace at the end the first war, were still alive and active at the end of the second war, meant that their personal experience lent specificity, urgency, and optimism to the notion of "trying to do better from now on." The optimism, in turn, was partly but quickly justified by the apparent success of efforts such as the Marshall plan, and the politically and bureaucratically successful creation of the various international institutions associated with the United Nations. The thought that much of what was being done to rebuild Europe and Japan could be done to help countries impoverished by historical circumstances rather than by a recent war gradually began to emerge, and led key actors in rich countries to urge international bodies to pay more attention to the historically poor nations, and also led rich countries to create bilateral assistance institutions or programmes of their own, such as Point Four (later USAID) in the United States, and other similar ones elsewhere. It is sometimes thought that the only successful cases of post-war assistance utilization were countries such as Germany or Japan, who had a great deal of knowledge and social capital that pre-dated their temporary impoverishment (and are thus called exceptions that therefore prove nothing), even if much of their physical infrastructure was destroyed. But the grounds for optimism came also from the apparent early success of development assistance in countries such as Korea or Taiwan (or, much later, cases such as Botswana). In any case, as always happens in any human endeavour where causality is hard to establish, there are those who seriously question the importance, to the results of obtained, of even these most canonical examples of apparent assistance success.

The first decades following the Second World War were thus periods of great optimism regarding what the rich world could do to help the poor world. A generation of highly optimistic and field-tested "development workers" honed their skills and approaches during that period, and the UN-related and bilateral institutions they worked for began to institutionally embody those skills and knowledge. A few decades later many of these professionals have left the scene. (This is not to deny that there were "aid-sceptics" right from the beginning, such as PT Bauer.) In the meantime, the empirical questioning of the

evidence that assistance leads, in any simple and linear way, to growth in well-being among the poorer countries, has grown shriller. The cross-country correlation between accumulated levels of assistance over the decades, even controlling for initial conditions, and current well-being of populations, is, to say the least, not as blindingly obvious as one might like. In addition, evidence is clear that bilateral, and to some degree multilateral, assistance, is often politically motivated by the foreign policy rather than development interests of the donor countries. More sophisticated econometric and qualitative analyses than simple correlations or regressions do extend the debate about aid effectiveness, with both sides scoring points for themselves, but the reality is that the idealism and optimism of the 1950s to 1970s, that a fairly simple approach hinging on the transfer of funding and know-how could lead quite linearly and directly to growth in well-being in the poor countries, seems now irrevocably gone. Most development experts still think assistance a good thing, and do not shy to press for more assistance. But the understanding of the social and political *mechanics* whereby assistance leads to improvement is now, at least amongst the more thoughtful, much more nuanced and hopefully humbler.

In all of this, the concept of "absorptive capacity" is key to understanding the discussion; it is perhaps, in one guise or another, *the* central concept. To greatly over-simplify, but in a perhaps useful way: the use of the notion of "absorptive capacity" is an attempt to reconcile aid optimism with aid pessimism, by proposing that aid is useful when countries have the capacity to absorb it properly, and not so useful (or even deleterious), when the capacity to absorb is lacking. At such a level of abstraction, the use of the concept appears almost tautological or at least obvious. It can also be said to "beg the question" in the sense that, if there are both moral and practical compulsions to help the poorer of the world, the issue then becomes one of how (and whether) the rich countries can help increase absorptive capacity, so that the aid can become more effective. But this creates a problem of regress: how does one carry out assistance or collaboration so as to improve absorptive capacity, and so that the rest of the assistance can be successful? Yet, even with the danger of falling into the trap of infinite regress, such debates are productive. In any case, the idea of "absorptive capacity" needs to be dealt with, as the idea, even if a little obvious, is nonetheless somewhat controversial, as it can appear to "blame the victim" or at least "blame the poor" – which partly, then, explains the search for answers to the question of how to boost absorptive capacity. This paper will not try to contribute to the settling of these issues, except tangentially. The paper will simply, instead, accept the notion of absorptive capacity as a useful and not-so-obvious one, and will not try to unpack the concept or validate (or deny) its utility. Instead, the concept will be used to drive and explore a few hypotheses regarding the *source* of *certain* absorptive capacity problems and ways to improve.

The over-arching "negative" hypothesis, along with some specific negative sub-hypotheses, is that many of the problems of absorptive capacity are created, or at least greatly exacerbated, by the donors themselves. And that, furthermore, sequential donor attempts to deal with their own creation of absorption problems just displace the problem, without really solving it. This hypothesis was meant to be provocative and challenging, yet it seems to meet the basic technical test of being, at least in principle, falsifiable. We

can anticipate the result of the paper: the hypothesis (and in particular some of the key sub-hypotheses) is indeed at least partially falsified, though the nuances are interesting. The hypothesis is treated only in an exploratory sense, as the section on methodology, below, will make obvious.

The rest of the paper has a simple structure. We first note the methodology used. A brief literature review follows. The hypotheses (partly derived from the literature, partly from the convening author's experience and observations) are then presented. This is followed by a section that explores (or "tests," if qualitative analysis can be said to test) the hypotheses. Some concluding comments are offered, both with regard to the hypotheses and the method used to explore them.

2. Methodology

A hopefully innovative methodology has been used to write this paper. The Global Monitoring Report contacted the lead author, or "convener" (reasons for this term will become clear soon) of this paper, Luis Crouch, to write on the subject of absorptive capacity, and to explore certain hypotheses. Crouch replied that the issues were interesting, but that having yet another consultant, academic, or semi-academic consultant write yet another paper on the subject seemed somewhat sterile, as the subject has been ploughed over, from an academic or consulting angle, very many times. He could have flattered himself by supposing that perhaps he could have something to say that others had not said already, perhaps dozens, if not hundreds, of times. Either self-knowledge that this was not likely, or sheer contrariness and desire to explore alternative possibilities just for the sake of innovativeness, led to the idea of trying to craft a piece that would explore the hypotheses in a rather different way.

The attempt was to involve either currently-serving or former Ministers, Deputy Ministers, Chiefs of Planning Units, and so on, to contribute to the paper, and in some sense co-author, by addressing themselves to certain fairly formally-stated hypotheses that the lead author or convener would pose. This would allow, to the maximum extent possible, a "practical" yet organized point of view of high-level practitioners to emerge—as a useful counterfoil to the voice of academics, consultants, or international agency officials. Naturally, one could say that the lead author would tend to ask "leading" questions, as filtered or organized by the lead author or convener. It could be said that this would bias the results, and that the voice thus arising would not be truly genuine. Even the convener's formulation of the hypotheses would naturally introduce a bias. This risk seemed worth taking. Given the fact that some of the hypotheses were in fact largely or partially falsified by the co-authors suggests that the risk paid off—the co-authors were not unduly influenced by the hypotheses, it seems. Another risk was the extreme busyness of persons currently serving as high-level officials in various countries. In fact, the request to collaborate could seem, ironically enough, yet another donor imposition that reduces absorptive capacity. The officials did turn out to be busy, of course, and the deadline slipped by several days. Yet in the end a good proportion delivered—enough to provide a hopefully illuminating set of points of view. In some cases, extreme busyness led the convener to interview the official in question. In such cases the convener and the official knew each other fairly well ahead of time and the convener knew the country, or

the convener and opinion-author were able to establish a quick yet in-depth rapport based on common experiences, which allowed for either straightforwardness and speed, when warranted, or nuanced but efficiently-communicated points of view when nuance was warranted.

An attempt was made to spread the cases between countries that can be acknowledged to have considerable absorptive capacity and to be rather efficient uses of aid, and countries that are to some degree "orphans" or have had a harder time using aid, or indeed have to some degree been denied an amount of aid commensurate with their needs because of, or putatively because of, absorptive capacity. But the eventual resulting sample under-represents "aid orphans."

Given the unusual methodology employed, it was believed that simply listing the co-authors' or correspondents institutional affiliations in a footnote to the title of the paper would not do. Instead, we felt it important to note the authors' provenance in the body of the paper. Thus, the co-authors or correspondents are (in alphabetical order): Laban Ayiro, Senior Deputy Director Curriculum and Research, Kenya Institute of Education and formerly Senior Deputy Director of Education, Ministry of Education, Kenya; Reda Abou Serie, Deputy to the Minister, Ministry of Education, Egypt; Marlon Brevé, Minister of Education, Honduras; Luis Crouch (convener or principal author), Senior Economist, RTI, USA; George Godia, Education Secretary, Ministry of Education, Kenya; and Geraldo Martins, ex-Minister of Education, Guinea-Bissau, currently a World Bank official.

