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**Degree of Master of International Studies
(International Area Studies)**

**Alignment of ODA projects with policies and
priorities of the recipient country:
Case study of Ecuador**

August, 2017

Development Cooperation Policy Program
Graduate School of International Studies
Seoul National University

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**Alignment of ODA projects with policies and
priorities of the recipient country:
Case study of Ecuador**

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by
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A dissertation submitted in partial fulfillment
of the requirements for the degree of
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Abstract

Alignment of ODA projects with policies and priorities of the recipient country: Case study of Ecuador

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This study aims to examine the practicality of the principles of Paris Declaration, particularly the alignment principle between donor's aid and the development priorities of the recipient country. Some studies show that alignment is a subject that needs more engage and join work between recipient and donor countries. Due this reasons this study raises the inquiry, in what extend the alignment principle of the Paris Declaration is practical or a simply rhetoric, or perhaps alignment goes beyond Paris Declaration parameters considering other relevant factors.? To explain this question, a case study of Ecuador was carried out to illustrate a more detailed unfolding of the different behavior of donors regarding alignment in the country. The key findings of this study suggest that there have been little improvements in donor's behavior related to alignment. However, alignment is still unclear due to the modalities of aid implementation that each donor uses in the country. Therefore, it concludes by saying, that there is still large room for further progress in the coordination of donor and recipient country partnership to have a real alignment in the country.

Keywords: ODA, Foreign Aid, Paris Declaration, Aid Effectiveness, Alignment, Beyond Paris Declaration, Aid Allocation, Ecuador.

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Acronyms

AAA	Accra Agenda for Action
AECID	Spanish Agency for International Development Cooperation
DAC	Development Assistance Committee
FRIDE	Foundation for International Relations and Foreign Dialogue
GADs	Decentralized Autonomous Governments
GBS	General Budget Support
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IFAD	International Fund for Agricultural Development
KOICA	Korea International Cooperation Agency
LAC	Latin America and Caribbean Countries
LDC	Least Developing Countries
MDGs	Millennium Development Goals agreement
MEER	Ministry of Electricity and Renewable Energy
MSP	Ministry of Health
NGOs	Non-Government Organizations
ODA	Official Development Assistance
OECD	Organization for Economic and Development
PD	Paris Declaration
PFM	Public Financial Management
PNBV	National Development Plan for Good Living
SENPLADES	National Secretariat for Planning and Development
SETECI	Technical Secretariat for International Cooperation
SIDA	Swedish International Development Cooperation Agency
US	United States
USSR	Soviet Union

CHAPTER I: INTRODUCTION

1.1. Background and purpose of the study

The end of the Second World War marked the beginning of the international aid system, and during the period of Cold War between the capitalist bloc led by United States (US) and the socialist bloc led by the Soviet Union (USSR) this international aid system gained maturity and evolved into the foreign aid¹ as we know it today. In the period of the Cold War, destroyed countries demanded financial and technical assistance for development plans, so the two superpowers of the moment US and USSR used foreign aid for this purposes, on the one hand and most important regarding the context of Cold War politics is that foreign aid was used to promote geo-political and strategic interest of donors and second the foreign aid was used to promote economic growth and poverty reduction in developing countries (Griffin, 1991, p. 645-685).

The fact is that aid in a bigger portion was used in achieving donors' own interest rather than accomplish the main purpose to contribute for the progress of developing countries in meeting their basic needs, reduce poverty or any other tangible improvement in poor's people live. Anyway, aid was provided for several decades to poor countries, but unfortunately aid showed very little or non-growth in developing regions around the world, especially in Africa (Calderisi, 2006; Moyo, 2009), basically it can be assumed due to the lack of effective aid. In this sense, with the end of Cold War concern about the low impact of foreign aid brought up debates in the international community about aid effectiveness because despite of receiving huge

¹ Foreign Aid as a standard definition given by the Organization for Economic Cooperation and Development (OECD), is a financial flows, technical assistance, and commodities that are designed to promote economic development and welfare as their main objective and are provided as either grants or subsidized loans

volume of aid some countries -in some cases regions- are still struggling with the fact of extreme poverty.

Therefore, a new aid architecture was introduced to the international system to tackle down those issues, starting with the adoption of the Millennium Development Goals agreement (MDGs) set in 2000, which were incorporated practically in all Official Development Assistance (ODA) policies from bilateral and multilateral agencies (Boni, 2010, p.8). Then in 2002, with the Monterrey Consensus, the international community agree to increase its funds for development up to 0.7% of gross national product of donors as ODA (Monterrey Consensus, 2003). But more money alone was not enough, therefore, a new paradigm of aid was evolving -with the Four High-Level Forum on Aid Effectiveness, Rome (2003), Paris (2005), Accra (2008), Busan (2011), which base its contents in the Paris Declaration on Aid Effectiveness²- where partnership is the mainstream rather than a one-way relationship. In fact, in 2010, the OECD Working Party on Aid Effectiveness remarks that the widespread promotion of development was not only about amounts of aid given, but also and more important about how aid was given (OECD, 2010), which in other words is related to the alignment process, on how donors and recipient countries interact each other and how donor's aid is distributed and recorded in the recipient country. Is not just matter of ownership where the main responsibility relies on the recipient country or harmonization where donors coordinate their activities to reduce fragmentation of aid in recipient countries. Alignment is more comprehensive, in other words means coordinated participation of donors and partners, which is the main importance of alignment implementation to make aid flows more effective.

However, Latin America and Caribbean countries (LAC) did not participate actively in the definition of the Agenda on Aid Effectiveness, partly because it was considered that this agenda was more focused for the social and economic improvement of Least

² Paris Declaration, frame 5 principles for aid effectiveness, which are: ownership, alignment, harmonization, management for results and mutual accountability.

Developing Countries (LDC) according to Sanahuja (2010). Since most of the Latin American countries were classified by the World Bank as middle-income or upper middle-income countries, these countries were not considered a priority for the allocation of ODA in the strategy to fight against extreme poverty. Nevertheless, Latin American countries continue receiving foreign aid but with a reduced allocation of funds compared with other regions such as Africa and Asia³. ODA addressed to LAC countries fell from representing more than 1% of the regional gross national income in the 1960 to 0.4% in the 1990s and 0.22% at present (Titelman, 2012, para. 3). Consequently, due to the scarce resources that flows to Latin America, a proper management of ODA is necessary to be executed.

In this context, Ecuador has been selected as case study because among the upper-middle income countries in Latin America, Ecuador is one of the countries that less ODA flows receive⁴. As well, and more important because in the past few years this country has been working in the implementation of sound policies and has established a clear roadmap for development called “National Plan for Good Living” which established the development strategies and priorities of the country, thus the government starts celebrating the exercise of real leadership on its development model⁵. Based in this strategic development plan was possible to prioritize once again the already prioritized sectors to create a specific agenda to channel Foreign Aid, where donors must align to this policies and priorities to complement the efforts that the government does for the development of the country.

³ Middle East and North Africa received in 2014, 32.597 million, East Asia and Pacific received 15.444 million while Latin America and the Caribbean just received 10.080 million. (OECD web)

⁴ Colombia, 1.2 billion, Brazil 912 million, Mexico 807 million, Peru 325 million, Cuba 262 million, Dominican Republic 167 million, Ecuador 160 million, Paraguay 60,2 million, Costa Rica 53,5 million and Argentina 49,2 million.

⁵ This is what Gabriela Rosero, Head of the Technical Secretariat for International Cooperation said in Cooperamos Magazine, 2011, SETECI.

