

# Managing cooperation programs in developing countries: a case comparative analysis in Kenya, Pakistan, Brazil, Somalia, and Egypt.

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## Abstract

Cooperation programs contribute significantly to the delivery of social, health, and infrastructure policies in developing countries, but relatively little empirical work has been made on how they are managed. This paper aims to contribute filling this gap through a case comparative analysis of the implementation of cooperation programs conducted by Italy in Kenya, Pakistan, Brazil, Somalia, and Egypt. The analysis of the cases provides evidence for explanatory research arguments which hold that cooperation programs' management practices can be affected by the developing countries' administrative system, the foreign aid policy subsystem's structure, and the cultural and social environment. These findings suggest that context features need to be taken into account to qualify extant generalizing arguments about the role played by incentives on the behavior of donor agencies and principal recipients of foreign aid programs.

## Key words

Foreign aid, cooperation programs, developing countries, inter-organizational routines.

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### **1. Introduction.**

Within the fields of international relations and development policy, cooperation programs are an important component part of foreign aid provided by donor countries to beneficiaries through intermediary (recipient) agencies. Scholarly literature on this topic has often addressed the main issue of what affects the effectiveness of foreign aid (Easterly and Pfutze, 2008; Radelet, 2006; Birdsall, 2004; Easterly, 2002; Martens et al., 2002; Bovard, 1986). Generally, these studies convey the dismal picture that foreign aid policy are often afflicted by weak institutions (Gibson et al, 2005; Martens et al., 2002), performance measurement problems (Wemer and Vining, 1999), hostile environments (Easterly, 2002), and corruption (Svensson, 2000). Relatively less attention has been placed, instead, on how cooperation programs are managed on-the-field, i.e., on how donor agencies and principal recipients develop and orchestrate inter-organizational routines for delivering foreign aid policy. Yet management issues may significantly affect the performance of cooperation program, hence research on the effectiveness of foreign aid needs to be complemented by studies done on what affects the implementation of cooperation programs in both mundane routine activities as well as in the design of foreign aid interventions.

In broader perspective, this paper aims to contribute developing positive theories of the management of cooperation programs. For positive theories of management, we mean interrelated knowledge claims about the conduct of economic and non-economic enterprises and about the causes of organizational performance. Previous studies, which have been generally conducted along the institutional rational choice approach, have already shown that the management of donor agencies and principal recipients is affected by agency problems (Weimer and Vining, 1999), moral hazard (Gibson et al., 2005), collusion to foster partisan interests (Kanbur, 2000), and incentive structure (Araral, 2008). Relatively less attention has been placed, instead, on the causal role played by local context factors. We hold that extant generalizing research arguments on the effectiveness of cooperation programs can be qualified by taking into account explanatory arguments where features of the local context play an important causal role in explaining managerial practices and cooperation program performance.

This paper pursues the development of positive theories of the management of cooperation programs through a comparative case study (Ragin and Becker, 1992; Stake, 1995; Yin, 2003) about managerial practices situated within different contexts. The cases refer to the managerial practices developed for implementing five international cooperation programs sponsored by Italy in Kenya, Pakistan, Brazil, Somalia, and Egypt. The general issue addressed through the comparative case analysis is, how do context features affect the behavior of donor agencies and principal recipients? This issue underpins more specific questions, namely: How do local context features affect recipient government's efforts to divert foreign aid funds from the intended beneficiaries? How do they affect donor's efforts to deliver aid services of the cooperative program? Answers to these questions will shed some light into the role of local context features in affecting the behavior of donor agencies and

principal recipients, and therefore will allow qualifying extant generalizing arguments generally based on institutional rational choice.

Next section provides the theoretical framework for the comparative analysis of cases of managerial practices of cooperation programs. The third section will provide an account of the five cases of management practices developed for implementing international cooperation programs undertaken by Italy in Kenya, Pakistan, Brazil, Somalia, and Egypt. The fourth section, then, will present a research argument for explaining the features of the management practices illustrated in each case, and for explaining the observed differences between them. Fifth section will discuss the findings from the case comparative analysis for the sake of qualifying extant generalizing arguments on the behavior of donor agencies and principal recipients. Lastly, the sixth section will draw the conclusions.

## **2. Theoretical perspectives on the management of cooperation programs.**

The effectiveness of foreign aid is a topic of study which has attracted growing interest in the last decades. Foreign aid (or foreign assistance) is the financial flows, technical assistance, and commodities that are designed to promote economic development and welfare, in the forms of either grants or subsidized loans (Radelet, 2006). Foreign aid typically pursues the rehabilitation after manmade or natural disasters and the stimulation of economic growth in the recipient country through building infrastructure, supporting productive sectors, or transferring ideas and technologies, the strengthening of education, health, environmental or political systems, or the support on food security or commodities consumption, or the stabilization of economy following economic shocks. In about the last 50 years, donor countries devoted to foreign aid a massive amount of resources, estimated about \$ 2.3 trillion (in 2006 dollars; Easterly and Pfitze, 2008).

The effectiveness of foreign aid is controversial, at best (Radelet, 2006). Even if foreign aid may play a role in reducing poverty or containing worsening living conditions, it has been often imputed the subsidizing of inefficient bureaucracies, the perpetuation of bad governments, the enrichment of elites of recipient countries, and the fostering of corruption. In a rather draconian assessment, as Easterly (2002) put it, “the tragedy of foreign aid is not that it didn’t work; it was never really tried”. Indeed, various authors (Maertens et al., 2001; Araral, 2005; Radelet, 2006) point out that foreign aid is intrinsically undermined by complex institutional arrangements plagued by information asymmetry and contract incompleteness. Most cooperation programs are managed through a long chain of principal-agent relationships, including those between donor country’s taxpayers, elected officials, head of aid agencies, donor agencies’ employees and consultants, recipient agencies, recipient country’s government, recipient country’s organizations and the beneficiaries (Radelet, 2006). Various remedies to fix the problems of information asymmetry and contract incompleteness – including, for instance, greater transparency, selectivity of recipient countries, and selection of appropriate aid tools (Easterly and Pfitze, 2008; Easterly, 2007) – have been proposed, but out understanding of how to improve foreign aid effectiveness is still far from complete.