Even though the opinions expressed by all are personal and professional opinions, and no co-author is officially speaking for a country, we have taken the further caution of not identifying opinions with particular authors, or identifying problems and solutions with particular countries. In addition, the language used is extremely hedged and cautious. To put it another way: the paper most emphatically does not pretend to be "about" Egypt, Kenya, Guinea-Bissau, and Honduras. It tries to be a reflection on absorptive capacity issues, in general, but carried out by professionals informed by their own experiences in those countries. The reader is asked to understand the delicacy with which such sensitive issues must be handled.

The ultimate judge of whether, or to what degree, the experiment of trying to represent the personal and professional views of key persons as *only* professional/personal opinions, but taking their official experience as the empirical ground of their opinion, has succeeded is, of course, the reader.

At the risk of indulging in the usual bureaucratic practice of introducing acronyms, we will use "AC" for "absorptive capacity" henceforth, since the phrase is used dozens if not hundreds of times.

3. Literature review[1]

Given the nature of the paper, a literature review might seem a little beside the point. It is worthwhile, however, to make sure that one can demonstrate that the paper is anchored in what is now a bit of a specialized stream in the development literature, and also to demonstrate that the hypotheses to be explored in this paper, though to a large extent (maybe mostly) do arise from experiential observation, also relate to the literature. Readers familiar with the literature can easily skip this section without any loss.

3.1. Towards a definition of AC and the notion of an AC threshold

There are unfortunately almost as many definitions of AC as there are authors writing on the subject. Bourguignon and Sundberg (2006, p. 1) define AC as the "ability to use additional aid without pronounced inefficiency of public spending and without induced adverse effects." They go on to explain that a rapid increase in aid in a country that has limited infrastructure and skilled labor helps increase unit costs of inputs (in particular skilled labor) and can lower the quality of services offered in the parts of the economy *not* involved with aid—a definition related to the issues of "Dutch disease" and "fiscal space" (see below). They, as others, introduce the useful notion of thresholds—or a point of negative marginal net returns to foreign assistance, a point that is reached when what the developing country gets in return from increments in aid is less than an acceptable level or less than the increases in costs it generates. Like many authors writing in this somewhat nebulous field, the useful theoretical concept of a threshold is introduced, but little is done to suggest a quantitative benchmark or a method for determining such benchmarks (since the benchmark obviously would vary from country to country). As is the case with other of the researchers who started sounding the alarm about policy-based AC issues, they make (or repeat) the logical point that countries with good policies are better at absorbing large amounts of aid before the returns start diminishing. A fairly large literature tends to emphasize this intuitively appealing point, including Heller and Gupta (2002a), Golden et al (2002), Easterly et al (2003), and Hansen and Tarp (2001).

Tayler (2005, p. 9) defines AC as the "capacity to use increased donor funds effectively, [which] is constrained by several factors, practical, political, and economic." She explains that for several reasons, which include a lack of human capacity, infrastructure, and systems, it is harder to spend money well in developing countries than is often initially thought—a fairly basic conclusion. To the lack of all these "inputs" can be added general insecurity, shortness of tenure of key actors and discontinuity in institutional memory, and dysfunctionality of most systems. De Renzio (2005) explains that there are obstacles to aid effectiveness that make it harder for countries to reach the Millennium Development Goals (MDGs) than initial estimates and hopes seemed willing to recognize. De Renzio, as others do, note the possible existence of a threshold but, unlike others, takes some pains to try to estimate or at least posit its numerical level, which he estimates as an "aid saturation point" that is reached when foreign assistance reaches

[1] The research assistance of Marlon Brevé Mazzoni in this section is acknowledged.

anywhere between 15 and 45% of GDP or GNI (a sort of aid dependence ratio).[2] Reaching this point is plausible. Some some countries, particularly in Africa, do show really very high aid dependence. Malawi (20%), Ethiopia (21%), and Sierra Leone (47%) are three examples of African countries where the percentage of aid with respect to GNI may have reached a saturation point. After this point, the marginal net benefits run a serious risk of becoming negative. De Renzio finds a positive relationship between the bigger the level of and the faster the growth of aid flows, and the setting on of negative net returns, because *speed* of increase itself adds strain to a system that already has problems.

Heller and Gupta (2002) find that when large amounts of aid money, relative to the size of the economy, are transferred into a developing country, several problems can arise. They give the traditional reasons why large aid flows might be problematic. If a great deal of aid is spent on non-tradable goods, the price of domestic goods and services would increase. An increase of supply of foreign currency would drive up the price of the domestic currency. (See definition of Dutch Disease below.) They note that that, for developing countries, which have poor infrastructure and human capital, the AC problem cannot be solved quickly. A more descriptive study by Younger (1992) found that in countries that attract significant inflows of capital from donor countries, those flows can cause problems. An abundance of foreign exchange loans can cause an appreciation of the real exchange rate.

The causes or cataloguing of contributions to low AC are also discussed in the literature. De Renzio (2005) divides causes into macroeconomic; institutional and policy; technical and managerial; and (interestingly for this paper) constraints generated by donor behavior. Under the macroeconomic constraints we can find that large increases in aid can set off inflation and interest rate and exchange rate volatility. Some of the institutional and policy constraints include the lack of capacity to generate credible strategies to transform aid into development. Some of the technical and managerial constraints include the difficulty for developing countries to recruit, train, and hire qualified teachers, nurses, managers, instructors, etc. Under the constraints generated by donor behavior we can find a fragmentation of interventions through small projects that creates a lack of coordination between the donors and the recipient country. Bourguignon and Sundberg (2006) catalogue the same constraints but give them slightly different names. They describe macroeconomic constraints, quantitative constraints, and institutional constraints. Tayler (2005) does the same thing, and names them political factors, macro-economic factors, infrastructure and capacity, and external factors or donor practices. In short, the literature (even this small sample) quickly converges on the basic causes of AC constraints.

[2] It was difficult for the convening author, at any rate, accustomed to working more in middle and lower-middle-income countries than in the poorest countries, to believe that foreign assistance could reach 15% of government budget, to say nothing of 15% of GDP. Writing this paper has been a learning experience. It is *not* difficult to believe how aid at such levels could induce serious macroeconomic distortions and lead to absorptive capacity problems!

Aside from the issue of AC itself, there is of course a whole literature on whether aid in fact boosts growth. It does not address AC itself, typically, at least not by name, but it certainly conditions the debate on AC, by positing that aid effectiveness can be greatly reduced in certain circumstances.

Burnside and Dollar's (1997) paper contributed to kicking off the most recent round of "aid pessimism." Using a modeling approach, they claim to find that aid has had a positive impact on growth in developing countries with good fiscal, monetary, and trade policies but that, in the presence of poor policies, aid had no positive effect on growth. The policies with the greatest effect on growth were those that had to do with fiscal balance, inflation, and trade openness. The paper kicked off a cottage industry in analysis of aid effectiveness. Easterly et al (2004) commented on Burnside and Dollar's paper, adding new data to their study to reexamine whether aid influences growth in the presence of good policies. Their empirical evidence questioned whether, even in the presence of good policies, aid is all that helpful. Roodman (2006) also finds that unless the recipient country values development, increasing aid can reduce development in some circumstances. A more theoretical and descriptive study by Goldin et al (2002) found that development assistance is associated with major successes in health, education, and economic development, though, again, it is noted that global goals are not going to be met via reliance on external resources. The main determinants of progress (in a now familiar story) are the recipient country's level of commitment and how good its policies and institutions are. Also, external support had its payoffs when the country was committed to reform and poverty reduction.

But, as is usually the case in these "big picture" issues, the debate can be endless; studies that suggest aid-optimism can be found fairly easily too. Hansen and Tarp's (2000) study, for instance, analyzed three relationships: aid-savings, aid-investment, and aid-growth. They found a positive relationship between aid and growth. To go even further, they claim that this link exists even in countries with bad policy environments. If raw firepower could convince, one should not that their study included an analysis of 131 cross-country regressions found in the literature from the late 1960s to1998, and surveyed three generations of empirical work: "early models," "reduced form aid-growth models," and "new-growth-theory" models. They find a pattern in their results: aid increases aggregate savings, aid increases investment, and there is a positive relationship between aid and growth. The relationship between aid and growth was present in all three generations. In each generation, the studies arguing the negative were always in the minority, and when treated as a group, there was compelling evidence of a positive relationship.