Furthermore, to the OECD's Aid Effectiveness 2011: Progress in Implementing the Paris Declaration (2012:43), "for aid to be most effective, it needs to respond to the partner countries' priorities and be provided in a way that use and strengthen the partner countries' own institutions and systems", in other words aid must be aligned to be effective. That is why this principle explains and takes in consideration more indicators -seven out of twelve- compared with the other four principles. However, despite of the importance of this principle there is no much specific literature examining the progress, success or fail of the alignment principle and its indicator besides the annual reports published by OECD. Therefore, this study will try to explain in what extend donors align their assistance to the policies and development priorities of Ecuador by refereeing to the Paris Declaration indicators as a starting point but also considering other criteria relevant to alignment. In summary, this study will look up to whether alignment is a rhetoric issue or it can be really applied in practice.

1.2. Research Question

The Paris Declaration and ACCRA Agenda for Action have addressed the effectiveness issue for long time unfortunately without sound success in the implementation of its indicators. Thus, the purpose of this research is to assess the current situation of alignment of Official Development Assistance flows with recipient's country development priorities, by answering one principal question: In what way alignment is carried out in practice, can it be implemented in the same way as PD describes or is necessary to go beyond that parameters?

In addition, the following specific questions were necessary to address to better understand the alignment pattern, which are:

- How effectively does the government of Ecuador co-ordinate development aid?
- Do donors provide development aid in accordance with the Government development priorities?

1.3. Methodology

The purpose of this research is to assess the current situation of alignment of Official Development Assistance flows with recipient's country development priorities, by analyzing the case and agenda of alignment in Ecuador through its implementation in some development projects.

To do so, this study will examine the aid alignment in Ecuador by referring to the Paris Declaration principles and indicators but also exploring other relevant criteria to alignment found in some projects carried out in Ecuador.

Basically, this research will be developed on qualitative analysis by using primary data such as interviews and consultations to government officers responsible of the projects' implementation. A total of 7 interviews were conducted with government officers. This interviews will be used as a tool to contrast theory and the empirical reality. As well, reports of aid effectiveness in Ecuador, and information provided by international organizations such as OECD and Civil Society Organizations such as the Transparency International will be used as secondary data.

1.4. Scope and limitations

This research is focused in the explanation of the notion of aid alignment and its implementation in development programs and projects in the Republic of Ecuador, by answering the questions, is alignment rhetoric or reality according to the Paris Declaration indicators? and if alignment can go beyond the Paris Declaration indicators?

This research does not intent to evaluate the effectiveness of any project executed in Ecuador, but would like to see how the agenda related to “alignment” is functional in practice regarding to development projects of the recipient countries.

However, there were some constrains experienced during data collection. In the first place, the lack of information shared in the websites of the donors and implementing institutions regarding to projects. Additionally, some other constrains were reflected in the interview process, on the one hand this research couldn't collect information from donors during the interview process due to the lack of willingness, on the other hand due to the lack available and willing of respondents and due to the complex nature of the aid some government officers hesitate to provide full information.

1.5. Structure of the research

This study is composed by five chapters, the first one provides background information, giving broad overview of the subject area to make more familiar this topic to the reader, as well that provides the research question, scope and limitations of the study. The second chapter will touch upon the conceptual framework by explaining what is aid effectiveness and opening the path to the aid alignment concept and its importance. Chapter three discusses the nature of aid effectiveness, concerns and debates related to more particular issue such as how aid effectiveness work in the field of alignment. Chapter four is the core of this study it will discuss the case studies in order to give an outline of aid implementation in Ecuador and how the concept of alignment is interpreted and implemented in the country. The final chapter, number five will provide the conclusion of this research.

CHAPTER II: CONCEPTUAL FRAMEWORK

This chapter will explore the implementation of the Paris Declaration as the main pillar of new aid architecture. Particularly, this section of the study will deal with some meaningful concepts related to the notion of “alignment” focusing in its application and challenges within the recipient country and in the international system.

2.1. Aid effectiveness

According to OECD (2005) Aid effectiveness is the impact that aid has in achieving economic or human development by increasing growth, reducing poverty and inequality and building capacity. Aid organizations are always looking for new ways to improve aid effectiveness, thus at the end of the century, 1990, donor countries tried to establish different mechanisms to promote economic growth and aid effectiveness in recipient countries, such as the Comprehensive Development Framework (CDF)⁶ and the Poverty Reduction Strategy Papers (PRSP)⁷. However, in the following years, High Level Forums on Aid Effectiveness⁸ proposed another mechanism to achieve development, “alignment” one of the Paris Declaration principles, which contributes largely to implement and measure aid effectiveness. Hayman (2009:582) suggest that “new aid effectiveness agenda had taken root at the heard of govern-donor relation”. Moreover, in order to facilitate and enhance the economic growth, aid effectiveness have had to focus in the interconnection of ownership, alignment and harmonization.

⁶ CDF was introduced by the World Bank and represents a policy framework for poverty reduction strategies and promote development by including external assistance.

⁷ PRSP, is a document required by the IMF and WB before a low-income country can receive aid from donors and lenders.

⁸ The First High Level Forum (Rome, 2002), the Second-High Level Forum on Joint Progress toward Enhanced Aid Effectiveness (Harmonization, Alignment, and Results) (Paris, 2005), the Third High Level Forum (Accra, 2008) and the Fourth High Level Forum on Aid Effectiveness (Busan, 2011).

Hence, various scholars accept that aid should be more effective in order to have a real impact. In this sense, “Aid effectiveness is an ideal of how aid could be better managed and perceived by the actors involved in aid agenda” (Hayman, 2009:582). However, Riddell (2007:257) in his study keep questioning on how can aid to poor be more effective?

For the past few decades some developing countries have been receiving aid assistance in terms of grants, technical assistance and concessional loans from developed countries and international organizations, aiming to promote social and economic development in those developing countries. So far, various authors such as Boone (1996:289-329) explained in his study that aid does not help to fight against poverty because he argues that aid has had no impact on income growth in the group of LDC, even worst is what Kanck (2001:310-329) found in his study, that aid might be a factor to undermine the institutional quality of the recipient country. Conversely, Burnside and Dollar (2000:864) analyzed whether the macroeconomic policies affect or not on aid’s impact over economic growth, and the result of their study argue that aid has a positive impact in economic growth, but just considering those macroeconomic policies are good enough.

Therefore, effectiveness of development aid is very crucial in social and economic development, and the creation of the Paris Declaration is one instrument to try to solve the problem of aid effectiveness.

2.2. Paris Declaration

In this sense, as it was mentioned before the efforts made in the High-Level Forum resulted in the creation of the Paris Declaration on Aid Effectiveness in 2005. This declaration is the main body of the effectiveness of foreign aid agenda because through

it were established five principles and twelve indicators to reform the delivery and management of aid to increase the impact of development aid in reducing poverty and inequality and increasing economic growth and capacity, to overcome the lack of aid focus on basic needs, lack of honesty and transparency and the weakness of institutions of the different recipient countries.

From this perspective, in broad terms the principles of aid effectiveness can be summarized as:

- **Ownership:** "partner countries should exercise effective leadership through development of instruments such as development policies and strategies and coordinating development actions" (OECD, 2005:4);
- **Alignment:** "donors base their overall support on strategies, institutions and national procedures for the development of partner countries." (OECD, 2005:4). The aid from donor countries must be based on national strategies of the recipient country, in a framework of permanent coordination between the parties;
- **Harmonization:** "the donor actions are more harmonized, transparent and collectively effective." (OECD, 2005:7);
- **Managing for results:** "Managing resources and improve the making decision through results-oriented" (OECD, 2005:9); and
- **Mutual accountability:** "Donors and partners' countries being accountable for development results" (OECD, 2005:10).

