

ECONOMIC AND SOCIAL RESEARCH FOUNDATION

(ESRF)

**REPORT OF A POLICY DIALOGUE WORKSHOP ON OPERATIONALIZING
PARTNERSHIP FOR GOOD GOVERNANCE: HOW TO FIND APPROPRIATE
FUNDING MECHANISMS HELD AT THE ESRF CONFERENCE HALL ON
MAY 27, 1998**

POLICY DIALOGUE WORKSHOP ON OPERATIONALIZING PARTNERSHIP FOR GOOD GOVERNANCE: HOW TO FIND APPROPRIATE FUNDING MECHANISMS

On May 27, 1998 the Economic and Social Research Foundation (ESRF) organized a workshop which focused on a presentation by Professor Goran Hyden from the Centre of African Studies at the University of Florida, United States of America. Prof. Hyden's presentation was on **"Operationalizing Partnership for Good Governance: How to find Appropriate Funding Mechanisms"**. Professor Awadh Mawenya of the National Income Generating Programme (NIGP) was a discussant while the proceedings were chaired by Mr. Patrick Qorro.

Prof. Hyden commenced his presentation by observing that the issue under discussion had become increasingly pertinent to those in the business of providing and receiving aid. The fundamental question is how programs fit in the donor-recipient relationship and its impact on the future adjustment of aid to various development programs.

This should be seen in the context of the evolution of aid over the years as characterized by 4 phases. The First Phase which was in the 1960s, was characterized by focus being on projects based on centrally managed and produced development plans. The donor input was seen as supplementary. In Tanzania, the National Five-Year Development Plan provided such focus being the instrument provided by the government.

The 1970s saw the Second Phase characterized by a change in focus to programs. Projects were seen to be too micro-oriented and too disintegrated from the national focus. Greater emphasis was laid on decentralization and management of an integrated economy. The focus was further on sectoral programme management.

The end of the decade ushered in the Third Phase (1980s). The older perception was questioned and policy reform became central. Emphasis in this phase was mainly on macroeconomic policy reforms coupled with the shift of policy for resource allocation. This is the period that evinced resources for development being allocated to non-government entities as well.

In the 1990s the focus went beyond policy to politics. In the earlier phases the norm was not to mix development issues and politics but these were later found to be inseparable. This is so as political control of development expenditure is the essence of politics and development has become a highly politicized phenomenon. Reforms were thus required even in politics with the governments of the day being required to pursue a line of good governance i.e. performance based on transparency, public accountability and fairness. Political dialogue also became an issue. This has come at a critical point in the donor-recipient relationship where ineffectiveness of aid is likely to induce a difficult task in justifying its provision. Genuine and sincere efforts to reform form part of the prerequisites for access to aid. There was common agreement among the participants that Sub-Saharan Africa has reached a critical point characterized by slow economic growth, corruption and lack of accountability in managing the economies

A new partnership between the donors and the recipients provides a platform for re-thinking the basis for provision of aid. What is needed on the part of the donors is a response indicating that the partnership can work. Failure has always been attributed to the corruption, lack of transparency and mismanagement on the part of the recipients, but it is highly relevant to call into question donor behavior inimical to aid effectiveness.

On this score Prof. Mawenya observed that in all fairness non-performance of aid effectiveness can partly be blamed on the donor community. In the construction sector, for instance, evidence is abound of invested funds being totally managed by the donors and in some cases diverted.

It is against this background that the need for the establishment of autonomous development funds emerges. The objectives of such funds are:

- (a) To operate as public but politically independent institution;
- (b) Provision of development funding on a competitive basis to the government and the civil society;
- (c) To operate as a funding but not an operational entity;
- (d) To aggregate funding from different outside sources;
- (e) To be legally incorporated in the recipient country but having a Board of Directors constituted by representatives of the Government, Civil society and Resource Providers, and;
- (f) To be national in scope but sectoral in operation.

Prof. Hyden noted that the difference between this type of funds and others lies in the fact that such funds are not controlled by the Executive or a single donor. The funds do not discriminate between public, private and voluntary organizations and the focus is national in scope. Furthermore, the funds encourage donor coordination based on terms set out by the recipient institutions.

In his observations, Prof. Mawenya and some of the participants were of the view that some pertinent questions need to be asked. These include the magnitude of the fund and whether the same is intended to totally replace foreign aid or not. In case it is not, then it is also relevant to determine where the emphasis should lay. Given the current economic trends, it would serve a useful purpose of the emphasis would be on the development of the private sector.

The term autonomous also needs to be well defined. The question of bureaucracy need not be neglected as there is bound to be intricacies associated with the multiplicity of regulatory rules and regulations emanating from the joint involvement of donors and the government. Donors should be made to agree on non-interference in the management of the funds.