According to Michaelowa (2004), a good bit of evidence at the micro level supports the notion that aid can be effective. But macro level results tend to be less positive. Using the International Development Statistics (IDS) data from the DAC secretariat to implement a "micro" approach, for instance, she found empirical support for the notion that aid increases enrollment in primary education. The result was robust to changes in data sets and econometric methods. On the less optimistic side, however, she also finds that, at any realistic growth of educational aid, universal primary education will never be reached

unless development assistance is also spent in a more efficient manner. To bridge the two literatures, she does find that, under conditions of bad governance, the impact of aid can actually be negative.

3.2. Lessons from the private sector and FDI literature

It is interesting to note that private investment, and the private sector in general, has also dealt with the issue of AC constraints, and in fact there is an exactly parallel debate, in the private investment literature, on whether foreign direct investment (FDI) helps growth when there are AC constraints. There is nothing magical, inherently more efficient or potent about thinking about the private sector capital flows than development sector capital flows—but it is different, can offer fresh perspectives, and is therefore worth a detour. The detour also offers some potentially depressing conclusions, from a certain perspective, while, from a different perspective, the conclusions are uplifting.

A fairly archetypal summary of this literature is found in Krogstrop and Matar (2005, p. 8). It is worth quoting at some length, because the parallelisms to the issue of AC in development aid are interesting: "Some studies find zero or even negative correlations between FDI and growth, while other studies find a significantly positive relationship. An example of the former type of study is van Pottelsberghe de la Potterie and Lichtenberg (2001) who conduct a panel regression analysis of growth in a broad group of developing and developed countries. More interesting in the Arab world context is the study by Sadik and Bolbol (2001), who investigate the effect of FDI through technology spillovers on overall total factor productivity for Egypt, Jordan, Morocco, Oman, Saudi Arabia and Tunisia over a 20-year period. They find that FDI has not had any manifest positive spillovers on technology and productivity over and above those of other types of capital formation. On the contrary, there are some indications that the effect of FDI on total factor productivity has been lower than domestic investments in some of the countries over the period studied, indicating a possibly dominating negative crowding out effect… But other studies find a positive unconditional effect of FDI on growth. Examples include and Blomström and others (1994), Li and Lui (2005), and Haddad and Harrison (1993)... However, these results might just reflect [the fact] that foreign direct investment flows to sectors and firms with higher overall productivity."

If the productivity of FDI depends on AC, then the definition or utilization of the concept of AC in discussions of FDI would seem to matter—and the similarity of such concepts, relative to those used in the public sector, might also be of interest: does it complete the parallelism? George and Zahra (2002) note AC problems in many aspects of private sector development and investment, including strategic management of technology transfer. They suggest that AC issues surface at two different levels: potential and realized AC. Potential capacity has to do with knowledge acquisition and assimilation capabilities, while realized capacity focuses on knowledge transformation and exploitation in firms. Potential capacity is the firm's capability to acquire external knowledge, but does not necessarily mean the exploitation of that knowledge for commercial purposes—perhaps the analogy in public sector AC would be the distinction between capacity to understand issues and engage in policy design and dialogue, and even special project implementation, as opposed to scaled-up implementation capacity.

"Realized capacity" in the private sector includes the transformation and exploitation of foreign-acquired knowledge into production and sales success. Cohen and Levinthal (1990, p. 128) define a firm's AC as "the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends [which] is critical to its innovative capabilities." They argue that the ability to use knowledge is a function of prior knowledge, and that some of this prior knowledge includes basic skills, a shared language, and knowledge of the most recent scientific and technological creations in a given field. This way, the prior knowledge a firm accumulated gives it an ability to understand the new information and apply it to gain profits. They conclude that firms are sensitive to the characteristics of the learning environment in which they operate, and that AC seems to be part of in a firm's decision in allocating resources for innovative activity. Cohen and Levinthal's general argumentation with regard to the private sector can be used to gain insights as to public sector AC in developing countries. For a developing country to increase its AC, a set of things that has to be done by the recipient country: skills have to be acquired, there has to be a shared understanding with the donors, and there has to be some sort of prior knowledge related to the particular sector that is going to receive donor funds.

To complete the comparison, some authors (e.g., Krogstrop and Matar 2005) argue that in situations of low AC (caused by, for example, lack of depth of the receiving country's financial institutions, poor education of the workforce, and so on), heavy flows of private investment may actually be deleterious. In fact, some studies tend to show that FDI is an effective contributor to economic growth only in countries with fairly well-educated populations (e.g., Li and Liu 2005, Borensztein, De Gregorio, and Lee 1998).

Yet, helping countries educate their populations is itself a problem subject to AC constraints, as this paper argues. In the face of such evidence (even if the evidence is only suggestive, due to the usual problems in identifying true causality in social science: do countries with low education benefit less from FDI, or do countries with bad policy environments in general benefit less from FDI and tend to educate their populations less?), the points makes a good bit of intuitive sense and tend to be convincing to those who think that "development is all of a whole" and it is a bit sophomoric to try too hard to unearth fundamental causalities or "most potent levers," as such a quest tends to revert to "magic bullet" sorts of thinking. The frustrations of both donors and recipient countries are then easy to imagine. On the other hand, two lessons from the FDI literature are of some comfort: private funding inflow is no panacea for growth, and needs to be complemented by public investments, but it can help, particularly if the population is educated.

3.3. Donors' role

As noted by some scholars, one of the constraints to AC is created by donors themselves. The recipe for how donors can avoid adding to AC constraints is now so well known as to be almost yet another donor cliché, and, as this paper will argue, occasionally might avoid some forms of donor-induced AC constraints just to create others, suggesting the possibility that there are limits to how much donors, as opposed to countries themselves, can do to lift the ceiling on AC constraints. De Renzio (2005) provides a good summary

of the standard literature: donors should understand and work with the political realities (and the political economy, one might add) that constrain how aid resources can turn into development outcomes (including, one assumes, the role of interest groups, perverse political incentives such as the political drive to ribbon-cutting that is often added-to by donor behavior, and so on). Donors should also try to adopt more flexible approaches which fit local situations to improve the awareness of possible negative side effects of aid and donor behavior. And, the usual and most-repeated recipe, donors can simplify most of their procedures, eliminating complicated practices, reducing the number of donors working in the country, rely more on country systems, and offer more aid through multilateral agencies (or, presumably, "multilateralized" packages such as pooled funds). A useful reminder is simply to realize that AC is real, and that more aid is perhaps not always better, in every situation. Furthermore, avoiding or resisting herd-like behaviors, such as the belief setting in the 1990s that human resource and social sector investment is always the best, is a useful corrective, as the lack of infrastructure might make such investments difficult to absorb, when infrastructure investment had been neglected in the past precisely because of other donor fashions. Finally, De Renzio recommends more research to be done about the subject and to look at past successes stories and learn from them.

Tayler (2005) also produces lists of issues donors should take care with. Paying attention to evidence and empirical reality, rather than either keeping trying the same things or, on the opposite side, giving up based on opinion, are useful reminders. Donors should be ready to invest in areas they have not invested in before, if returns look good. She notes that expectations donors usually have are short term and too optimistic (or perhaps herd-like—see notes on informational cascades below). Seeking new information rather than talking and being informed by other donors, and dosing oneself with increasing levels of patience, might make sense. Keeping firmly in mind the difference in time horizon between activities aimed at providing relief, and those aimed and fundamental change, is a useful corrective in a profession where individuals sometimes migrate between relief-production and true investment.

In studying the Marshall Plan, which they call one of the most successful structural adjustment programs, Knack and Rahman (2004) find that one of the keys to this program's success was the lack of separately-donor managed projects in each developing nation. They mention that other success stories in countries such as Taiwan, Korea, and Botswana also largely depended on the presence of only one dominant donor. They found that, by the year 2000, the median number of official donors in a developing country was 23—a rather large departure from 1. Donor coordination, with its promise of making all donors act more in unison, is a way to have some of the advantages of donor simplicity while acknowledging the reality of multiple donor presence. As we shall see, though, donor coordination is hardly a panacea.

Knack and Rahman (2004) come up with an explanation as to why aid is more effective when there is a single dominant donor than when there are several donors. They posit that when there are several donors, and particularly when there are several donors of approximately equal importance, no one takes full responsibility for a success or a

failure, and no donor has enough at stake in the country's economy and society. Also, when there are various donors, there is a collective action problem, because they all care about the developing country's development, but they also all have different national goals. International initiatives such as FTI also appear quite plagued by simple collective commitment problems.