2.3. Alignment and its importance

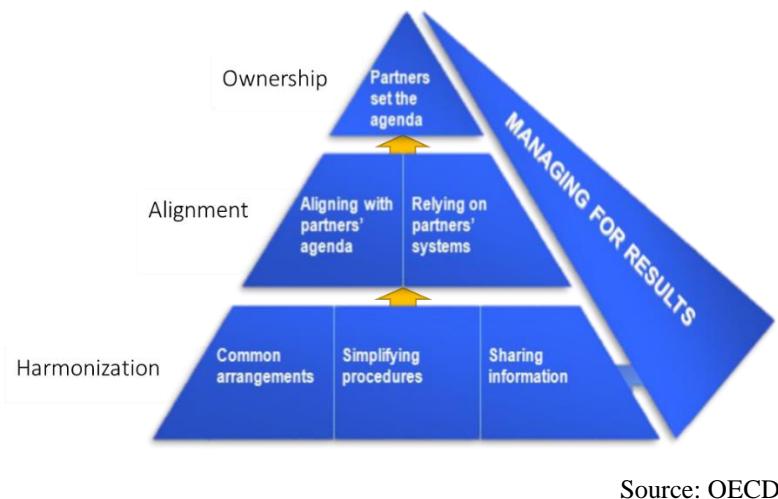
Alignment is one out of five of the Principles of the Paris Declaration on Aid Effectiveness, which "refers to the provision of aid by donors in ways that respond to

partner countries' development priorities, supporting and using partner countries' own systems and institutions (OECD, 2012). In other words, the alignment seeks to facilitate and promote the governments' leadership over their own development processes and ensure that donors will follow the agenda and priorities of partner countries and not their own development agendas.

If we can rise an example, let's say a country in Africa, Asia or Latin America, where the funding of the agricultural sector depends on aid flows with more than the 50% of the total share. The donor countries distribute their funds across multiple and heterogeneous projects, and not sit to talk among themselves to coordinate their actions and even worst they do not coordinate with the recipient government to know their priorities and the strategic focus that wants to follow in accordance with the agricultural sector needs. This behavior not just causes imbalances in the distribution of resources, but also increases the administrative costs and face the inefficiency in responding challenges.

Due to the complexity of this hypothetical example and the real examples of aid ineffectiveness that developing countries have been facing for decades, the international community got gather in Rome to build up the Paris Declaration on Aid Effectiveness to show how the donor community believe the aid relationship should look by setting three broad and main areas of effectiveness such as Ownership, Alignment and Harmonization, which as well are key elements in the Harmonization and Alignment Agenda as is show below in the Figure 1.

Figure 1
Harmonization and Alignment Pyramid



Source: OECD

In the Survey on Monitoring the Paris Declaration, 2006, mentions that ownership comes first, as we can see in the figure 1, because aid is considered most effective if it supports countries' own development efforts and policies to which leaders, officials and citizens of the recipient country are truly committed. And it argues that it is less effective where the policies are donor-driven. The role of donors should be confined as supporter that promote country-owned development processes by aligning their aid with the priorities of recipient countries, using local systems, and making aid more cost-effective. So, this figure shows the importance and complementarity of the three principles, particularly the role played by the alignment principle is the most important because it is considered to “bridge harmonization and ownership and also represents the most technical part of Paris Declaration” (FRIDE⁹, 2008)

⁹ FRIDE, Fundacion para las Relaciones Internacionales y el Dialogo Exterior, (FRIDE-Foundation for International Relations and Foreign Dialogue) is a European independent think-tank based in Madrid, focused on issues related to democracy and human rights; peace and security; and humanitarian action and development.

Due to the importance of this principle it was provided by seven out of twelve indicators, more than half of the indicators that measure the progress of Paris Declaration implementation at country level, which are described as follows:

Table 1.
Alignment Indicators

Nro.	Indicators
2	Reliable country system The number of partner countries that have procurement and public financial management system that either a) adhere to broadly accepted good practices or b) have a reform programme in place to achieve these.
3	Aid flows are aligned on national priorities Percent of aid flows to the government sector that is reported on partner's national budgets.
4	Strengthen capacity by co-ordinated support Percent of donor capacity-development support provided through co-ordinated programmes consistent with partners' national development strategies.
5 a	Use of country public financial management systems (PFM) Percent of donors and of aid flows that use public financial management systems in partner countries, which either a) adhere to broadly accepted good practices or b) have a reform programme in place to achieve these
5 b	Use of country procurement systems Percent of donors and of aid flows that use partner country procurement system, which either a) adhere to broadly accepted good practices or b) have a reform programme in place to achieve these
6	Strengthen capacity by avoiding parallel implementation structures Number of parallel project implementation units (PIUs) per country.
7	Aid is more predictable Percent of aid disbursement released according to agreed schedules in annual or multi-year frameworks.
8	Aid is untied Percent of bilateral aid that is untied

Source: Paris Declaration on Aid Effectiveness, 2005

After these indicators were set the time for evaluation came with the 2008 Monitoring Survey. In that report it's noted that after two years of the PD, its progress in meeting the goals for aid effectiveness made little progress, not enough for all the ambitious set of reforms adopted. As it is mentioned in the Accra report, some countries showed progress in strengthening their PFM, unfortunately donors' progress was not in the same level because they didn't use those local systems (ACCRA, 2008), in most of the cases it seems that this relation is very asymmetrical because despite that some countries have improved and gave better quality to their systems, donors just decide not to use them. The same report concludes by saying the commitments agreed on Accra needs to be adapted to the reality of each country, highlighting the inclusion of middle-income countries, which are not a priority in aid allocation.

Finally, and most important the report "recognizes that additional work will be required to improve the methodology and indicators of progress of aid effectiveness" (ACCRA, 2008), which means these indicators can be good to measure aid effectiveness but are not the only criteria to consider, so it seems that aid alignment will depend in each country case and the criteria to consider. One example can be budget support, while some scholars (Clist et al., 2011) and the PD itself, consider budget support as the best tool to use in alignment with the priorities, others such as FRIIDE (2008) mentions in its report that the most efficient way in aid performing is through project-base aid modality, because is easier to manage the budget and after all the project will be aligned to the development priorities of the recipient country.

CHAPTER III: LITERATURE REVIEW

For the purposes of this study, alignment will be conceived in a wider sense, as covering aspects both of alignment and harmonization. In this sense, this chapter intended to analyze the alignment commitment as one of the main agenda of Paris Declaration by looking up to key approaches.

3.1. Alignment with country priorities

In the past few decades, aid policies have shifted towards discourses of participation and consultation to improve the effectiveness of aid through the development of partnership between donors and recipient countries. Hence, the Paris Declaration Principles have become a guideline for aid effectiveness agenda and practice. However, according to Okail (2011:2) the translation of those commitments into policies at local level is arguable because they lose much of their meaning since the aid policy isolate itself from the political realities of the recipient countries. As well Curtis and Poon (2009) mention in their study that is easy to define the desire end and goal [create the development agenda-ownership] but the difficult part is to identify how to achieve it [how to ground those ideas in real -alignment]. Additionally, Monye, et al. (2010) also argues that “the principles that were so easy to declare have in reality been very difficult to implement”. Therefore, “since the Paris Declaration, the gap between the rhetoric of aid effectiveness and its application in the local realities of recipient countries has become wider” (de Renzio et al. 2008), which opens the room to contemplate various relevant factors for the alignment process not just the ones intended in the Paris Declaration.

One of the predominant aspects to consider to align around the partner country's priorities is how the aid is provided -third indicator of the PD, “aid flows are aligned on national priorities”- so a discussion over the shift in aid delivery modality has been

raised in the last decades, while some scholars and the PD argue that the best way to promote alignment and aid effectiveness is through the operation of the General Budget Support (GBS) others suggest that Sector-wide approach or project-base modalities are better options for alignment and effectiveness. Also, factors such as the reliance and use of the local country systems are uncertain since there is not much improvement in this indicator according to the last report about the progress in implementing the Paris Declaration (OECD, 2012)¹⁰. As well, this study and the once carried out by Aryeetey (1995) and Sowa (1997) questioned if the use of tied aid is always incorrect regarding to aid effectiveness and alignment purposes?