Most of these studies done on foreign aid effectiveness generally followed an institutional rational choice approach for explaining the issues encountered in the management of cooperation programs. As highlighted by Araral (2008), institutional rational

choice theory suggests that the pursue of self-interest, incentive structure, asymmetric information, and contract incompleteness play an important role in explaining the choices of donor agencies and principal recipients. The relationship between the donor agencies and principal recipients can be explained, in particular, through a variant of the principal-agent model characterized by two moral hazard problems. The donor agency is assumed to seek the growth of its foreign aid funds portfolio, while the recipient agency is expected to seek bureaucratic survival. Both players, however, are bond by interdependence, and need to take other player's choices into account. The model shows (Araral, 2008) that the recipient agency choses to under-invest in development projects in order to subsidize its operation costs and to keep claiming the need for foreign aid. The donor agency, instead, choses to relax monitoring recipient's efforts in order to avoid sanctioning the recipient in case of funds misallocation (e.g., violation of terms of conditionality) and to keep foreign aid money flow.

Araral's model (2008) highlights that the management of cooperation programs is significantly affected by career motives and aid fungibility. Individuals within donor agencies have strong incentives to keep foreign aid flow because their careers – as well as the importance of the donor agency in the eyes of the donor country's elected officials – depend on the amount of money spent in cooperation programs (Kanbur, 2000). It is not in donor agency's interest, therefore, to closely monitor and sanction the recipient agency in order to avoid the risk of halting foreign aid flow. Individuals within the recipient agency, instead, have strong incentives to divert foreign aid funds from the delivery of aid services to the subsidizing of recipient agency's operations (or even misappropriating them) (Auer, 2005). It is in the recipient agency's interest, therefore, to claim fungible aid in order to expand bureaucratic spending and perpetuate the dependence from foreign aid. Araral (2008) argued that the bureaucratic interest of keeping constant the aid flow (presentation and approval of new loan-based investment projects), in order to assure the survival of the beneficiary (government-owned corporation) of the aid, was evident by examining the operating budget and income of the same company, where the operating expenses always exceeded the operating income. In the model, the beneficiary's behavior presents incentives to create a stage where the necessity of aid sustains itself, as long as the aid remains fungible and able to overcome the beneficiary's budget deficits.

The same double moral hazard problem is revealed in governmental cooperation programs established through grant-based bilateral agreements, where the donor country needs agencies (governmental authorities) as clients in order to grow its grant portfolio, whereas agencies need donors to finance their capital expenditures and, possibly, subsidize their operations. If we apply the same model to emergency cooperation programs established through memorandum of understanding (MoU) with local authorities, yet without intergovernmental agreements, then the game interaction is made more complicated (and the moral hazard problem more intense) because a third actor is added. The donor sountry, which is in the need of client-agencies to grow its grant portfolio, agrees with recipient agencies to provide the aid to the beneficiary. Both the recipient agencies and the beneficiary are interested to receive funds to cover their own expenditures. The beneficiary, then, will monitor the recipient agencies in order to prevent them to cross-subsidize all of their operating activities (i.e., also those non related to the cooperation program) with the aid. The donor country's elected officials, which are held accountable towards the donor country's authorities and to the beneficiary (according to the terms of the MoU), may set up a results-based system for assigning key job positions (rather than than rewarding its employees in

relation to the amount of the aid flow). The employees of the donor agency may also sanction the recipient agency by diverting the funds from one agency to another (provided the same expenditure level is assured) which shows more accuracy warrants in reporting the aid flow (even if it does not secure a constant or growing aid flow).

Various studies provide support for the institutional rational choice explanation of the management of cooperation programs. Collier (2000) argued that cooperation programs are fundamentally undermined by contractual incompleteness and lack of credible commitments, which renders any promises of good governance and reform in the recipient countries vacuous. Kanbur (2000) showed that foreign aid alleviates the fiscal problem of recipient countries and therefore provides perverse incentives not to improve efficiency and performance of recipient government's administration. Auer (2005), Feyzioglu et al., (1998), Devarajan and Swaroop (1998), Pack and Pack (1983), and Remmer (2004) highlighted that fungible aid generates opportunities for recipients to expand governmental spending. Birdsall (2004) also pointed out that donors may collude to foster foreign aid rather than making it conditional to recipients' compliance with targeted interventions.

The explanation of donor agencies and principal recipients' choices under institutional rational choice theory grants an important role to the incentive structure provided by in the context in which these actors operate (Sabatier, 1999; Ostrom, 1999, 1998; Scharpf, 1997). Attention has also been placed to various features of the context which seem to affect the efficiency and effectiveness of cooperation programs. Easterly (2002), in particular, highlighted that the management of cooperation programs is positively affected by the presence of administrative skills in the recipient government, of collaborative local elites, and of competitive pressure between multiple donor agencies. At the opposite, factors which can hamper the management of cooperation programs include the polarization of recipient agencies along regional or ethnic lines, the fragmentation of foreign aid interventions between different donor agencies, and the loose control of administrative hierarchies in the recipient countries.

The importance of context factors on the efficiency and effectiveness of cooperation programs, therefore, is acknowledged and researched. Relatively little attention, however, has been placed on formulating and testing hypothesis concerning the role played by *specific* features of the context in which cooperation programs are implemented. A way to try and fill this gap is to consider how individuals operating in the donor agencies and principal recipients attend to features of the context and adapt their behavior to the perceived threats and opportunities. A distinction between different levels of interaction between actors is germane here, namely (a) the interaction between officials from the agencies of donor and beneficiary countries, and (b) the one between the technical experts from the implementing and recipient agencies and the final beneficiaries. At the level of the bureaucratic relationship between the agencies of donor and beneficiary countries, features of the context which can affect the interaction include the characteristics of the beneficiary country's governmental administration, especially the extent to which it can impose obligations on the implementers of the cooperation program. At the level of the delivery of the aid to the final beneficiary, instead, features of the context which can affect the interaction include the presence of 'brokers' between technical experts and the beneficiaries, in the form of on local non-governmental organizations, community-based working committees, beneficiaries' associations, and local operative branches of religious organizations.