4. Statement of hypotheses

A set of hypotheses was discussed with GMR staff and then presented to the panel of officials and co-authors. The hypotheses are stated as "facts" to follow the traditional style of hypothesis testing (in fact, to make them falsifiable), not because they are already tested. They are also informed, to some degree, by the review of the literature. Some of them are stated as facts only to confirm the framing or initiating information.

1. The country in question may have been "denied" an amount of aid commensurate with its need for apparent AC reasons.
2. The belief that there is an AC problem in a country is sometimes perception, or a behaviourally-conditioned informational cascade, more than reality applicable to every donor and every Ministry.[3]
3. Some of the absorptive problems are real, and countries do occasionally find themselves unable to properly use funding. Examples provided can help confirm this hypothesis; no examples available would question the hypothesis. Solutions are not hard to find.
4. Some of the AC problems are due to limitations imposed by other Ministries because of national fears (or fears from economic donor agencies, such as the IMF) regarding AC, such as "Dutch disease" or "fiscal space" concerns.[4]

[3] In economics, an "informational cascade" refers to an inefficient information result resulting from individually rational (efficient) information-seeking behavior, resulting in "herd-like" behavior not unfamiliar to observers of donor tendencies. Consult any good online economics dictionary such as http://www.dictionaryofeconomics.com/article?id=pde2008_I000103&q=information%20cascade&topicid=&result_number=2, accessed on 3 July 2009. Thus, "An information cascade occurs when individuals, having observed the actions and possibly payoffs of those ahead of them, take the same action regardless of their own [potentially accessible, sometimes not realized] information signals. Informational cascades may realize only a fraction of the potential gains from aggregating the diverse information of many individuals, which helps explain some otherwise puzzling aspects of human and animal behaviour. For example, why do individuals tend to converge on similar behaviour? Why is mass behaviour prone to error and fads? The theory of observational learning, and particularly of information cascades, has much to offer economics and other social sciences."

[4] "Dutch disease" refers to the phenomenon whereby an influx of foreign exchange into a country (due to a boom in an export's prices, or a boom in foreign aid) bids up the price of that nation's currency, making other export sectors (or all exporting sectors, if the boom caused by a generalized inflow of foreign exchange) more expensive in terms of foreign currency, and thus less competitive, thus making imports that compete with national production artificially inexpensive in foreign currency, discouraging national production. Historical reference is to problems caused in the Netherlands by large natural gas exports in the 1960s. "Fiscal space" is a similar concept. Much of foreign aid inflows is official, and result in increased state expenditure, which puts upward pressure on the size of the state, thus discouraging or withdrawing resources from the private sector. Or, even if the flows are to NGOs, they seldom lead to (or indeed are caused by, production capacity that will increase quickly or has already increased, as is the case with "real" exports not produced by donor projects). Under the theory that private sector activities tend to be more self-regulatingly efficient, and/or that increases in purchasing power that are not immediately associated with

5. Problems of AC, when real enough, are often caused by donors themselves in particular via:
    a. An interest in innovation for the sake of innovation (or, sometimes, an interest in justified innovation, but innovation that is introduced very fast), which often fits more with the career- or intellectual-advancement interests (or indeed genuine intellectual but not practical development interest) of donor agency staff.
    b. Donor standards and rules are onerous, inconsistent, and so on, even when "harmonized" or in "pooled funding."
6. Recent innovations such as pooled funding, SWAps, and so forth, do alleviate the absorption problem, but may have other side effects such as donors blocking each other out of donor rivalry, innovative ideas having to be vetted by donor groups with collective action problems and inefficient decision-making processes, and so on (which means that desired projects sometimes get paralyzed). In addition, pooled funding of SWAps sometimes creates alternative implementation bureaucracies, to respond to them, within Ministries. Special project implementation units, a bane of many donor reformers, are indeed avoided, but "whole-sector" implementation units (in essence, shadow ministries) are in some sense created.
7. Donors sometimes create an apparent absorption problem by trying to force a higher level of ambition in the pacing of access improvement (e.g., in school construction) than the country is able to handle and than the country itself finds advisable.
8. Donor pushes for civil society participation in policy reforms, project selection, and so forth, can slow down decision-making and create apparent absorption problems.

5. Testing the hypotheses

5.1. Has AC ever been an issue?

AC has definitely resulted in some of the countries receiving less aid than they need, or than, at any rate, had been promised (in cases where need is not so high), and with AC being given as a reason, often justified. The problem seems to be worse in the poorer countries, naturally, as judged by the comments of the various co-authors. General governmental instability (including, at the limit, conflict) seems to be a particular problem, creating justified concerns from donors regarding AC. Instability reduces AC in two ways. First, it results in less personal and institutional memory amongst the recipient ministries, which means that donors have to start over again, with every change, in negotiating agreements. Moving to non-project modalities cannot really help here, if they include complex conditionalities and complex country-led initiatives that a new

increases in production (or are the result of increased production can lead to inflation (if monetarily accommodated), most governments try to limit the size of the state and of sudden increases in non-organic purchasing power. Fast and large foreign aid inflows tend to put upward pressure on the size of the state and purchasing power, without creating immediate productive capacity to respond to the increased purchasing power injected into the economy. For that reason, economists in the Ministry of Finance or Planning sometimes tend to resist calls from line ministries for very large increases in foreign assistance.

government may need to re-understand or may not endorse. Second, perhaps even more importantly, technical personnel are shifting, and are lost to the ministries. That is, aside from the pure turnover issue, the instability lowers the average quality of the personnel present at any give time, because highly qualified personnel are less tolerant of the instability. It was noted by one co-author that highly qualified nationals who end up working for donors are often more picayune, in their interpretation of the donor rules, than long-term donor staff. Again, moving to non-project modalities cannot help here either. On the other hand, it seems to some of the co-authors that since it is often the donors themselves who end up with the qualified ex-ministry personnel in their own agencies, in an indirect sense they both bear some of the blame, and exaggerate the problem of AC, since AC could be maximized by making better use of the stable, and government-experienced, personnel who now often work for the donor agencies. For example, more collaborative relations with the ministries could "give back" some of the institutional memory to the ministries—though it would require open-mindedness on their part. Such collaborativeness could even be institutionalized as part of donor coordination.

Another perspective on the issues that cause AC problems relates to the relative proportion of the AC constraints that are technical in nature versus those having to do with operational procedures related to donor requirements. Some co-authors noted that the biggest constraints and limitations, at least in terms of calendar time, have to do with inability of ministry officials to move the paperwork. While donor requirements are irritating, however, learning the paperwork is not that difficult, or not theoretically difficult. It was noted by various co-authors that, indeed, the problems in AC in the Ministry side have more to do with specific knowledge of donor procedures, not with general knowledge of education or public management. This has two implications, one more obvious than the other.

In the first place, when it comes to apportioning "blame" for lack of capacity, this suggests that while some of it would theoretically fall on the recipient countries, some of it falls on the donors. Personnel are simply weakly trained on donor procedures, and the recipient countries could easily fix this problem themselves given that, as noted by some co-authors, it is hardly "rocket-science." On the other hand, while not intellectually challenging, donor procedures are sometimes vague, contradictory, and confusing in a bureaucratic sense, and, when queried, donor staff are themselves sometimes insufficiently trained or experienced to answer even fairly basic questions; or are required by their own procedures to consult the experts at home office, where internal debates or indecision can ensue—or at any rate consultations with home office can take a long time. This happens not only with projectized assistance but also with budget support, so a move away from projects is not necessarily a panacea, though it can help. In that sense, the problem might be not so much the intellectual or technical complexity of the procedures, nor is it even the lack of *harmonization* of procedure (e.g., procurement or environmental safeguards or other procedures), as much as poor *bureaucratic* paperwork and workflow management on the part of the donors (*any* given donor), or lack of clarity as to which donors makes decisions (and why decisions went the way they did), when there are several donors involved. (Ambiguity of decision-making, lack of *clarity* around

procedures and workflow, etc.) This, it seems, cannot be solved by harmonizing or simplifying procedure, but by clarifying workflow, clarifying authority, and having donor staff who know their work.