Then, which one is the best way to measure the alignment process and what are the best factors or indicators to be considered in the process. Since there is not a significant improvement in the achievement of the Paris Declaration commitments, as it was mentioned before, much less to the ones related to alignment, a more specific approach should be considered in order to get detailed information. Nevertheless, the indicators of the Paris Declaration regarding to alignment are a good starting point to perceive the alignment process, but is plausible to go deeper than the revise of the alignment of aid flows to national priorities through the percentage of aid reported as government's budget, the full use of the Public Financial Management (PFM) and procurement systems, the percentage of aid predictability and the percentage of untied aid (OECD, 2008). Thus, is necessary to look upon the modalities of aid implementation and other relevant factors to understand better how donors behave in each case related to alignment issues.

¹⁰ Among all the proposed goals in the Paris Declaration, just the goal related to the measurement of the extent to which donor co-ordinate their efforts to support countries' capacity development objectives was possible to achieve.

3.2. Aid Delivery Modality Debate

As it was mentioned in the previous section, a discussion over the aid delivery modality has been raised having in one side the traditional delivery modality used for decades “Project Support” and in the other side the new modality promoted by PD “Budget Support”. Both functional modalities that are still used in the process of foreign aid delivery. On the one hand the Project Support are funds provided to implement a specific and predefined set of development activities over a specified period of time. Project aid is further characterized by the use of a separate management structure and detailed objectives, activities and expenditures (Foster and Fozzard 2000:3). On the other hand, Budget Support is “Unearmarked contributions to the government budget with the purpose to implement poverty reduction strategies, macroeconomic or structural reforms” (Sida, 2006:5). It should be noted, that this modality step out from the ‘one-size fits all’ mentality, since there are many differences among the recipient countries, different capabilities, priorities and needs (OECD, 2008). Due to this differences and some other, the application of the alignment principle has resulted in mixed outcomes (OECD, 2008).

Back in 1998 the World Bank in its report mentions that different modalities of aid such project aid and program aid on economic growth are constantly criticized due to the lack of coherence with national policies and priorities, no building capacity and risk of misallocation of resources. But Jain (2007:694) suggest that, despite of the proved effectiveness of the budget support application, this is just purely normative aspects, whereas in practice, project support is so much larger used and useful because of its positive economic aid flows benefits and it use suggest a way to restrict “leakage” due to corruption issues in the recipient countries which are aligned with the development goals.

More generally, according to Cordella and Dell'Ariccia (2007) “The success of any development assistance programme depends, to a large extend, on the preferences and priorities of aid recipients”. If recipients’ countries have very limited own resources and its preferences are totally different with the ones of donor country, the best option for aid delivery is project support, on the contrary if the recipient country has relatively large own resources and its preferences are close to those of the donor, both will prefer budget support. In other words, this finding goes along with the purposes of the PD where budget support is considered best option when donors and recipients interest are aligned.

Considering the factor of cost allocation, the Paris Declaration through the use of budget support wants to reduce the transaction cost, arguing that in the alignment process the use of national procedures and institutions will help to reduce the cost transaction. Statement that was refuted in the by Lawson (2009:16) who remarks that budget support not just doesn’t reduce much the transaction cost but also puts additional cost by introducing new types of search, negotiation and contract enforcement costs in the PD implementation. As well, Andersen and Therkildsen (2007), suggest that project aid is more appropriate modality to use. They argue that when the aid delivery is carried through project-support the recipient receive a relatively low transaction cost, any project in this category is run outside the government administration, which means not much staff members involved. Whereas, using the budget support aid delivery demands much more direct transaction cost on recipients’ organizations because more ownership is transferred to the recipient country.

3.3. Relevance of the use of Public Financial Management systems (PFM)

The literature on growth and development distinguishes a key role for the quality of public institutions, summarized or defined as ‘Good Governance’, which means

capable and accountable government institutions, so the use of these institutions will lead to aid effectiveness. Burnside and Dollar (2000) found that “aid has a positive impact on growth in developing countries with good policy environment but has a little effect in the presence of poor policies” (Burnside and Dollar, 2000). In the same line, Cordella and Dell’Ariccia (2007) both agree in the issue that good policy environment is critical in aid effectiveness, but also they mention that this criterion could solve the problem of diverting budget support, because good and transparent public institutions show less fungibility risk of aid flows.

The importance of delivering aid by using institutions and systems of recipient countries is a major topic in the PD agenda because it does not just measure alignment, but its application involves parts of ownership, capacity development, mutual accountability, harmonization and results. Additionally the use of local institutions and systems by donor countries aims to reform aid practices, but “advocacy for reform of donor practices is based on theory, intuition and scattered anecdotal evidence” (Stephen Knack, 2013).

The study carried out by Knack (2013) suggest that the Paris Declaration has invested most of the resources and time in an unimportant ‘campaign’ to promote the use of recipients’ country systems, because what really matter for donor countries to use the systems of recipient countries are the incentives, the benefits that those countries can get from investing in recipient country systems. Regarding to this study, the benefits depend on the share of the aid market in the recipient countries, the larger share the larger benefits from investments in strengthening country systems. Just in this way donor countries can run short-term risk - because donor countries don’t know in real how the policies and institutions in the recipient country are operating- of using such country systems. Furthermore, donors’ incentive to use country systems could also depend on the trustworthiness perceived by them, which can be measured by the use of corruption rating information.

3.4. Discussion on tied and untied aid

Since the creation of the Development Assistance Committee (DAC) one of the most common cited argument for improvement of aid effectiveness is tied and untied aid. Where untied aid is regarded as the freedom that recipient countries have to use the funds received to buy goods and services from all countries, or the opposite, recipient countries have some restrictions to the procurement of either goods or services from the donor country, known as tied aid.

The Paris Declaration mentions that untied aid is expected to be more efficient than tied aid due to administrative burdens and possible technical incompatibilities among donor and recipient technologies that accompany tied aid (Florensa. 2007:2). As well, it is known that tied aid makes donors focus more on the commercial benefits of the countries than what developing countries need. Most of the literature focus in the importance of untied aid and how tied aid creates alterations in the aid market because it obstructs the recipient country's ability to spend the aid received in their development interest.

However, this is not totally true, Florensa (2007:5) contradicts that aid is more effective if it is untied. Her investigation concludes that in fact untied aid is not that effective as supposed, actually tied aid may have more influence in growth-effective than untied aid, but under some circumstances (low-middle income country with not much good environment policies). Which is corroborated by Aryeetey (1995) and Sowa (1997), in their realistic view point mention that tying aid to donor-country products is common sense; this is a strategic way to use aid to promote donor country's business or exports. But it is further argued by saying that if tied aid is well designed and effectively managed, this would not necessarily compromise the quality or the effectiveness of aid.

In other words, tied aid is not as bad as is supposed to be, as Aryeetey and Florensa mentioned, tied aid if it is well designed and under certain circumstances can be even more effective than untied aid. Totally opposite argument and position to what Paris Declaration and the alignment principle seeks for aid effectiveness.

3.5. Relevance of Fungibility

Fungibility has been interpreted in different ways and contexts but in terms of aid delivery, is that aid resources intended to finance some particular expenditure that can be used or re-allocated to finance something entirely different, with unintended purposes (Barder, 2010)¹¹

The concern raised about if aid resources are fungible starts in 1950 when a report of the World Bank showed that even in the performance of projects under the modality of tied aid, money often remained fungible (World Bank, 1998:82). That is to say, aid is used in ways not intended by donors when disbursing the funds for example, might be used to fund projects in other sector, lower taxes, or even worst go directly to the pockets of corrupt officials (Kolstad, 2005). Therefore, this has been an issue for long time, but the Paris Declaration (2005) does not contemplate the Fungibility as a factor for aid effectiveness or alignment per-se. Indeed, it should be included and give more importance because this is a key topic when we refer to aid delivery modalities such as budget support and project aid. Should be noted that budget support is one pillar and justification of alignment according to the PD.