The recipient government, Prof. Hyden observed, is likely to be interested as given the little development funds coming its way, the possibility of access to autonomous funds

provides a chance to compete for otherwise inaccessible funds. Moreover, such an avenue gives the government an opportunity to show its sincerity and serious good governance – a key that could unlock other gateways to funding. The participants opined that the scope of good governance should be seen in its broader context as funds alone are not the sole determinant. Other dimensions need also to be examined. Autonomous funds should be restricted to financing governance.

It was also noted by the participants that learning from contemporary examples which show the increasing essence of politics in development and partnership issues, it is imperative to examine how the fund operates hand-in-hand with the political agenda .

The participants, however, noted that there is need for the government to show commitment through making a substantial contribution and the private sector should also be made to make a significant contribution.

The other attraction of the fund, Prof. Hyden contended, is the reduction of the administrative burden arising from the reporting procedures associated with donor funds; the fund will free the civil servant from the cumbersome reporting procedures and thereby reduce the governments administrative burden. Such funds can also provide a formula for reduction of corruption by providing an opportunity for resource allocation based on professional integrity.

As for the civil society, it is likely to be attracted by the fund through being invited to be part-owners having a say where none existed before. National control of allocation of resources is also likely to be enhanced and chances for fairer distribution of resources can also not be overruled.

Prof. Hyden further observed that donors' interest in the fund is likely stem from the fact that such a fund arrangement fosters partnership for development and good governance by establishing channels for dialogue while at the same time promoting integrity and better use of resources. As with the government, the fund mechanism would also reduce the administrative burden on the part of the donors. However, the advantages and disadvantages of political dialogue should also be looked into lest dialogue erodes partnership, the participants noted. The causal relationship between good governance and an autonomous development fund should be clearly stipulated.

Prof. Hyden was of the view that dialogue would be different given the existence of a frame agreement for the establishment of the fund with the amount being specific and set out. Whatever dialogue that is going to take place will be at the Board level and thus more professional. Three windows are envisaged in the allocation of the fund's resources namely, education and training, soft loans for the informal sector, and commercial for lending and borrowing on non-subsidized terms.

The participants futher noted that the scope of use of the funds must be determined for donors may easily go for limited scope much more readily. It also has to be established as

to what extent are the donors ready to relinquish their control. The power structure of the governing boards should also be set out clearly.

On initiatives already on the ground, Prof. Hyden observed that the Cultural Development Fund (Mfuko wa Utamaduni Tanzania) which has brought together cultural groups is one such fund. Other funds operate in Kenya, Zambia and Uganda.

The discussant, Prof. Mawenya noted that apart from the fund mentioned, the NIGP is another initiative that could fall squarely within the definition of such funds. This is a joint-venture between the Tanzania government through the Planning Commission and the donor community through the United Nations Development program (UNDP). The programme is meant to prop up those who had been thrown to the wayside by the Structural Adjustment Programs to enable them get back into the mainstream. The government has little influence in it as even the Chief Executive Officer is appointed not by the President but by the Board of Directors. The Program operates on transparency to ensure accountability.

The participants underscored the importance of sustainability of the fund. The development agenda should be approached in a way that seeks to minimize the role of the government while addressing ownership of the programme and national development.

Another area worth of examination, the participants observed, is the relationship between the fund and the current national budget mechanism. The national budget goes beyond the control of the government; the parliament plays a significant role in controlling the budget to ensure that it is managed for national development. To this end, it is important to examine the extent to which the fund is an interim measure given the fact that the present budget management is suspect. It is also relevant to examine whether the fund is meant to be parallel to the national budget (and risk undermining it) or it is meant for convergence at a certain later stage. Deficiencies in budget management should be tackled and the fund should be managed by all through national consensus.

Concern was expressed by some of the participants that the limping budget and the limited availability of development funds may lead to competition for funds thereby suffocating those areas that need the funds more e.g. the social services. The essence of developing the capacity to integrate national interests and priorities as far as development issues are concerned should be assessed and it should be clearly stipulated as to who sets the priorities. Participants urged that the arrangements should be approached with caution.

The participants also noted that co-existence of the fund with bilateral arrangements poses a challenge. Parties will go into the partnership seeking to advance and protect self-interest. Needed are mechanisms that would thwart the advancement of self-interests to the detriment of the alliance e.g. Self-interest should not be transformed into conditionalities.

It is also relevant to look into how the interests akin to the donor-recipient relationship for, apparently, the present chaotic situation is beneficial to some donors as well as some nationals. How to counter such debilitating interests on both sides is of great importance.