A less obvious implication has to do with staff turnover in the Ministries. If staff turnover is high (as noted above as an AC constraint), the problems are worse if the AC constraint is specific knowledge of donor procedure. New staff coming into the Ministry could, at least in principle, have good skills and training in education, or in public management, in which case turnover is not as much of a problem. They may be new, but they are knowledgeable. However, when the most important form of missing knowledge relates to donor procedure, staff turnover is particularly problematic, because new staff in the Ministry cannot easily be expected to have been trained, in their local universities or prior work, in donor procedure. So the combination of two facts, namely staff instability, and that knowledge of donor procedure, rather than general technical skill is a big constraint, combine to create the AC problem. Lack of skill in donor procurement procedure was noted as the most common AC problem affecting calendar time; skilling in this area was noted as relatively a simple task for Ministries.

The issue of inability to comprehend procedures is exasperated by the emigration of experts in the ministries to work for donor agencies. This helps the emigrant but it can have perverse effects on the ministries left behind. In one case (a bilateral donor with a multi-country initiative centrally-administered from the donor's capital), *most* of the programmed funding under a particular donor programme remain essentially unabsorbed, year after year, because very few people can comprehend the elaborate procedures in the documentation, especially those in the ministry of education (it is a combined health-education program).

5.2. Are AC problems more perceptual than real?

It might be possible, according to some of the co-authors, to claim that some 70% of the apparent problems in AC are truly objective problems (whether donor-originated or recipient-originated), and that some 30% are only apparent, and are based on donors' perceptions rather than on objective reality. (Relatedly, on the issue of where the problems of AC lie, another co-author suggests that about half of the problems are real and caused by true lack of AC on the country's part, and about 50% created by donor inflexibility.) Some of the sources for the objective rather than perceptual part of the problem are discussed in the other sub-sections of section 5; here we note some of the possible reasons why *perception* problems might exist.

One possible reason is what one might colloquially term "herd mentality" amongst the donors. This "herd mentality" is fairly well-known as accounting for such things as donor fashions, and the fact that donors tend to lurch collectively (more or less as private bankers do) in given directions (sometimes switching directions 180 degrees within a couple of decades: favouring agricultural marketing boards in the 1960s to supposedly free peasants from the depredations of exploitative middlemen, decrying them in the 1980s as monopsonistic and inefficient state exploiters of the same peasants). But, at least *within* countries, and in the creation of perceptions of AC, it may be possible to be a bit

more specific and scientific in understanding these phenomena, in terms of a) information cascades, b) a sort of crude version of conditioned learning (really more of an analogy to operant conditioning), and c) actual AC overloads, all acting in concert with each other. It may be that when donors are "burnt" by a bad AC experience with a Ministry, they tend to avoid the Ministry, and thus have less chance to find out whether the Ministry has in fact improved its AC. In the meantime, the Ministry will have had *some* incentive to improve its AC. But the donor will tend not to find out, because its learning was through a "punishment" (a bad experience) so the donor will tend to avoid the Ministry where it had a bad experience; it won't then be able to update its knowledge. If a donor has a positive AC experience with a Ministry, on the other hand, it will have been rewarded, and it will come back with yet another project or budget-support idea. Eventually this will overload the Ministry's AC, the donor (or another donor) will have an inevitable bad experience, and will then tend to avoid the Ministry from *that* point on. In some sense, donors perhaps tend not to update their empirically-driven, but now outdated, prior beliefs as much when the beliefs are negative as when they are positive. Furthermore, since information derived from own experience is expensive (no one wants to be "burnt" by a failed project to find out that a Ministry has low AC), donors tend to rely on each other for information, creating informational cascades. The "operant conditioning" gets communicated across donors, and the failure to update prior beliefs generalizes. Moreover, it may be that positive experiences are less shared than negative ones, so the notion of who (Ministry, country) is a "basket-case" gets propagated more easily than the notion of who is a good implementer.[5] Eventually, of course, good implementers do get a good reputation, otherwise "donor darlings" would not exist—good opinions do propagate, but perhaps they propagate more slowly, and get extinguished more quickly, than bad opinions. And there may be some forces that reinforce AC in good implementers (through a reinforcement of learning behaviours on the Ministry side), so "darlings" may not *always* eventually get overloaded with donors wanting to implement new things, or it may take some time for overload to set in. And, of course, donors have some incentives to keep trying even when they are "burnt," so one should not over-state the case. But it does seem as though at least some AC problems are more perceptual than real, and it may be that some combination of a sort of institutional operant conditioning (using the concept analogously, not rigorously), informational cascades, and actual AC overload, may be part of the explanation, similar to the explanation for speculative bubbles and herd behaviour in any sort of investment. That is, AC reputation of countries and ministries may suffer—at least a little—from the same sort of herd behaviour mentality as stock market bubbles. The prescription is clear: donors should rationally and systematically seek to update prior information by giving a try to Ministries or countries the herd has condemned, and consciously (occasionally) be contrarian. It might even be rewarding to those who take the lead in challenging what others are thinking.

Donor pooling, typically in SWAps, donor coordination committees, and so on, far from alleviating the problem, might actually contribute to it, even though they clearly also help coordination and harmonization. (Would clubs of bankers reduce or increase herd-like

[5] As a personal note, it is often shocking to the lead author, how much of donor commentary and small-talk at donor cocktail parties is about bad experiences, even in countries where one knows there are many good experiences to share. It is a very human tendency, but not very productive.

behaviour in investment?) So, this latter benefit has an important (and, as far as we know, essentially unacknowledged, except in a few courageous publications such as the Global Monitoring Report) down side. Since the cost of acquiring information (potentially misleading or empirically untested or uncorrected for prior beliefs) is lowered, and grouping might exacerbate an "us-them" mentality (even when country representatives are included) the possibility of groupthink behaviour, or of actions based on gossip, are increased.[6]

It should be noted that this reasoning is not purely theoretical. Some of the co-authors explained cases of behaviour that *exactly* fit this pattern, where they personally corrected acknowledged AC problems in their Ministries, using specific knowledge and training solutions (problems mostly in understanding and applying donor bureaucratic procedure around procurement which, as noted, were not "rocket-science"), and then experienced donor tendency to not re-test the issue to update their now-entrenched, but outdated, information base as to the capacity of his Ministry. And, furthermore, one can document the tendency of donors to "gossip" or engage in informational cascades, with each other, and for the negative feelings to spill to other ministries. It is recognized, though, that at root there was indeed a perfectly real or objective AC problem that provided the initial irritant or information nugget, which then tended not to be corrected and in fact spread. That is, donor herd thinking and failure to update because of the fear of getting "burnt" again created perceptual problems somewhat bigger (50%?) than the underlying reality.

On the other hand, reflection of cases where donors have been working in close concertation with a given Ministry does suggest that while negative priors tend to be slower to correct than positive ones (e.g., donors take longer to change perceptions after being burnt than after a Ministry changes to the positive), they do eventually learn, as the Ministries do learn to perform better. One consequence of this learning is that the donors become more flexible in their interpretation of their own positions and memoranda of understanding as they gain trust in the Ministry's capacity to execute.

[6] Groupthink behavior (a branch or specialty topic in political psychology) refers to the tendency of fairly tightly-knit, small groups, to start confirming each other's beliefs and assessments of reality in mutually-reinforcing ways. It is not merely an "instinctive" or "inborn" human tendency towards agreeing with others, but a pattern of social dynamic of small groups, where beliefs, again perhaps based on information that has not been recently tested, tend to reinforce each other, somewhat regardless of their current empirical value. Groupthink exists partly because it does have some positive results, such as enhancing the ability to work as a team, to present a unified front, to lower the cost of informing each other, etc. Again, donor pooling and donor coordination clubs may contribute to the emergence of a weak version of groupthink. A useful reference is 't Hart (1994). (It should be noted that, like many theoretical approaches in social science, groupthink is far from totally validated as an explanation for group mistakes, but is a useful perspective, and is a useful corrective for those who think meeting in clubs is an unalloyed good thing.) In any case, donor coordination clubs do not meet all of the criteria for groupthink, but do seem to exhibit some or many. On the other hand, some of the stated purposes of donor clubs, e.g., anticipated compliance (in the parlance of groupthink theory, or "harmonization" in the parlance of donor lore), are actually some of the hallmarks for the emergence of groupthink. Since not all of the conditions of groupthink are present in donor clubbing, so, then, nor are the consequences of donor groupthink behavior as disastrous as in the canonical references used to illustrate the result of groupthink behavior, such as the decision to embark on unpopular or disastrous wars.