Project-support is the traditional aid modality implemented in last decades, but it has been criticized because its focus just in individual projects, which are translated in high

¹¹ Owen Barder is Senior Fellow and Director for Europe at the Center for Global Development and visiting Professor in practice at the London School of Economics.

transaction cost and short term improvements, additionally this type of modality can undermine the recipient country's own administrative systems due to the parallel system for managing aid resources established by donors (Leiderer, 2012). Therefore, the General Budget Support (GBS) was considered as a solution of project-base modality, since GBS can lead a reduction of transaction cost, more predictability and so on. However, this modality gained criticism, according to Morrissey (2006:339) arguing that aid funds given in the form of GBS is fungible and it can end up in the pockets of corrupt government officials or other things as it was mentioned.

However, various authors have argued that fungibility is not necessarily a bad thing nor something that donor countries has to be worried about regarding to aid effectiveness (Hauck et al. 2005, Pettersson 2007, MacGillivray and Morrissey 2004). Thus, the propose is that “in countries with sound policies, appropriate allocation of expenditure, and effective services, donors can provide large amounts of assistance as general budget support, knowing that the resources will be well used” (World Bank, 1998:61). According to this perspective, fungibility per se is not a relevant issue but how aid effect fiscal behavior and the effectiveness of public spending (Morrisey 2006:335, 343).

In conclusion, the adobe Paris Declaration, particularly its alignment principle and commitments have been quest to improve aid effectiveness worldwide, however, their translation into policy and practice is uncertain, some of the indicators contradictory used as is explained in PD. Hence it is seem that the commitments made look good on paper but maybe not much in practice, as we could see some gaps in the theory.

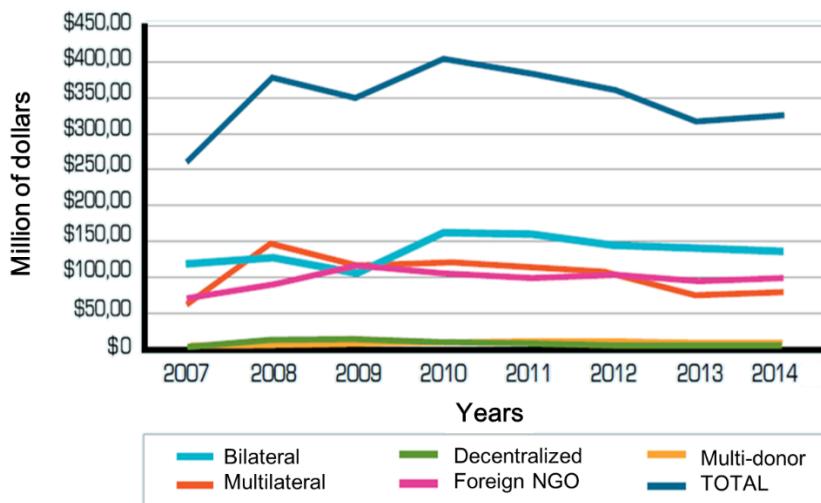
CHAPTER IV: CASE STUDY

This chapter will look at the way how donors align or not to the policies and development strategies of Ecuador. The discoveries for this section are based on interviews conducted in October 2016 and information from other secondary sources are included as well. To do so, is necessary first to understand and look at how Ecuador set its policies and priorities for development.

4.1. Outlook of development assistance in Ecuador and its development priorities

Ecuador is a country that does not depend on the foreign aid. Regarding to data provided by SETECI (2015:47), the pluriannual disbursement of aid between 2007-2014 increased to \$22.786,99 million, which means 0,48% of the annual GDP and 1,7% of annual state budget, which does not make any influence over the macroeconomic variables. However, Ecuador despite of being an upper-middle income country receives aids in term of grants and concessional loans from several partners, such as, Bilateral and Multilateral Cooperation Agencies, Non-Government Organizations (NGOs), International Banks and other sources. In accordance with this information, the bilateral cooperation is the largest disbursement channel of cooperation in the country regarding to grants, as it can be seen in the Figure 2, which represents the 39,1% of ODA in the country (SETECI, 2015, p. 47).

Figure 2
Grants' disbursement per source. 2007-2014 (million dollars)



Source: SETECI 2014

In this context, that ODA flows need to be managed accurately, so the Government of Ecuador through the creation of the National Secretariat for Planning and Development (SENPLADES)¹² is working to channel that ODA according to the necessities of the country. The main goal of this new public entity is the prioritization of the public investment by sectors and sub-sectors through the elaboration of the strategic plan for development, so called “National Development Plan for Good Living (PNBV)”¹³.

The PNBV promotes a new logic of planning with the setting of twelve large national objectives for human development. This plan identifies and grounds the principal

¹² SENPLADES has its roots at the first National Board of Planning and Economic Coordination in 1954, then in 1979 this institution was replaced by the National Development Council, later in 1998 instead of this entity was created the Planning Office, and finally in 2004 was created SENPLADES as a Technical Body responsible for national planning, having the central and local governments as key players.

¹³ The National Development Plan for Good Living is a roadmap for development, with a long term politic project planning. There have been three comprehensive plans like this, 2007-2010, 2009-2013 and 2013-2017.

strategic national projects including a vision from the local level. The planning and prioritization of public investment is made by a process of analysis, validation and hierarchization of programs and projects articulated to the middle term strategies and the policies defined in each development objective. To set these objectives, technical teams from several ministries and state secretariats and citizens discussed and analyze numerous issues contained within the PNBV in 73 roundtables. Nevertheless, the participation of citizens is not just involved in the planning process, but also in the execution, monitoring, evaluation and social accounting processes (PNBV, 2007-2010, p. 5-9, 44).

In this sense the principal sectors that demand intervention are the projects related to hydroelectrical, irrigation and road development in the first plan (2007-2010), in the second plan (2009-2013) the focus was in knowledge transfer and change of the productive matrix, and finally in the third development plan (2013-2017) the prioritized projects are those related to the change of the productive matrix, capacity building and innovation and technology. Indeed, the implementation of these projects can be done due to the introduction of criteria for the allocation of public resources in the NPBV through the form of the Pluri-annual Plan of Investments. Therefore, in order to meet the proposed development goals, the government guarantees the state budget for the implementation of those projects but at the same time introduces the involvement of the “ODA flows [multilateral, regional or bilateral] as a complement of the state efforts”. (SETECI, 2010, p. 5).

4.2. Role of SETECI in the ODA flows

As same as other developing countries, Ecuador has experienced aid fragmentation - due to the large number of stakeholders of aid namely, cooperation agencies, international organizations, NGOs, and Civil Society Organizations- unpredictability

and lack of coordination of ODA within the territory. Consequently, the Technical Secretariat for International Cooperation (SETECI)¹⁴ was established. This public entity under the Ministry of Foreign Affairs aims to improve the articulation and coordination between the different levels of the government -central and local- with donors, “to guarantee that the programs financed by ODA resources are aligned and harmonized with the real necessities and objectives of development of the country” (SETECI, 2015:13-14).

As it was mentioned before, the National Plan for Good Living traces the development goals of Ecuador, so the international cooperation -foreign aid is called to complement and support those objectives. SETECI's as part of its duties should negotiate with the donor agencies and organizations, to make them to respond to the principles of complementarity and non-duplicity within the country. This negotiation process should consider that every single cooperation proposal should make sense in its contribution to the PNBV, particularly, to the axes of defense of national interest, guarantee the access of products and services of development to all population and the opportunity to strengthen the capacity building in science and technology fields (Calderon, 2013:31).