These two sets of context factors can result in contrasting effects on the management of the cooperation programs. If the beneficiary country's governmental administration can impose obligations on the implementers of the cooperation program, we can expect that it will exert its powers for diverting – through more or less explicit means – the aid flow away from its intended beneficiaries. There is some evidence, for example, about the subtraction of foreign aid for funding the purchase of weapons (Djankov et al., 2006). If 'brokers' between technical experts and the beneficiaries are present, instead, we can expect that they will devote their efforts to facilitate the delivery of aid to the intended beneficiaries. These actors generally share the same sense of purpose of the beneficiaries' community, develop a deep understanding of beneficiaries, acquire skills in handling perturbations and conflict, and establish useful connections with other relevant actors of the beneficiary country. The hypothesis which are at stake in this study, then, are:

H1: Governmental administration of the beneficiary country which can impose obligations on the implementers of the cooperation programs diverts part of foreign aid funds.

H2: 'Broker' organizations – such as local non-governmental organizations, community-based working committees, beneficiaries' associations, and local operative branches of religious organizations – support the delivery of aid to the intended beneficiaries.

The rest of the paper is an instrumental comparative case study of managing cooperation programs in five different countries, namely Kenya, Pakistan, Brazil, Somalia, and Egypt. Each of these cases includes the managerial practices developed for carrying out cooperation programs sponsored by Italy in these countries in various areas of intervention. Each case is characterized by specific historical, social, and cultural context factors, including forms of government, political stability, ethnic groups structure, administrative traditions, cultural and societal norms, and structure of the foreign aid policy subsystem. The cases have been selected as relevant types within the kind of process under investigation, namely the management of cooperation programs. Two of these cases, the Pakistan and Egypt ones, figure significantly as instances of the process of implementing cooperation programs within a context where governmental administration of the beneficiary country has the power of imposing obligations on the implementers of cooperation programs. Three of these cases, the Kenya, Brazil, and Somali ones, stand as instances of the same process within a context where 'broker' organizations are present in close relationship with technical experts and beneficiary communities.

Data collection consisted of both primary (direct observation and interviews) and secondary (documentary) sources. Evidence has been collected by one of the authors of this paper in the form of participant observation (Jorgensen, 1989; McCall and Simmons, 1969). He took part in managing cooperation programs of Italy, initially at non-governmental organization level, Kenya(2005),and subsequently in Pakistan, Brazil, Kenya, Somalia, and Egypt by working the General Directorate for Development Cooperation of the Ministry of Foreign Affairs based at the Embassies of Italy in Islamabad, (May 2006-November 2007, approximately a 2.5 USD million yearly-based emergency program), Brasilia (October 2007-April 2008, approximately a 1.5 USD million yearly-based emergency program), Nairobi (April-December 2008, approximately a 6 USD million yearly-based emergency programs), and Cairo (February 2009-to present date, approximately 45 USD million multi-year-based

bilateral program). Field notes have been recorded of the experience. Interviews were conducted with colleagues working within the same organizations, and employees of other agencies involved within the respective program. Data, in the form of field notes, interview notes, and documents, have been coded independently by the two authors.

### **3. Managing cooperative programs: five case studies.**

#### **3.1. Emergency Program in Kenya.**

Counting a rapidly growing population of about 38 million people, Kenya is a republic generally characterized by a relatively stable political system, at least in comparison those of neighboring countries as they are occasionally subject to abrupt crises. The country is also characterized by ethnic and cultural variety, with predominant Kikuyu, Luo and Kalenjin, including also Somali and Swahili on the coast, pastoralist communities in the north, and various other communities in the rest of the country (e.g., Maasai). The country ranks 148<sup>th</sup> (out of 181) in the 2009 International Monetary Fund statistics of GDP (PPP) per capita (US\$ 1,751), 146<sup>th</sup> (out of 180) in the 2009 Corruption Perceptions Index of Transparency International, and 98<sup>th</sup> (out of 133) in the 2009-2010 Global Competitiveness Report of the World Economic Forum. Facing dramatic living conditions (about 54% of population is estimated to live below poverty line), since 2003 the Kenyan government launched the Investment Program for the Economic Recovery Strategy for Wealth and Employment Creation. Apart from funding international organizations operating in the country, Italy provides direct aid through bilateral cooperation agreements and emergency interventions. The Emergency Programs system, which includes interventions targeted at manmade or natural disasters, is locally implemented by non-governmental organizations. The experience here recounted took place after Kenya's post-electoral crisis from 2007 onwards.

Managing the emergency program required the activation of various cooperative ties between non-governmental organizations (NGO - recipient agencies) and the donor agency (Embassy of Italy). As principal recipient, the NGOs liaised with several beneficiary groups located both in Kenya as well as in Southern Sudan and Somalia. Management practices performed included reorganizing principal recipient's administrative unit (e.g., redesigning NGO local financial control system), administering the funding process (e.g., supervising the accounting process and financial reporting, monitoring cash flows), and liaising with donor agencies and beneficiaries. At the level of the interaction between technical experts and the final beneficiaries, from 2005 onward the recipient agencies undertook the set up of a new financial control system, the streamline of the funding process, and the delivery of financial resources to intervention according to donor's guidelines. The main issue faced at that time concerned the management of cash flows, which was of pivotal importance for the the NGO, which operated in Nairobi as main regional office, to provide financial resources to the emergency activities on the field in Kenya and Somalia. The regional office headquarters in Nairobi required high efforts by the field managers (NGO's officials) in order to satisfy accountability standards on the funds received. Local administrators (external NGO's officials) were also employed because of keeping balance in the composition of the workforce and because of complying with requests of the local authorities (as expressed through the donor agency). The cash flow management system had been traditionally based on an arguable cash-vouchers' system, where different officials contributed to shift the cash funds to their final destinations and the final recipient was responsible towards the official who hand-

delivered him the funds and not towards the central office. This system resulted in loss of information in every circumstance there was a fault in the intermediate reports, with the effect of diverting the funds within the assigned budget or misappropriating them. Slow down or paralysis of the activities was an unavoidable consequence.