Another issue noted by the co-authors was what might be called a "white lies" issue. Donors are correct to perceive, and write about, real corruption and serious mismanagement problems, in many cases. But they have a tendency to do so in the abstract. When it comes time to judge a particular plan, however, there is often a reluctance to be quite sincere about the issues, perhaps out of a very human tendency to be polite in person but harsh in general terms, and instead to block the plan on vaguer technical issues related to the quality of the plan as a *technical* document, rather than distrust of the plan implementer's absorptive capacity. While this does not create an AC problem, or even cause the perception to be higher than the reality, it "displaces" the problem towards areas that then leave the country (or other non-donor experts) somewhat baffled as to why plans are not being accepted.

This is all compounded by the fact that sometimes donors, in their pressure to disburse, are willing to accept plans for a country X that is otherwise "trusted," reputationally, on corruption and general mismanagement issues, but which are clearly inferior technically (in the educational sense and in the technical planning sense) to plans from another country Y, but where the country Y has a worse *generic* reputation for corruption or mismanagement. This, again, does not create an AC perception problem that is greater than the AC reality, but displaces and misleads on the nature of the AC problem.

5.3. AC problems real enough?

Co-authors noted that their countries do generally have problems absorbing and disbursing as quickly as desirable and as quickly as planned. Solutions used by various co-authors were seen (by them) as not too difficult to implement, and yet effective. Some simple measures have proven to be effective ways to mitigate or remedy AC constraints, have been tried by some of the co-authors, who say they work.

For example, taking something like a functional Project Steering Committees (PSC): most Projects have PSCs, but many those committees rarely meet on a regular basis. PSCs are often seen as symbolic structures rather than entities with real project oversight functions. It makes a difference when a PSC fulfil its roles and responsibilities, and when these are real, oversight functions that give the committee a real cause for meeting and working, rather than a purely symbolic one. Ensuring that a PSC meets regularly and focuses on a problem-solving approach around real problems often has a positive impact on AC.

Another example is the notion of a PIU Focal Person. A PIU focal person is someone who is charge of ensuring a project's oversight on a day-to-day basis on behalf of the decision makers (the Minister, the General Secretary of the Ministry). His/her main function is to ensure good and timely flux of information towards decision makers about events and decisions in the project. Projects are often "insulated" realities from the Ministries, and PIUs have often little incentives to actively pass on information on their functioning. For example, if construction of classrooms was delayed because of a poor procurement management process by the PIU, this is an information the PIU will have little incentive to share, as the act may be perceived as poor performance. If the Ministry manages different projects, one can have one focal person for each of those various

projects. Information submitted by the PIU focal person to the Minister may be critical and would help the Minister to take appropriate measures in a timely manner. A similar or related idea is to set up a one-stop-shop point person, within the Minister's cabinet, for each PIU. Alternatively, lobbying internally so that each PIU has at least, again, a one-stop-shop point person within the line function(s) in the Ministry that are relevant to it, is also an idea worth trying.

Simple capacity building, particularly around bureaucratic aspects (more so than around educational aspects) was noted by most co-authors as the obvious and effective solution, and has been used effectively by some of the co-authors to boost AC by as much as 100% in 2-3 years. This is a technical solution. When AC problems identified are due to lack of capacity of PIU or Ministry staff, or to insufficient command of rules and procedures, then specific training interventions may be envisaged. Again, it was noted that more often than not the training that is needed is around bureaucratic procedure more than anything else, procurement in particular. It was also noted that since it takes time to gear up, disbursement tends to be slow at first, but the feeling seems to be that, in general, it is possible to catch up. Various co-authors noted that the capacity needs are not "rocket-science" and can be done fairly quickly and easily, again, through simple (but often not done) ideas such as specific training in (donor-determined) procurement processes.

Decentralized systems of disbursement of funds, in budget support approaches, have worked very well in at least one of the countries and have boosted AC. Monies from the treasury can be directed to one account in one of the major banks that holds all the accounts of schools in the country. Using this modality funds actually reach the schools within hours of release, thus overcoming many of the bureaucratic channels that are in the system. This in turn leads to efficient absorption of funds. Note that while some countries have developed efficient collaboration between Finance ministries and Education Ministries, which has allowed direct disbursement of funding (either donor funding or own-sourced funding—in fact in budget support the distinction is minimized), in other countries, as noted by some of the co-authors, this lack of collaboration from Finance puts a limit on AC.

5.4. AC limits imposed by other Ministries?

This issue did not attract the attention of any of the co-authors, except to note that at least in their experience it has not been a major issue. (Thus perhaps not meriting much intellectual excitement as a hypothesis or question.) Tranched release of funds based on conditionalities, particularly when there is budget support, was noted to reduce interference from the Ministry of Finance at least with regard to the bureaucratic processes. The issue of a technical bar on absorptive capacity due to Dutch Disease or fiscal space issues simply did not elicit much comment from the authors.[7]

[7] This could be a sample bias. Clearly this study is not based on a proper sample. In particular, the sample tends to focus on countries which are either relatively successful users of donor funds, but which also happen to be fairly large or relatively well-off, and thus there is less concern over fiscal space; or they are smaller countries that have not attracted much funding, and hence again there is perhaps less concern over fiscal space. Should the kind of research, and the sorts of hypotheses, explored in this paper, merit further

Only one of the co-authors noted that this issue might be a possibility, though it was not entirely clear that it was really a problem, except in a "political" rather than a Dutch Disease or fiscal space sense, the political issue being the appearance of over-generosity of donors to one sector—education—which international initiatives had targeted, and whose AC had increased, in comparison with other needy sectors who might be "jealous" of the success of education sector.

One problem posed by the Ministry of Finance (and other Ministries or government agencies—see notes on construction in section 5.5), noted by some co-authors had to do with such Ministries (or similar Ministries with what were deemed to be centralist interests) making it more difficult to on-grant donor funds to, for example, parental governing bodies or schools themselves (for things such as minor purchases) when, in the opinion of these co-authors, social audit from parents might actually be a more effective way of guaranteeing proper and cost-effective purchasing than relying on traditional, vertical accountability or state-based and centralist procurement processes, and donor projects could be an efficient way to test schools' ability to procure efficiently under the social audit of parental governing bodies. Other countries had good cooperation from Ministries of Finance in this area.

Yet another problem whereby other Ministries limit AC, but which, again, does not have to do with Dutch Disease or other technical aspects, was noted: the tendency of these other Ministries to not engage either their most authoritative or technically innovative staff in the joint dialogue between the Ministry of Education and the donor group. This problem then exacerbates the problem mentioned in the paragraph immediately above, namely a possible tendency to block innovation and hence decrease AC, simply due to bureaucratic conservatism on the part of these other Ministries.

Bureaucratic conservatism might also come from the donors, although donors are often actually rather innovative. In one country, there was support from a multilateral bank for the construction of classrooms and laboratories. The government had established a procedure of direct disbursement of funds to the schools and the procurement of the services left to the school governing bodies. The bank, on the other hand, insisted on centralized tendering at national level to presumably more reputable contractors. The ensuring tug-of-war lasted for over 4 years, thus delaying the much-needed infrastructure for the schools. It is not clear that some donor organizations, similar to some Finance ministries, have thought through the possibility that perhaps (with proper procedures and safeguards), localized supervision and social audit might result in not only faster disbursement, but also more cost-effective construction and less corruption. In the case at hand, the matter was partially resolved after protracted negotiations by both parties.

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research, one may wish to have a more complete sample to include more "aid orphans" and countries where aid dependency has reached very high levels.

5.5. AC problems created by excessive donor push for "innovative" projects or non-project ideas?

The co-authors' responses generally did not support this hypothesis, or, rather, noted that to the degree donors do quickly bring in innovations that are difficult to absorb, the benefit-cost ratio of such pressure is generally higher than one. That is, while there was some support for the notion that donors sometimes seem to want to innovate for reasons of fashion, individual careerist reasons, or to support pet individual theories, most of the innovations are indeed refreshing and useful, even though they do make the assistance hard to absorb. Examples cited might be pressure to innovate on management processes such as lowering the cost or spreading the benefits of classroom construction (which might require more elaborate procurement and more education of smaller or NGO classroom construction suppliers). In at least two countries, one could mention the problem presented by high costs of classroom construction, often caused by somewhat monopolistic public bureaucracies that are sometimes outside the Ministry of Education, and whose high construction costs might block the Ministries' attempts to expand access faster. It was noted that in some cases decentralized construction with more community involvement has resulted in lowering costs as much as 50%, based on pilot experiences in two of the co-authors' countries. In these situations, donor pressure to reduce construction cost is seen by reformist Ministries as a useful pressure, as a useful countervailing power on their own (high-cost) construction industries, even if it complicates the political economic environment with respect to these same traditional high-cost builders.