However, the PNBV is a very broad plan therefore SETECI prioritized what already was prioritized, so it elaborated a new plan for ODA flows called “National Agenda for International Cooperation”, which consist in the definition of the priorities of what Ecuador needs from the foreign aid. Besides the specific projects, there is a programming of aid interventions in a specific time period and corresponding budget, which guarantee the projects have enough resources to be implemented. These new priorities are focused in the strengthen of human talent, knowledge and innovation as input for the transformation of the productive matrix, as it is shown in the Table 2.

¹⁴ SETECI, replaced Ecuador's International Cooperation Agency (AGECI) at the end of 2010.

Table 2
National Agenda for International Cooperation Goals

Objective 4	Strengths capacity of citizens
Objective 7	Guarantee the rights of nature and promote environmental, territorial and global sustainability
Objective 8	Consolidate the social economic and supportive system in a sustainable way
Objective 10	Promote the transformation of the productive matrix
Objective 11	Secure the sovereignty and efficiency of strategic sectors to transform the industry and technology

This National Agenda for International Cooperation points out the Ecuadorian necessities from ODA. Although much of the ODA remains in the national level, at the local level, the Decentralized Autonomous Governments (GADs)¹⁵ also receive foreign aid support in a less quantity -aid must be also coordinated along the PNBV. In this sense, the National Agenda for International Cooperation is a useful tool for all stakeholders involved in the management of cooperation, to join the process of channeling its aid programs and projects to national priorities and strengthening the country's potential in the region and in the international system.

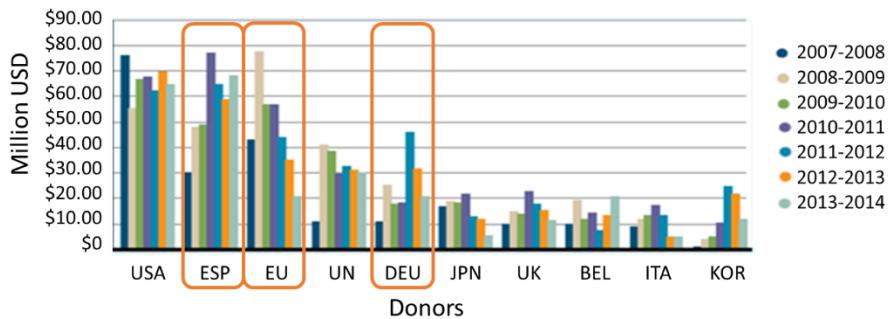
All this work made by the Ecuadorian government goes along to the Paris Declaration. When Ecuador joined the PD in 2009, it “started with a favorable condition due to the anticipated elaboration of the second PNBV (2009-2013), with which the country met the first Paris principle, ownership” (Srouji, 2011:2). This progress according to Srouji (ibid: 2) allowed the Ecuadorian government to start a new dialogue around the second principle “alignment”. Alignment is seen as the principle of complementarity, where the state plays the principal role in the negotiation and monitoring process of ODA

¹⁵ The GADs are local governments, which according to the constitution have the right and power to negotiate directly ODA assistance.

(SETECI, 2015:51), because “ODA is considered a complement and not a substitute of the development efforts of state, and its optimal use arises from the institutional coordination to achieve better alignment with the strategies of national development” (SETECI, 2010:10).

In fact, poverty reduction and inequality -principal goals of the international community- are not archivable goals by the foreign aid alone, but the result of the coordination and support from the donors to the recipient country efforts to promote endogenous development (Ibid:8). In this sense, regarding to the alignment process SETECI (2015:51) reveals that the donors that shows high level of alignment are Germany, Spain, European Union and the World Bank, whereas, the ones that show low level of alignment are France, Japan, Italy and others. Surprisingly Ecuador receive most aid from donors which are aligned to its development priorities, as can be seen in the Figure 3.

Figure 3
ODA's Disbursement by 10 principal donor country in Ecuador 2007-2014



Source: SETECI 2014

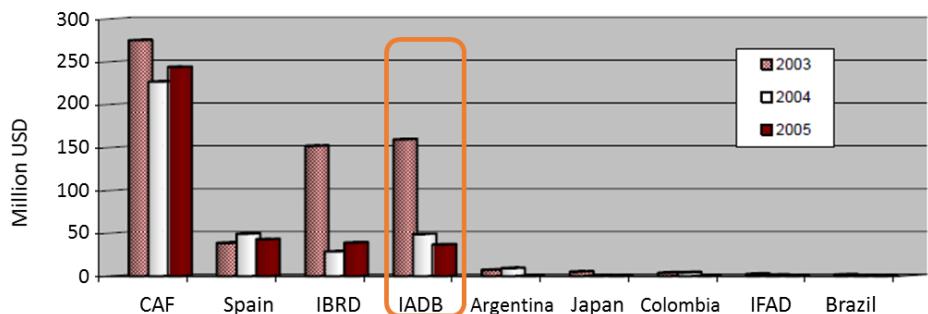
However, the main purpose of SETECI regarding the alignment or complementarity process is to avoid duplication of effort and avoid wasting resources, not just national resources but international as well. In this sense, acknowledging the standpoints and

priorities of Ecuador for donor's activities within the country, and the relevant indicators consider to achieve alignment and aid effectiveness, this study will analyze how ODA flows align to the development strategies and priorities of Ecuador having as a reference some project cases.

4.3. Analysis of implemented ODA projects

To have an effective allocation of aid, this aid support should be capable to engage the national development strategies of the recipient country and its systems. Thus, to analyze whether ODA aligns or not with Ecuador's development strategy according to the PD indicators or beyond that, four ODA projects where selected based in two main criteria, 1) percentage of ODA disbursement, and 2) modalities of aid implementation: budget support or project-based. In this case projects implemented by Spain (Zaragoza and Complutense Universities and the AECID) and South Korea's ODA (KOICA) and the Inter-American Development Bank (IADB) assistance where chosen, because first these two countries represent among the top 10 ODA's disbursement the highest and lowest aid disbursement partner, also both has a different implementation modality when they run a development project in the country. Regarding to the IADB is one of the major multilateral organizations that provides financial assistance to the country, as it can be seen in a report of AGECI (2005:32).

Figure 4
Main creditors of reimbursable assistance



Source: Ministry of Finance and Economy

4.3.1. Outline of the project cases

Table 3.
Outline of developing project cases

Project	Construction of Photovoltaic Plant	Construction of a Health Center type "C"	Irrigation system feasibility studies and construction	Road Plan for Provincial Governments
Donor partner	KOICA	KOICA	Two Spain Universities and AECID	IADB
Type of cooperation	Grant	Grant	Grant	Concessional loan
Local counterpart	Ministry of Electricity and Renewable Energy	Ministry of Health	Ministry of Agriculture, Aquaculture, Livestock and Fishing	National Board of Rural Parish Governments in Ecuador
Sector	Strategic sector - Renewable energy	Health care	Agriculture	Transport
Budget	10 million	5 million	600 thousand	5 million
Localization	Local The Galapagos Islands	Local Guayaquil	National	National
Status	Concluded	On going	Concluded	Concluded

4.3.2. Analysis of Koreas ODA (KOICA)

i) Construction of a Photovoltaic Plant in the Galapagos Islands

The Photovoltaic Plant project was a project prioritized by SENPLANDES, as well by the Coordinator Ministry of Strategic Sectors¹⁶ and specifically by the Ministry of Electricity and Renewable Energy (MEER). Although this project is a local necessity for the Galapagos population its implementation is framed as a national priority within the goal number seven, ten and eleven (see table 2), because the fragile environment in the Galapagos Islands needs to be protected. Currently the energy supplied is generated using fossil fuels which contaminates in a large extend the environment, so the government fostered the “Zero Fossil Fuels Program” to reduce at the maximum the use of fuels derived from petroleum.