At the level of the interaction between officials from the agencies of donor and beneficiary countries, some particular traits of the social and cultural environment of Kenyan society played an important role, as they occasionally posed obstacles or presented opportunities to the effective implementation of the emergency program. Individuals operating in donor countries' agencies generally held the presumption that the executive government controls the administration and that bureaucracy adheres to canons of rule of law, but the behavior of individuals operating in local administration and beneficiaries' agencies often contradicted their expectations. Discrimination between ethnic groups also contributed to undermine collaboration between principal recipients, Kenyan administration, and beneficiaries. Individuals operating in donor countries' agencies and the principal recipient, however, gained support by the local branch of the Catholic church, which occasionally helped overcoming deadlocks and facilitating the allocation of funds to interventions.

The activities of the emergency program were divided in four projects: housing, education, agriculture and health, assigned to the same number of NGO's. The decision taken at the donor's main meeting was the decentralization of the projects, based on the assumption that only locally centralized offices of the NGO's (implementing agencies), in the areas of intervention, could guarantee the desired aid effectiveness level. Following past experiences, every implementing agency was requested to open its main program-office on the field for financial and technical coordination instead than in Nairobi, as a requirement to participate to the program. In order to accomplish this, authorizations by local authorities was need to operate in the local community (Eldoret district, Rift Valley). At the local level, no matter how long the experience of the local authorities in managing emergency recovering plans, no standardization for the management of the authorizations to operate was present. The area of intervention was characterized by an extremely complex tribal and ethnic mixture, and interviews to the representatives of the main ethnic groups in the area (Luo, Kalenjin and Kikuyu) did not give sufficient basis to start the intervention and also deal with the local authorities, which operated in a militarized zone. As a matter of fact, the agriculture fields and agro-related activities on the lands administered by the Church, community-based with the participation of different ethnic groups, were the only lands not affected by episodes of violence and atrocities, even if situated in the highest-risk area, in terms of ethnic conflict. The area is strong predominantly Christian, and the local bishop of the Catholic Church played an important peace keeping role among the communities. Meetings among clan leaders were possible only within the Church jurisdiction. The reconstruction and recovery program literally took off in the bishop's main office, as he was the only institution which seemed to be able to take valid commitments in the territory, get the authorizations to operate, provide security to the Italian staff involved in the activities, gain the collaboration of the local staff, and facilitate agreements between the different ethnic groups representatives.

### **3.2. Emergency Program in Pakistan.**

The history of the Islamic Republic of Pakistan has been long characterized by an

influential role played by the military, which ruled in the periods 1958-71, 1977-88, and 1999-2008. Populated by about 175 million people, Pakistan ranks 132<sup>nd</sup> (out of 181) in the 2009 International Monetary Fund statistics of GDP (PPP) per capita (US\$ 2,671) and 139<sup>th</sup> (out of 180) in the 2009 Corruption Perceptions Index of Transparency International. Pakistani society is relatively hierarchical, deeply rooted on traditional values of Islam (mostly, Sunni) even though social practices and culture of urban families may differ from those in the rural areas. Foreign aid from Italy generally focused on supporting economic development (e.g., olive oil production) and the preservation of environmental resources (e.g., Karakorum Trust), although also some bilateral cooperation agreements (e.g. Debt Swap Programme) and important emergency programs have been undertaken for assisting Swat Valley refugees and providing health assistance and shelter to the population after the 2005 earthquake, which provoked a death toll of about 79,000 people.

The management of the earthquake emergency program in the period of study required the coordination between the General Directorate for Development Cooperation, the Pakistani Earthquake Reconstruction & Rehabilitation Authority (ERRA), and various NGOs. Management practices performed included organizing emergency program's administrative unit, administering the funding process (e.g., supervising the accounting process, financial reporting, monitoring cash flows of the funded NGOs), and liaising with governmental agencies. These efforts resulted in the set up and routinization of the accounting and financial management system of the emergency program, which streamlined the processing of funding applications and the disbursement of funds to NGOs.

The Pakistani governmental bureaucracy, whose design was partially affected by the British colonial legacy and the military ruling, generally supported the implementation of the earthquake emergency programs. Red tape, however, made various governmental agencies (e.g. ERRA), public bodies (e.g., local universities) and private certified entities (e.g. engineering advisers) involved in performing primary and ancillary activities related to earthquake reconstruction and rehabilitation. Although aid funds provided by the General Directorate for Development Cooperation were entirely earmarked to specific actions, part of them was diverted towards legal and technical 'services' which unavoidably diminished the amount of money spent to deliver assistance and shelter.

The reconstruction and rehabilitation activities were addressed to intervention areas assigned by the Minister of Foreign Affairs (MoFA), such as housing, education, agriculture and income generation. The location for intervention on the field were traced through field assessments by means of interviews to beneficiaries' representatives (religious and village leaders) and recipient agencies' representatives (NGOs technical experts and representatives). The emergency program, with a predominant rebuilding component in every sector of intervention, was divided in four projects assigned to the same number of NGOs (implementing agencies) with local office in the areas of intervention with permanent expatriate and local staff. The donors' reconstruction activities were coordinated by ERRA and implemented, and funded, by foreign aid.

The coordination of the activities by ERRA resulted in the adherence to a protocol that requested standardization of construction procedures to be approved by organisms of the same authority. The standardization process took place through a list of authorized private engineering companies, often represented by individuals, in charge of preparing the construction plan of a standard house to be multiplied for the number of houses the donor and

its implementing agency were intended to build. The private engineering companies were in charge of issuing a sort of certificate of conformity to be approved by ERRA through non-objection certificate for construction. The remuneration requested by the short-listed private engineering companies, for their services, was in a range between 3 and 4 million Pakistani rupees, approximately equivalent to US\$ 50,000, per reconstruction project. This money was just a preliminary payment before proper bargaining over the certification process started. In effect, the private engineering company resulted to be a paper-pusher, especially wherever the reconstruction did not concern residential buildings, or whenever the implementing agency intended to build an earthquake-proof structure different (supposedly of better quality) with respect to the standard. In the case any implementing agency provided a new earthquake-proof structure which was unknown by the locals, ERRA required specific tests to be done in a university laboratory., The implementing agency was required to supply materials and samples for the test, and to reimburse cost for laboratory use to the lab, for an equivalent amount of about US\$ 10,000. The amount of money, anyway, was subject to a bargaining process.