One idea utilized in one of the authors' experience is the creation of technically-integrated unit that can support the Minister and Deputy Ministers at a very high level, a unit which can "translate" the technically-new but demanding innovations suggested by donors, and feed these into the more usual line groups within the Ministries. Note that this suggestion has already been noted above, in terms of improving AC in general, with respect to bureaucratic requirements—here it is more a matter of absorbing interesting but technically challenging (or challenging in terms of political economy) ideas. In a related manner, it was noted that it might help improve AC if Ministries bring in "fresh thinkers" from outside the Ministry, who can work with the existing bureaucracy, but are also more able to absorb and understand the innovative ideas often proposed by donors. There are practical limits to how much this can be done, and salary and other compensation issues have to be faced, but the idea was judged to have merit, and has been used, by some of the co-authors.

5.6. Do recent innovations help?

Co-authors generally agreed that recent innovations help, but that donors should not suppose that recent innovations are a massive improvement on the past. A particular innovation that deserves attention is country-based "harmonization" or the existence of donor clubs and coordinating committees, typically around pooled funding, SWAps, and the like. These are advocated as leading to coordination, harmonization and even (though

the logic here is much harder to see, if not actually impossible to see) "putting the recipient government in the driver's seat."

The benefits are considerable, and are not always the obvious ones. Co-authors noted, for example, that clubbing, while it might lead to some herd behaviours, also leads to mutual accountability and pressure to perform—thus inducing each donor (even bilaterals) to at least try to make their internal decision-making more agile. It was also noted that donor clubs increase transparency in the use of funds, and that the analytical review processes they encourage tend to unearth gaps in policy or needs that otherwise might not be noticed.

Interestingly, the co-authors generally did not note a problem with the conditionalities that are fashionable in pooled funding or other forms of non-projectized assistance—even when prompted by this paper's convener in dialogue. There was no consensus on the issue (no consensus was attempted, though, as with most of these issues), but it does not seem, at least to the professionals involved in this paper, that conditionalities are a negative aspect of the pooled approach or even of conditionality-based bilateral assistance. In most cases, it would appear, the conditionalities are seen as reasonable, if they are reasonably negotiated.

While harmonization and duplication may indeed be helped through these and similar innovations, and while there are some other benefits not normally discussed in the literature, other problems are created, other problems may remain quite unaddressed, and some of these problems may hurt the weaker countries more than the lower-middle income countries. Even so, the co-authors generally think that the benefits outweigh the costs.

Some of the issues that arise, as a side-effect of the positive idea of clubs, may have already been noted above. Clubbing may actually increase herd-like behaviour and informational cascades, inducing donors to engage in gossip more than would otherwise be the case, and developing "priors" about certain Ministries that they then do not bother to update, or find it too costly or risky to update with actual action. It may also create monopolistic fronts with regard to the government (which may, itself, have its good aspects when governments are not very accountable, but which also inherently limits donor competition to please the government, which is useful when government is accountable).

One interesting perspective is that strong clubbing, particularly if it leads to FTI or FTI-related support from multilateral funds or agencies, might lead bilaterals (even those who are members of the club, as it were, but more likely those who are not) to assume "this country is taken care of" and might lead to reductions in *their* assistance. Or it might lead to longer lead times or reductions in bilateral aid from certain agencies because of a perception that, because of the donor clubbing, the "hassle" factor of working in a country has increased. If this happens, *total* assistance might, then, not increase as much as one had hoped for or planned. (But would likely not be *reduced*.)

Some co-authors commented that while clubbing does reduce duplication and increase harmonization, it might also reduce innovation and delay decision-making, particularly as the decision-making rules in donor clubs are often not clear, and may not even be as clear as the decision rules within the recipient government itself. Some countries may have good audit procedures, for example, yet donors tend not to trust them.

Other perspectives noted that, in any case, it is perhaps a bit of a donor illusion to think that donors can do much, if anything, to "grant" it to the countries that the countries be in the "driver's seat." In that perspective, being in the driver's seat is something that each country has to insist on and win for itself, though international agreements and a changing climate of opinion might, of course, help, since countries can force the donors to be true to their salesmanship, and to do so in more than a merely ritualistic manner. And, also in that perspective, the notion of having the country itself orchestrate the donors, rather than having the donors orchestrate themselves, might be seen as key. The complaint that there are too many donor visits, and so on, for example, is not up to the donors, necessarily, to correct. Ministers can, after all, refuse to see donors, and donors cannot make countries stronger by, say, having joint visits; countries have to *be* strong and *force* joint visits (or refuse to see donors whose agendas are not useful). In that respect, authors note the utility of having one's own education sector plan, while they also note that it has to be a custom-made, truly locally-owned plan, not a donor-provided plan that is in fact (often) based on a standard recipe or template (perhaps for both content and process) and only mostly owned by the country in a superficial sense. Three-letter (and four-letter) acronym plans and documents produced on template are not entirely useless, and in fact are sometimes quite useful as discussion documents, but are often not as "owned" by countries as donors would like to pretend, under their own collective self-injunction to grant more ownership. If the documents are not truly "owned" by the countries, then it is difficult for the countries to use the plans as a way to orchestrate the donors rather than having the donors orchestrate themselves. One of the high-level officials noted that one way to "force" the donors to provide customized planning assistance, rather than template-based assistance, is simply to insist on it, but, more importantly, to insist on the country hand-picking the providers of the technical assistance for the planning, rather than accepting donor-provided teams. (A problem may particularly exist when such teams are provided via donor-based procurement mechanisms that are bureaucratically cumbersome and pay too much attention to cost; the notion being that cost-minimizing purchases of whole technical assistance teams, for something as important as helping create a locally-owned plan, is not a good idea. Hand-picking trusted advisors, who may or may not be donor staffers, and may not be procured in packages or teams, it was noted, is a generally a better idea.)

Another concrete idea noted by the authors was to encourage (or require) that donor coordination committees never make decisions of any sort, but work only as information-exchange clubs. It seems as if in some cases, in some countries, donor clubs do come close to being decision-making bodies (e.g, one donor's proposed activity needs to be vetted, not just discussed, with the other donors—this might come close to donors arrogating to themselves decision-making powers that properly belong to governments).

Finally, the danger was noted that while SWAps and pooled funds, and the like, attempt to get away from the project mentality, and often do succeed at it, they *might* create an alternative "super-project" that in some sense runs parallel to the Ministry's normal line functions, and has accountability to the donors, rather than the same up-down accountability, within the Ministry, that the standard or line programs have. This is a not unfamiliar problem in democracies, of course, where new governments bring in whole new plans that often run parallel to the normal bureaucratic functions. A clear solution to this is not to create parallel administrative structures, but to house every item in the large super-project or SWAp within its logical line executing directorate in the Ministry. One of the authors noted that, in addition, one can make sure that, if there is to be a SWAp "program" that is distinct from the normal line functioning of the Ministry, those who are in charge of "units" within the SWAp or pooled plan, that are similar in name and function (e.g., EMIS, or Early Childhood) to normal "line" units in the Ministry, be (bureaucratically) junior to those who hold the line functions in the Ministry.

Mutual accountability and pressure, amongst donors, but perhaps even more between donors and Ministry, can indeed be increased through donor clubs and pooled action. In the experience off one of the co-authors, joint appraisal meetings for the pooled funding are sacrosanct. The Ministry makes an all-out effort for almost a month prior to the meeting, to make sure that all the reports are in and that they are validated; and the presentations of the higher officials are polished and all statistics verified. This in a way injects efficiency in the systems allowing for greater ventilation of the bureaucratic systems and acceptability of the reports by the donor agencies leading to support for joint programmes such as FTI. In these cases, conditionalities are becoming acceptable in relations between government and donors, and this actually has a spread effect *within* government itself. The fact that the conditionalities are often attached or related to the achievement of MDGs and EFA goals also lends weight to the conditionalities, and increases accountability with civil society.