This project was included in a priority list made by SETECI and was considered with a high priority of implementation, because regardless foreign aid support to this project the Ecuadorian government were carried it out by itself but with different characteristics, such as lower cost and the implementation might be delayed for around 3 years until the government can gather all the enough resources. However, this kind of criteria of the level of necessity is not considered in the PD, which is crucial because it shows the real priority of any project, if it is high rate means that the implementation of this project will have a veritable impact on the people’s life welfare, so this could be a good incentive for donors to align to this project.

¹⁶ Coordinator Ministry of Strategic Sectors, coordinates the policies, programs and projects of the Ministry of Hydrocarbons, Ministry of Mining, Ministry of Electricity and Renewable Energy, Ministry of Telecommunications and Information Society, Ministry of the Environment and the Water Secretariat, in order to foster the achievement of the National Plan for Development.

Inversely of what PD promotes for alignment, KOICA implements its projects in terms of project-base modality by controlling and managing the ODA flows, so doesn't make any disbursement of money to the government, which means the aid flows are not registered as government budget. Additionally, this modality allows the donor country to deliver assistance as tied aid, where the procurement of goods and/or services is limited to the donor country, which also leads to the fact that the donor country won't use the local systems for the implementation of the project. In other words, for PD this modality doesn't meet the principal parameters for alignment. However, according to Aryeetey (1995) and Sowa (1997) tying aid is a common-sense behavior, but more important, they argue that "tied aid well designed and effectively managed, would not necessarily compromise the quality as well as the effectiveness of aid". Indeed, this was corroborated during the interview, where Moreno, A (personal communication, October 25, 2016) said that the delivery of assistance with tied aid was the best option in this specific region and sector because due to the characteristic of the project location -the Galapagos Islands- the local and central government didn't have the conditions and capability to supply such goods and services.

In fact, in the inauguration ceremony of this project the President of Ecuador, Rafael Correa, highlight KOICA's aid by saying "Korea's development experience is very useful and KOICA is very efficient in carrying out aid programs on behalf of the Korean government in a way that is consistent with our government strategy in areas where we need the most [renewable energy]" (KOICA Website, 2015 & Korea.net, 2014)

On the other hand, the capacity building, one of the main goals -goal number 4 in the PNBV- for the Ecuadorian government was achieved perfectly in accordance with the PD, because the donor agency co-ordinate with the recipient country -MEER and SETECI- the technical assistance that will be provided during the implementation of the project. Basically, the inclusion of a training program in-situ and in Korea and the

knowledge transfer related to the operation of the photovoltaic plant allowed a successful performance of the local staff in the operation on the project. A summary of the indicators for this project is shown in the table 4.

Table 4.
Alignment indicators in the Photovoltaic Plant Project

Indicator	Comments
Veritable priority	High level of priority due to its necessity
Aid flows aligned to Nat'l priorities	According to PD is not aligned but considering the PNBV it is aligned
Strengthen capacity by co-ordinated support	Perfect coordinated work related to technical assistance - knowledge transfer.
Use of PFM and procurement systems	Project-base modality, so donor didn't use at all the country systems
Aid is untied	Aid is totally tied but recipient consider this as positive.

ii) Construction of a Health Center for Primary Care in Guayas Province – Duran Canton

The construction of a Health Center for Primary Care in Duran Canton as well as previous project is considered a priority by the government because the poverty reduction and inequality are linked with this project implementation, in the goals number 2¹⁷ and 3¹⁸ in the PNBV 2013-2017, although is not included in the new National Agenda for International Cooperation. However, SETECI in order to prioritize some projects for the ODA financial assistance made a call for projects proposals (processes taken before the elaboration of the Agenda for International Cooperation) where the Deputy Minister of Integral Health Care of the Ministry of Health (MSP) proposed the construction of this hospital as part of the reorganization and redistribution of new hospitals in the national public health network. This project

¹⁷ Goal 2: Promote equality, cohesion, inclusion and social equity.

¹⁸ Goal 3: Improve the quality of people life.

has a high level of priority for the state budget, because sooner or later, with or without Korea's aid the government were constructed this hospital to improve the live quality of population in the area. In fact, SETECI considered as a priority so the government took advantage and requested to KOICA to fund this project.

This project is being implemented in a project-base modality, so all the budget from donor side is managed by KOICA, which in other words also means tied aid as it was explained in the previous project (photovoltaic project). But in this case contrary to the previous one, the local side argue that the project-base modality is not the best option, because there are some cases of duplication of efforts. For example, Ecuador has developed a strategic sector plan for health system, so for the construction of any kind of health center there is a standard to follow, the country already has the designs of every single type of health center so this is not needed to be provided by the donor side, but KOICA as part of its conditions contracted a Construction Manager from Korea, who subcontracted a designer company and this one subcontract once again a Ecuadorian company without the use of the local procurement system. As it is showed there is a duplication of efforts and waste of financial resources, which could be avoided if KOICA were disbursed the money as budget assistance, where the government would have used the ODA resources in other more efficient unintended purposes, exercising the fungibility power in this case. Which fits perfectly with Leiderer (2012:6) argument “(...) fungibility is not necessary a bad thing nor something donors need to be particularly worried about to aid effectiveness”. Nevertheless, this concept of fungibility is not included per se in the PD but in this research, is taken in consideration as a relevant indicator despite of its difficulty to be measured.

Regarding to other indicators in PD, such as predictability, avoidance of PIU, and coordination for technical support, Korea-KOICA as donor, showed sort of accomplishment of these indicators. First, according to the person interviewed, KOICA

is partially predictable since some of the responsibilities described in the Memorandum of Understanding (MoU) were achieved at the right moment and quantity, but not in others, especially in terms of time delay. Second, the avoidance of PIU is a common practice of the donor, because it just uses the human resources of the implementing counterpart institution -MSP. Finally, the technical support is one of the pillars in KOICA's project implementation, because in Ecuador the 60% out of 100% ODA budget is used for capacity building purposes, along with the needs and specification suggested by the recipient government. In this case Korea doesn't know in detail the current situation of health system in Latin American countries especially Ecuador, that is why it decided to invite the Pan-American health Organization (PAHO) to manage the education and training program, due to its expertise in the topic. A summary of the indicators for this project is shown in the table 5.

Table 5
Alignment indicators in the Health Center Project

Indicator	Comments
Veritable Priority	High level of priority within state budget but not much for international intervention
Aid flows aligned to Nat'l priorities	Difficulties to report the aid flow in the government budget due to asymmetric information
Strengthen capacity by co-ordinated support	High focus in knowledge transfer but problems in coordination due to intervention of more actors
Use of PFM and procurement systems	Due to the project-base modality donor never used local systems
Aid is untied	Aid is totally tied, even the bidding process was carried out by donor

4.3.3. Analysis of Spain ODA (Zaragoza and Complutense Universities and AECID)

This project was proposed by the Ministry of Agriculture based in the fact that Ecuador is an agricultural country and big percent of the farmable land doesn't have irrigation systems is necessary to provide the country with this tools. This proposal is framed within the PNBV and in the SETECI's Agenda for International Cooperation in the goal number 4 "strengthen capacity for citizens" and number 8 "Consolidate the social economic and supportive system in a sustainable way".

This project has 2 phases, in the first one, Ecuador needs technical and technological capacitation to discover what areas and projects are suitable to be implemented in the irrigation sector, so the first project is "Training in topographic survey for land irrigation" which is a high priority level project, supported by two universities in Spain -Universidad de Zaragoza and Universidad Complutense- they provide technical support to Ecuador and help to build the capacity in government officers from 24 provinces. The modality used to implement this project was the budget support, so aid flows were reported on the government's budget through the Ministry of Finance and the Central Bank of Ecuador, in other words, means this aid flows are fully aligned with the priorities of the country. Once money is registered as government's budget the other PD-alignment indicators automatically follow a obvious process. Donors first trust in the PFM and procurements systems in Ecuador so they decided to channel the aid as budget support, and when the government manages that money inevitably uses the PFM and procurement local systems as if this money were normal government budget. About capacity building, the whole project is about it so technical cooperation is coordinated between donor and recipient. There wasn't any PIU in the implementation and aid was quite predictable, because according to the interviewed the donors disburse the aid resources as scheduled. But unfortunately, this aid was registered as tied aid because the provision of goods and services were limited to donor country.