### **3.3. Emergency Program in Brazil.**

By many standards, Brazil is a country which exhibits encouraging signals of economic and social development. Counting about 199 million people, Brazil is a democratic republic characterized by a relatively stable political system and well-developed institutions. The legal system is based on Romanic and Germanic traditions, and civil law is commonly prevalent on common law practice and non-codified statutes. The country ranks 77<sup>th</sup> (out of 181) in the 2009 International Monetary Fund statistics of GDP (PPP) per capita (US\$ 10,456), 75<sup>th</sup> (out of 180) in the 2009 Corruption Perceptions Index of Transparency International, and 56<sup>th</sup> (out of 133) in the 2009-2010 Global Competitiveness Report of the World Economic Forum. Despite the encouraging signals given by these indicators, the country is still affected by economic and social inequality (about 33% of the population being below poverty line). During the observed period, foreign aid from Italy mainly focused on targeted interventions to protect the environment and biodiversity, and toward areas of education, training, and health aimed to alleviating economic and social disparities. One of the main emergency program carried out in the period of study consisted of interventions targeted to children, teenagers, and young mothers on issues such as pregnancies, work exploitation, sex market, and unemployment.

Managing the emergency program in the period of study mainly required to strengthen the funds application, selection, and disbursement process. Due to lack of standardization of administrative procedures and paperwork templates in the past, the process of funding extant implementing agencies' projects had slowed down. Uncertainties about the administrative procedure and the timeliness of cash disbursements seemed to discourage implementing agencies to submit fund requests and to perform new activities according to the approved plans. Managerial efforts, then, focused on standardizing the funds application, selection, and disbursement process (e.g., providing standard templates) and tightening up the control on the financial procedures. As a result of these efforts, all pending funds applications were cleared, all NGOs received the first installments, and reports on the activity done by the General Directorate of Development Cooperation were positively approved by the Ministry of Foreign Affairs.

Some particular traits of the legal, social and cultural environment of Brazilian society occasionally hampered the delivery of aid services through international non-governmental organizations. One main issue was breaking through the red tape for getting authorizations needed by the NGOs to operate in given territories, especially when multiple donor agencies had undertaken projects which partially overlapped. Overcoming such deadlocks, which could undermine the funding process, was facilitated by the presence of Catholic inspired associations, with constant links with local branch of the Catholic Church. These organizations had long established close collaborative ties with Brazilian government's administration, other donor agencies and beneficiary groups, and were deep-rooted in remote areas of the Brazilian territory. Once these administrative uncertainties were solved, the implementation through local Catholic inspired organizations helped to speed up bureaucratic procedures, which contributed to make the donor agency (Embassy of Italy in Brasilia) accomplish spending the assigned aid budget within the assigned priorities. The strong humanitarian-based approach, which characterized such organizations, seemed to provide no incentive to divert the funds from the delivery of aid, and the organizations' target, really aimed at providing aid to the final beneficiaries, reduced intra-organizations conflicts, supporting a transparency-system in the report processes and utilization of the funds.

The emergency program allocated the funds to 52 Catholic inspired organizations located in different Brazilian States. The organizations were stably present in the territory, and double-linked with the local community through the religious faith and community-based assistance services. Even if funded by foreign aid and in some cases ruled by expatriates, their commitment in the territory within a common cause made them perceived as part of same community and not foreign agencies. The stably presence of these organizations in territory, and in some cases collaboration with the police authorities (fight against children-sexual exploitation), contributed to make them gain the trust of local authorities, resulting in authorization to operate also in sensitive areas of the country, like those affected by high-crime-risk, or those characterized by protection because of naturalistic or ethnic reasons.

The activities which had been planned in the project proposal were carried out relatively slowly, but they were eventually accomplished. The adoption of standardization of financial procedures for reporting and funding did not leave room for funds diversions. As a matter of fact, funds which were occasionally put in stand-by were lately reassigned to other activities within the approved projects. In this way, unspent funds were made available for other initiatives and ultimately resulted in delivering aid to the local communities. When particular circumstances hampered the continuation of a specific organization's project, the funds were diverted by the donor agency to other organizations' projects, and the affected organization accepted the outcome peacefully. This practice is rather unlikely for international NGOs, but within the Brazilian context it was acceptable, also because overheads and other costs for maintaining the organizational structure are modestly charged on the projects' budgets

### **3.4. Emergency Program in Somalia.**

Since President Barre was ousted by local clans supported by Ethiopia in 1991, Somalia has been characterized by persistent instability and internal strife. The northern part

of the country declared independence as Somaliland, although it has not been recognized by any foreign government. The southern part of the country has been affected by civil war, which devastated the Mogadishu area, heavily disrupted agriculture and food distribution, and resulted in a famine which caused about 300,000 dead (out of a country population of about 9 million people). Some years of turmoil followed, in which the Transitional Federal Government tried to reach stability by negotiating a truce with factions of the Islamic Court Union, an Islamist organization. Plagued by these events, Somalia ranks very low in international statistics about economic and social development. The country ranks 189<sup>th</sup> (out of 193) in the 2009 CIA World Factbook statistics of GDP (PPP) per capita (US\$ 600) and 180<sup>th</sup> (out of 180) in the 2009 Corruption Perception Index of Transparency International. Somali society, however, is supported by strong cooperative ties developed within the traditional clan structure and families.

Italy grants Somalia with a number of funding channels, other than with direct technical and political support. Based at the Embassy of Italy in Nairobi, the General Directorate for Development Cooperation of the Minister of Foreign Affairs is active on the emergency need of supporting the internal displaced people and the refugees in the neighbor Countries. The support takes mainly place by funding international NGOs to implement the activities and by funding the UN High Commission for Refugees. During the period of the study (April-December 2008), cooperation programs included both the administration and management of extant interventions (in favor of Somali IDPs on health, agriculture, education, training and income generating activities) and the launch of a new emergency program in the Dadaab camp, focused on Water & Sanitation, Health, Education & Training, Housing and Shelter. The management of the new emergency program, in particular, included analyzing the humanitarian needs in the Dadaab camp, calling for tender offers for intervention projects from NGOs, selecting eligible proposals, and administering the legal and financial process. The efforts at the Embassy of Italy resulted in the launch of the new emergency program, and in the allocation of funds to various NGOs for the ongoing one and for the new one.