5.7. AC problems due to fast pace: donor push or country push?

In one clear and obvious sense, the collective ambition to achieve is driven by initiatives that, while possessing country buy-in, do seem donor-led. The whole EFA movement is a case in point, as it pressures *some* countries to achieve rates of increase in enrolment that are mostly unparalleled in history. The (mostly donor-based) refusal to frankly admit that, clearly, a good few countries have a very low chance of making it (not simply that, as the pious phrasing goes, "unless something radical is done some countries will not make it"), is a case in point. Based on historical evidence, it is actually possible to provide reasonable probabilistic estimates of whether countries are likely to "make it" or not. Some countries might have less than a 1% or so chance to make it, which is pretty close to admitting that even if they grow at the very top limit of historical possibility (e.g., in the 99th percentile of historical growth patterns for any country in history), they will not make it. In that sense, there is a sort of donor-based collective delusion (a sort of herd mentality or group-think phenomenon) that tends to feed excessive ambition and thus create an AC problem that gets, in some sense, blamed on countries. (Naturally, the AC problem gets created only if the funding to drive the ambition materializes, which is very

often not even the case. In that case of course one cannot speak of an AC problem, as such.)

On the other hand, co-authors state fairly clearly that at the micro level (that is, within countries) the excessive ambition (if any) often comes from their own drives for improvement, even if such drives are often more politically- than technocratically-motivated. (E.g., electoral promises, politicians' drives for ribbon-cutting opportunities, maximizing the patronage possibilities of large payrolls, etc.) International goals and agreements then can be used by civil society to goad and push politicians to drive ambitious goals, or harass the technocracy when the movement towards the goals appears to falter—yet these goals, in themselves, sometimes might appear unwise to the technocrats. Some of this, the co-authors state, is healthy, but some of it is sometimes exaggerated, and sometimes might make the technocrats look—unreasonably—like under-achievers.

5.8. Could civil society involvement conceivably reduce AC?

The theoretical problem here is that civil society involvement, while conveying more information about citizen preferences to the state, while helping hold the state accountable, and while resulting in project and policy ideas that are inherently more implementable because their feasibility and buy-in has been pre-tested via discussion and thought experiments, does also pose problems. Civil society organizations and NGOs are not necessarily more disinterested (or hardly more *inherently* solicitous of citizen interest) than the state, can be rent-seekers, are sometimes fronts for partisan political interests, are often fronts for near-profit-seeking implementation agencies, are often themselves quite misinformed empirically (about policy issues, though they certainly know their "micro" implementation issues and local needs better than the high-level officials of the state, since their own leadership is often less distant from ground-level realities), and very often do not agree with each other at all. Consultation and dialogue are, thus, hardly a straightforward issue. All of this can indeed slow down absorption or at least coming to agreement (though it *might* speed up eventual execution, because pre-tested policies are sometimes easier to implement, though sometimes have to be dialogued all over again at the implementation stage). Co-authors noted the potential difficulties, but in general the problem was minimized by the authors, or the advantages written about were said to considerably outweigh the costs. This is another case where, while the costs of donor motivated innovations are significant, the co-authors noted that the benefits nonetheless outweigh the costs.

It was noted, however, that while both view the benefit-cost ratio as higher than 1, donors tend to think the ratio is higher than the high-level officials who co-authored do. Furthermore, it was noted that one way to improve this ratio (that is, improve the advantages of such civil society consultation relative to the cost, mostly by decreasing the denominator) is to provide recipient countries with more capacity at skilled process management of the political economy issues involved in reform. Or, simply to improve consultative dialogue process management skills in general. An example cited was the provision of negotiation skills needed to get faster reconciliation between opposing

viewpoints within civil society itself, which, if unresolved, can paralyze design and policy-making, and thus decrease AC.

It was also noted that civil society involvement can certainly improve AC at the execution stage, since, if plans are laid out properly and procurement or on-grant-making is sound, NGOs can, in some cases, execute more quickly, with more community involvement (and more respect for community preference) and often at lower cost, than, say, standard construction contractors. (In the case of access expansion, and in the case where access expansion is constrained by infrastructure provision.)

Some co-authors noted that to some degree general-purpose civil society organisations such as foundations or NGOs, can be not only helpful in execution or implementation, and in dissemination of new policy positions, but can be a useful counterfoil to other civil society organisations such as teacher unions, or to entrenched state bureaucracies who may have something to lose in reform. Many foundations or NGOs, they felt, while in some sense having their own interests, come closer to representing the general interest (of parents, say) than many other institutions in society, regarding issues such as teacher effort, absenteeism, accountability of system to communities, and so on. One example is the partnership between at least one government (and probably others) and NGOs in trying to explain new accountability and school-based management to parents and communities. In that sense, these sorts of civil society organisations can be useful to reformist governments who might be trying to find a countervailing power to balance the power of traditional bureaucracies and unions.

In general, the hypothesis that civil society consultation, as popularized by donors more recently, while useful in some ways, might slow down decision-making, is not really born out in the experience of the authors. But some co-authors also noted that one reason why, perhaps, in their countries consultation did not result in reducing AC at the design or policy dialogue stage is that, at least in their situations, most NGOs are interested in implementation and service delivery, and are not that interested in grandstanding on policy issues, or for intellectual influence on policy direction beyond, perhaps, simply holding government accountable for macro policy promises. This means that, in those countries, the sorts of difficult policy debates that might take place in countries where NGOs are active as think-tanks, and have strong policy positions, and leadership with ambitions to be prominent on the intellectual and policy-influence stage, simply do not come up as much. In that sense our sample of co-authors may be a little biased, or is, more justly, simply reflective of reality in countries of lower income and less active think tanks. It is difficult to imagine a policy debate open to civil society that would not become a space for serious contestation in countries such as South Africa, Colombia, and so on. Such debates, then, take serious debate management skills from government if the contestation is to be kept productive and appropriately dialectical. Finally, it was also noted that, even in policy design and policy dissemination, some civil society organisations, in the experience of some of the authors, are perhaps more “progressive” than some of the traditional interest groups, and are a useful counterbalance.

6. Conclusions

The paper has argued that AC, as a concept, and as a way to understand the limitations on the impact of aid, can help bridge the gap between powerful "aid pessimist" and "aid optimist" views of the world, in a world where "aid pessimism" could be used to excuse inaction on the aid front. Unpacking the concept of AC, therefore, seems a worthwhile task. The paper noted some workable definitions, and reviewed the literature. It then posed some falsifiable hypotheses oriented at claiming that perhaps AC problems are to a significant degree caused by donors themselves, but not by the usual problems leading to the usual solutions (e.g., donor clubs and "harmonization"). The hypotheses pointed to deeper problems relating to organizational behaviour and incentives which implicitly pose solutions that individual donors would have to take responsibility for, such as making conscious decisions to be contrary to the herd mentality that is pervasive in donor thinking and that "harmonization" and other fashionable solutions might, conceivably, actually exacerbate.

The hypotheses were stated as reasonably rigorous falsifiable hypotheses, though, of course, they could not be tested quantitatively, at least not within the scope and time allowed for this paper. Rather than provide a pure desk-review of the literature, however, an attempt was made to tap the personal knowledge and opinions of senior government officials in a manner as close as possible to actually getting them to write, which in some cases involved their providing draft materials which were used as input into the paper. This could, naturally, only lead to a general qualitative and exploratory set of conclusions. However, it can be said that the hypotheses were partly falsified and partly confirmed. The convening author stated "negative" hypotheses essentially putting a good bit of responsibility for low AC on the donors themselves, and also hypothesizing that the problems are more intrinsic than easy fixes, such as more donor harmonization can solve. But the corresponding authors were actually relatively more willing to accept a good bit of responsibility for AC problem in their own countries, and were willing to be more optimistic than the convening author. In that sense the hypotheses were partially falsified.[8]

Recent donor innovations, for example, do seem a real enough advance. There seemed to be fairly wide agreement on this issue amongst corresponding authors.

Nonetheless, the hypotheses are partially upheld. Factors such as donor exaggeration of AC problems, and some interesting theoretical reasons for such exaggeration (reasons not easily fixed through donor coordination, but demanding, instead, more interest from donors in testing reality for themselves rather than following informational cascades) are strongly suggested by the paper, and some of the corresponding authors actually came up with independent hypotheses as to how some of the mechanisms responsible for, for example, donor exaggeration of AC, operate (i.e., what are the dynamics whereby bad reputation tends to be slower to update than good reputation can be destroyed). Other

[8] As already noted, this might be a sort of sampling bias created by the fact that the convening author was not able to get as many "donor orphans" to collaborate as he would have liked. If there is further interest in this line of investigation, it would be useful to get a larger and more balanced sample.

possible practical solutions to some of the possible AC-exaggeration problems, or AC-created problems, that remain unsolved even through donor harmonization, are suggested. Given the particularly exploratory nature of the analysis, the usual caveats about more research and thinking of the issues apply to this report even more than is customary.

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