The particular historical and political circumstances of Somalia undermined the possibility to establish a stable presence in the country and reliable relationships with Somali governmental agencies. From the Somali side, however, an important role in establishing collaborative ties between the donor agencies, recipients, and beneficiaries is played by informal authorities, as local representatives of chiefs of clans, villages' elders etc. These individuals, who at times combine social, security, and spiritual leadership of their respective communities, both provided a channel through which donors agencies and principal recipients get in touch with beneficiaries and ensure coordination and consistency in the behavior of beneficiary groups. Chiefs of clans generally supported recipients' interventions, provided that their authority was not contested.

The emergency program funded 5 projects of an equal number of international NGO's and a small number of direct interventions for commodity aid. The security situation in the country prevented the presence of NGOs' or donor's officials. A 'remote management system' was implemented in order to survey the projects' activities. When every international NGO submitted the budget proposal for funding, it was requested to provide full details of the local Somali NGO or association which was able to operate in Somalia, administer the funds, and coordinate the activities. The Somali NGO would receive delegated authority by the

international NGO. For every approved project, the donor agency (Embassy of Italy in Nairobi) requested the authorization by the Somali authorities to operate in the interventions area for both the implementing agency (international NGO) and principal recipient or local partner (Somali NGO or association). The authorizations were normally given by local governors, community elected elders representing the local community. A sort of standardization in the format and in the type of authorized activities was often arranged. No record has been ever taken regarding payments to be made in order to obtain such certificates, which exceeded a fair fee for a public service, according to local prices and common practice.

Costs for advising services were commonly paid in order to guarantee the security of the stored commodities, equipment and staff. The money paid, anyway, amounted to a modest percentage of the funds, not dissimilarly with respect to other countries where proper security companies provide the same service. Within the same community beneficiary of the aid, no cases were reported regarding diversion of funds by the Somali NGO, or requested by local authorities to divert part of the aid. Apart from the well-known risk of banditism and criminal actions, which were not registered within the projects' activities anyway, and the actual costs for security, no systematic diversion of funds took place either in a direct or indirect way. Change of destination of funds with respect to the approved budget were presented by the international NGOs and, if accepted by the donor, were arranged within the rules and regulations of the program. Normally these change of destinations were approved after reexamining the project, under conditions that the change of destination was justified by changes in external conditions which imposed a revision of the activities. Normally, the requests were rejected when the change of destination of funds was related to the need to subsidize overheads and other general costs needed to support the bureaucratic structure of the international NGOs.

### **3.5. Bilateral Program in Egypt.**

The most populous country in Africa and the Middle East, numbering about 77 million people, Egypt is a republic characterized by a political system relatively stable and a legal system based on Islamic and civil law (of Napoleonic tradition). The country ranks 101<sup>th</sup> (out of 181) in the 2009 International Monetary Fund statistics of GDP (PPP) per capita (US\$ 6,147), 111<sup>th</sup> (out of 180) in the 2009 Corruption Perceptions Index of Transparency International, and 70<sup>th</sup> (out of 133) in the 2009-2010 Global Competitiveness Report of the World Economic Forum. In February 2002, Egypt and Italy agreed on a set of cooperation interventions (€ 247.8 million) intended to support economic transition and social-economic development, including education and training, museum management, poverty relief, and civil rights. Beside the ongoing and relatively new agreement with the A.R.E., the cooperation between Italy and Egypt includes a Commodity Aid Programme (about € 36 million), aimed at supporting the Egyptian balance of payments by funding the importation of goods and services from Italian firms in the fields of agriculture, irrigation, industry, energy, health, tourism and environment.

Managing the commodity aid program required the joint efforts of the General Directorate for Development Cooperation of the Ministry of Foreign Affairs, the Cooperation Office at the Embassy of Italy in Cairo and the involved Egyptian governmental agencies (mainly Ministry of International Cooperation). A special part of the program, in particular,

consisted of providing technical assistance to the Ministry of International Cooperation. Management practices performed included planning (e.g., identifying the needs of beneficiaries), administering the procurement and funding process (e.g., designing and managing procurement tender offers, evaluating applications for funding, streamlining the funding process), and liaising with recipient government's agencies (e.g., public sector bodies). Activities were also performed in order to assist the local management of a bilateral cooperation program in favor of the Ministry of Transport for supporting the Egyptian National Railways Development Plan. The efforts at the Cooperation Office resulted in providing technical advice for the preparation of the financial and operational plan for contributing in the development of the Egyptian national railways, the design of tender offer procedures for the Commodity Aid Program, the clearing of pending issues, analysis of pending applications for fund, resolution of controversies over procurement transactions already tendered, coordinating the information flow and obtain the necessary non objection statements to be issued by different counterparts (Embassy of Italy, Ministry of International Cooperation of Egypt, Ministry of Foreign Affairs of Italy).

Apart from the program carried out by the General Directorate for Development Cooperation, Egyptian governmental agencies were recipients of foreign aid programs carried out by several countries. The 'abundance' of foreign aid sources made recipient agencies relatively inclined to negotiate the cooperation program at their terms. The management of the commodity aid program, in particular, was exposed to the risk of time consuming negotiations not to divert the funds toward non priority objects. Apparent weakness of administrative hierarchies and porous boundaries between public roles and private interests contributed to intensify the tensions. General features of the cultural environment, which supported traditional hierarchical social structures of Egyptian society, also seemed to strengthen the inclination towards accepting directives which originated from local authoritative sources. The terms of the bilateral cooperation program provided a safeguard to funds diversion because it provided tied commodity aid and technical assistance, however part of resources were drained by taxes levied on import.

The commodity aid program provided funds to acquire commodities for governmental authorities and private companies. It also funded projects in priority areas as, among others, protection of environment and promotion of the social role of women. In this case study the role of the implementing agency is played by the Embassy of Italy in Cairo, while the donor is the Ministry of Foreign Affairs of Italy, having as principal recipient the Ministry of International Cooperation and beneficiary the governmental authorities, government-owned or private companies, that received the commodities. The program worked on a duty and tax-free basis, granted by the executive agreement between the two governments. According to the same agreement, the fund was not suitable for providing any kind of commodity or aid for import, or other projects, which could involve, directly or indirectly, support to military forces or any other kind of armed corp. Thus, every supply or any expenditure, was supervised by the Ministry of Foreign Affairs of Italy, both in Rome and through its representatives in Cairo.

The goods imported could not be subject to any duty, as well as the Italian exporters. But according to the Egyptian law there was no restriction to charge separately the beneficiary, as well as the public authorities (e.g. Ministry of Health). Those receiving a commodity aid through the program, in effect, have been charged a percentage of approximately 5% of the value of the commodities received. The financial resources yearly

allocated to a specific public authority by the government were, in this way, reduced of 5% of the value of the commodities received as aid, which was taken back by the central government. In other terms, the real aid received by the beneficiary was approximately equal to 95% of the aid, while a 5% was indirectly diverted by the central Government, which could use it to its discretion. When such occurrence happened to a private company, the result was the same. A similar scheme took place for the local expenses carried out by the implementing agency of the donor, and the charge was approximately US\$ 100,000 per year, over a 10-year life program. As a matter of fact, the implementing agency carries out a number of activities in terms of technical assistance to the principal recipient and the beneficiaries, and the related expenses are charged with sales taxes and other duties, for an approximate figure of 5%.

#### **4. Discussion.**

The specific explanandum of these cases is the way in which recipient governments try to divert foreign aid funds from the intended beneficiaries and donor agencies, and principal recipients try to deliver aid services of the cooperative program. The relationship between the donor agency, implementing agency, principal recipient, and the final beneficiaries, is conceived here as a set of inter-organizational routines. Part of these routines are intended to establish collaborative ties between agencies and exploiting opportunities in the environment (e.g., 'networking' efforts), while others are designed to 'buffer' the agencies from external influences and shocks (O'Toole and Meier, 1999; Meier and O'Toole, 2003). The specific explanatory issue which is tackled here is to understand whether and how context factors may account for the configuration of inter-organizational routines established between the donor agency, the principal, recipient, and the recipient governments' administration. In order to address this issue, subordinate questions which need to be addressed are: How do donor agencies insulate their management practices from the pressure to divert foreign aid funds away from the intended beneficiaries? How do recipient governments' administration try to appropriate foreign aid funds which are not fungible? How do donor agencies and principal recipients make use of external resources to improve the delivery of aid service?

In the case studies, there is evidence of variation in the inter-organizational routines established between the local General Directorate for Development Cooperation offices, the local NGOs, and the recipient governments' administration. Generally, lot of managerial efforts in donor agencies and principal recipients were directed at standardizing administrative procedures, although this design feature of the funding and disbursement process did not fully prevent the diversion of part of aid funds to other ends (e.g., Egypt and Pakistan cases). In some cases, recipient governments' administration seemed relatively 'neutral' with respect to the flow of aid funds to principal recipients and beneficiaries, but in others it found the way to 'drain' part of aid funds, even if they were not fungible (e.g., by levying taxes on imports in Egypt and by requiring the involvement of governmental agencies and public bodies in servicing the aid activities in Pakistan). In some cases, donor agencies and principal recipients established collaborative ties with other actors of the foreign aid policy subsystem which provided valuable networking services for delivering aid to beneficiaries (e.g., the local branch of the Catholic church in Kenya and Brazil, and the chiefs of clans in Somalia), while in other cases no such link was established.

Under institutional rational choice theory, we can provide a partial explanation of the

observed behavior of the General Directorate for Development Cooperation offices, locally represented at Embassy level by the Cooperation Offices, the local NGOs, and the recipient governments' administration. According to the so-called 'Career Dilemma' (Araral, 2008), individuals in donor agencies and principal recipients are interested in maximizing aid funds flow, because larger budgets increase salary and career prospects (Niskanen, 1971), while they are relatively indifferent to improving delivery of aid service, if the budget is not affected by performance feedback. Recipient governments' administration, instead, is interested in appropriating fungible aid funds, because they allow discretion to divert money to subsidize other governmental programs. Donor agencies, principal recipients and recipient governments' administration, then, may collude to accelerate the spending process, irrespective of the delivery of aid services to the beneficiaries.

This explanation, however, need to be qualified by taking into account the observed variety across cases. Why was the issue of recipient governments' 'drain' of aid funds apparently more pronounced in the Pakistan and Egypt case than in the others? Why did the donor agencies and principal recipients establish collaborative ties with other actors of the foreign aid policy subsystem in Kenya, Brazil, and Somalia but not in the other cases? The case evidence suggests that part of the answer can be found in the way in which context factors contributed shaping the formation of different inter-organizational routines.

A context factor which may explain the apparently more pronounced 'drain' of aid funds by the recipient governments in the Pakistan and Egypt cases is the features of the governmental administration in these countries. With respect to the other three cases, those in Pakistan and Egypt are characterized by relatively hierarchical governmental administration, embedded within relatively hierarchical societal and cultural systems. This context factor plays an important role in the management of cooperation programs, because it allows beneficiary country's governmental administration to shape inter-organizational routines in such a way as to divert – in more or less explicit (or covert) ways – part of the aid funds. In the Pakistan case, domestic governmental administration could impose compulsory government services which drained part of the resources. In the Egypt case, domestic governmental administration charged taxes on imports or fees which substantively diverted cooperation program resources to the State budget. In the other three cases (Kenya, Brazil, and Somalia), instead, no such context factor contributed to shape inter-organizational routines with the same effect. Obviously, this analysis does not imply that in Kenya, Brazil, and Somalia the issue of the potential diversion of foreign aid funds away from the intended beneficiaries is absent. The analysis only is concerned with understanding why inter-organizational routines observed in the cases of Pakistan and Egypt seem to allow some scope for the 'drain' of foreign aid funds by governmental administration, in various forms.

A context factor which may contribute to explain the establishment of collaborative ties with other actors of the foreign aid policy subsystem in Kenya, Brazil, and, to some extent, Somalia (where political authorities were entrusted with religious importance, and vice-versa), rather than in the other cases, is the presence of local religious authorities. With respect to the other two cases, those in Kenya, Brazil, and Somalia are characterized by the role played by the local branches of the Catholic church (in Kenya and Brazil cases) and by chief of clans' representatives (in Somalia case) in facilitating the establishment of collaborative ties between the donor agencies, principal recipients, and beneficiaries. This context factors makes these organizations play the role of 'brokers' between technical experts

and beneficiary communities. They provide support for overcoming information asymmetry and induce the development of trust. In the other cases (Pakistan and Egypt), instead, no such context factor made individuals operating in donor agencies, principal recipients, and recipient governments' administration establish similar collaborative ties.

The development of collaborative ties with local religious authorities may be related to the features of the recipient governments' administration too. A tentative hypothesis – which can be investigated in further research – is that, in countries where the governmental administration is relatively hierarchical, embedded within relatively hierarchical societal and cultural system, the behavior of donor agencies and principal recipients is disciplined by highly formalized inter-organizational routines. In countries where the governmental administrative system is more fragmented, or even relatively under-developed, donor agencies and principal recipients need to search for the 'routes' through which overcome procedural deadlocks and accelerate the delivery of aid services. Both the cases suggest that the local branch of the Catholic church in Kenya and Catholic inspired organizations in Brazil, helped to streamline the delivery of aid service in those socially and culturally heterogeneous countries. The case of Somalia also suggests that a similar function was played by the chiefs of tribes, which supported the delivery of aid services in a country context characterized by 'minimal' governmental administration.

This explanation sheds some light onto the observed variety across cases. One insight is that recipient governments' administrations may find ways to divert foreign aid funds away from the intended beneficiaries even if aid is not granted in the form of fungible funds – as it was apparently the case with taxes levied on imports in the Egypt case and with legal and technical services provided by governmental agencies and public bodies in the Pakistan case. It may be the case that 'draining' financial resources out of cooperation programs in such ways is facilitated by context factors which validate the behavior of the recipient governments' administration as legitimate, such as, for instance, the hierarchical traits of the governmental administrative system, especially if embedded in hierarchical societal and cultural systems. The possibility that foreign aid funds can be diverted to recipient governments' administration in such ways also suggests that non-fungibility of aid funds may not be enough to contain the 'drain' of foreign aid away from the intended beneficiaries.

The discussion above also suggests to re-examine the explanation provided under institutional rational choice theory. One qualification is that, even if we assume that recipient governments' administration aims to appropriate part of foreign aid funds to subsidize other governmental programs, it may lack the capacity to do so. If foreign aid funds are earmarked to specific cooperation programs, recipient governments' administration needs to devise ingenious schemes for diverting foreign aid funds away from the intended beneficiaries, like in the forms of taxes levied on imports and of the provision of legal and technical services. Another qualification is that if recipient governments' administration does not divert the funding process, other actors of the foreign aid policy subsystem may affect the delivery of aid services while providing support to the cooperation programs. These actors can provide resources for overcoming deadlocks and accelerating the delivery of aid services, but we cannot exclude that they may subject their assistance to the condition that 'pet projects' are funded. Institutional rational choice explanation, therefore, needs to be qualified by greater attention to the structure and features of the foreign aid policy subsystem in order to account for whether and how foreign aid funds may be diverted from the intended beneficiaries.

## 5. Conclusions.

Foreign aid plays an important role in the development in many countries, but still little is relatively known about the effectiveness of aid and on the efficiency of foreign aid policy implementation. Some studies have been conducted to better understand the 'micro-level' of implementing foreign aid policies – in particular, with regard to the ways in which incentive structures affect the behavior of donor agencies and principal recipients. Relatively less attention has been placed, instead, on the practices adopted for managing foreign aid (especially inter-organizational ones), and on how these are affected by the particular context factors. Understanding how context factors affect managerial practices may be important in order to improve efficiency of donor agencies and principal recipients and to enhance effectiveness of foreign aid policy.

This paper carries forward the development of theoretical accounts of how foreign aid policies are implemented through the development of management practices. A central point of the research argument is that context factors affect the development of management practices – as conceived here as inter-organizational routines. Context factors include the historical, social, and cultural features of the recipient country. In this study, we especially focused on the hierarchical traits of governmental administration of the beneficiary country and the 'brokerage' role played by religious (and, relatedly, political) authorities within the foreign aid policy subsystem. This explanation provides an account for the observed differences of management practices of cooperation programs in different countries here examined as case studies.

This paper supports extant generalizing arguments about the possibility that foreign aid funds are diverted away from the intended beneficiaries because recipient countries' governmental administrations aim to subsidize other governmental programs. We can qualify this argument in various ways. First, relatively hierarchical governmental administration of recipient countries may be able to divert part of foreign aid funds even if they are earmarked (i.e., not fungible), for example by levying taxes on imports and by making governmental agencies and public bodies provide services to aid activities. Second, even if recipient countries' governmental administration aims to divert foreign aid funds, it may lack the capacity to do so if the governmental administrative system is relatively fragmented, or even relatively under-developed. Third, in order to better understand how foreign aid policy is implemented, it may be necessary to take more into account the role played by other actors of the foreign aid policy subsystem, including religious authorities of the recipient countries.

In the light of these generalizing arguments, we can refine the model formulated by Araral (2008) for analyzing the interaction between donor agencies and principal recipients. Following the institutional analysis and development (IAD) framework (Sabatier, 1999; Ostrom, 1999, 1998; Scharpf, 1997), Araral (2008) argued that the interaction between donor agencies and principal recipients depend on the incentive structure. The incentive structure, in turn, is shaped by the context, which Araral (2008) primarily defined in terms of the characteristics of the good (i.e., the particular types of foreign aid), the attributes of the players, and the institutions or rules of the game which structure the relationships among the actors. We can add to this the argument that the context of interaction should include the

structure of beneficiary countries' governmental administration and the presence of additional players in the foreign aid policy subsystem (namely, religious authorities or any other kind of actor which can play a similar function of brokerage between donor agencies, principal recipients, recipient countries' administrative bureaucracy, and beneficiaries). Ignoring these context factors may prevent to account for observed variety of the interaction between donor agencies and principal recipients across country cases.

Further research on the development of management practices of cooperation programs could take various directions. First, research could address the question of how managerial practices are created and maintained over time rather than identifying context factors which are conducive to observed organizational routines. Second, research could search for additional context factors which may be related to variation of inter-organizational routines. Third, research could address the issue of what affects the performance of cooperation programs, especially whether any specific context factors facilitate or hamper the efficiency of donor agencies and principal recipients and the effectiveness of foreign aid policy.

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