On the other hand, during the training two main projects were developed, consequently the second phase of this project came out, where AECID decided to implemented those two irrigation projects. AECID disbursed aid as budget support which was recorded in the government's budget, then the money followed the same pattern mentioned in the first phase of the project, however here there was not found evidence of tied aid. This means, that the assistance provided by AECID is completely aligned with the priorities of the country according to the Paris Declaration. A summary of the indicators for this project is shown in the following table 6.

Table 6
Alignment indicators in Irrigation System Project

Indicator	Comments
Veritable Priority	High level of priority within state. The execution of the project could be done regardless the ODA intervention but with different characteristics
Aid flows aligned to Nat'l priorities	Total aid flows were reported in the government budget
Strengthen capacity by co-ordinated support	The whole first project is about technical support and knowledge transfer, so there was high level of coordination
Use of PFM and procurement systems	Full use of PFM, because the ODA flow is treated as if it was normal government budget.
Avoiding PIU	No need of creation of PIU
Aid predictability	Fully predictable. ODA disbursement is made according to the plan
Aid is untied	<ul style="list-style-type: none"> - Universities: tied aid - AECID: untied aid
Possibility of fungibility	High level of possibility

Extra information provided by the interviewed points out that ODA budget once is inside the government's budget can be fungible, and this is very likely to happened - not precisely in this project- when the government needs to move financial resources from one purpose to other in economic crisis or humanitarian crisis. However,

fungibility in many cases is not noticed because the government achieve the proposed goal of the development project by moving financial funds from other sources.

4.3.4. Analysis of Inter-American Development Bank (IADB)

i) National Road Plan for Provincial Governments in Ecuador - Project

Part of the transformation of the productive matrix -principal goal for development in Ecuador- is the development of a strategic rural road network to promote commerce and economic growth of the country, as well that will improve the access to education, health, and other public services. In this sense, the National Board of Rural Parrish Governments in Ecuador (CONAGOPARE) proposed to the SENPLADES the need of an expansion and improvement of the national road network. Such important project is framed within the Goal 8 “Consolidate the social economic and supportive system in a sustainable way” and Goal 10 “Promote the transformation of the productive matrix” of PNBV.

Conversely to the previous projects (Korea and Spain) which were financed through grants, this project was financed with a concessional loan provided by the Inter-American Development Bank (IADB). Singularly, this loan is considered as ODA because it has preferential interest rates and part of it was registered as grant.

It can be thought because of the disbursement of this money is through the Ministry of Finance and Central Bank of Ecuador and registered in the government's budget is automatically aligned with the priorities of the country. Indeed, most of it is aligned according to PD indicators, since the implementation of any project requires contracts and payments, the use of procurement system and national systems respectively are compulsory once the money is government budget, as well is need to be noticed that this support was not tied to any good or service provided by the donor. But in this case,

the transferred money opened the way to the imposition of some conditionality at macro-level policies, plus the creation of one specific bank account for the project, although this process seeks to make more effective the distribution of budget, it intervenes in the principle of ownership which means donor is not fully relying in the local system procedures. Similarly, the disbursement of money was not very predictable, there were couple of cases of delay in the disbursements. A summary of this information can be seen in the Table 7.

Table 7
Alignment indicators in Road Plan Project

Indicator	Comments
Level of necessity	Implementation of the project due to the high level of necessity of population to have access to education, health and commerce.
Reliance in PFM and procurement systems	Positive level of trustworthiness from IADB in the PFM, but request some specific changes in the system for more efficient distribution of budget
Aid flows aligned to Nat'l priorities	Disbursement of money is reported directly in the Ministry of Finance as government budget
Strengthen capacity by co-ordinated support	Full coordination in terms of technical cooperation
Use of PFM and procurement systems	Full use of the PFM and procurement systems
Avoiding PIU	IADB used all the human resources of the implementing institution, so no need of PIU
Aid predictability	There was not much predictability in the disbursement of money there were some delays in the transactions
Aid is untied	Untied aid

ii) Technical Assistance to the Infrastructure and Road Conservation Program (EC-L1065)

As well as previous project, this was financed by the IADB, but in this case the aid came mostly in terms of grant. This project came up as a necessity to support the

implementation of the credit requested by Ecuador to the IADB for road maintenance and the implementation of infrastructure projects, which will help to improve the social and economic development at the local level. In contrast to the other projects already presented in this study, this one was recognized as middle-low priority project, because this was not a project requested by Ecuador, but it was an initiative from the IADB to use the aid resources in consultancies to complement the projects considered in the IADB loan. In this case, since the priority of this project was middle-low the government would not have included some components of it and other characteristics were changed in order to reduce cost.

However, this project met most of the relevant alignment indicators, since the aid flows were registered as government budget, it uses the public financial management systems, although according to Tovar, A. (personal communication, October 26, 2016) this was not the best option -contrary to what PD says- “the best option is that the donor administers and proceed with the direct payments for each project”, otherwise the financial resources can be used in other different activities or projects in critical economic circumstances. Nevertheless, the sources allocated for this project was used in the agreed activities in an efficient way.

Another critical component of this ODA project, was the coordination between IADB and the MTOP. Every process and making decision has been explained and coordinated with the permanent companion of the IADB. The aid was fully untied since IADB didn't limit the provision of goods and services but impose some conditions that affects the alignment indicator number 5b -use of procurement system- because the bank requested the acquisition process must follow the procurement system of IADB and the bidding process should be opened to the participation of other member countries of IADB. A summary of this information can be found in the Table 8.

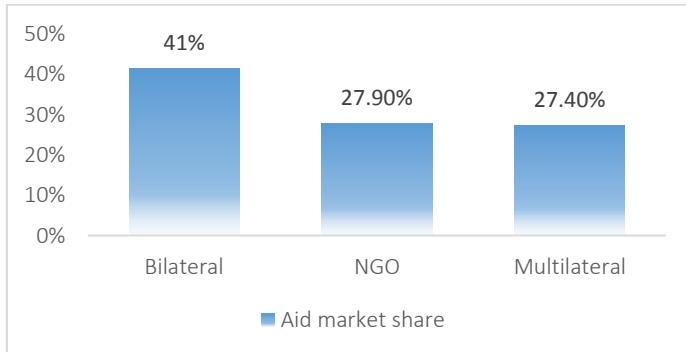
Table 8.
Alignment indicators in technical assistance to the infrastructure and road conservation program

Indicator	Comments
Reliance in PFM and procurement systems	Inter-American Development Bank requested some specific changes in the system for an efficient distribution of budget
Aid flows aligned to Nat'l priorities	Aid flows disbursed is reported directly in the Ministry of Finance as government budget
Strengthen capacity by co-ordinated support	High level of co-operation, IADB accompanied MTOP in every moment of the project
Use of PFM and procurement systems	Donor used country systems but as well its own systems and procedures
Avoiding PIU	IADB used all the human resources of the MTOP
Aid predictability	Disbursement according to the negotiation
Aid is untied	Fully untied

4.4. Findings and analysis

To analyze the behavior of donor countries in the implementation of ODA projects in Ecuador, is necessary to check how aid is distributed within the country considering the type of aid. As we can see in the Figure 5, the aid market share in Ecuador is mostly covered by Bilateral Aid with 41%, the Non-Governmental Organizations take the second place in the market with 28% and finally the Multilateral Organization donors like the Inter American Development Bank and others share is 27%. So, we say that more outputs and outcomes will come from bilateral aid because donors use more the bilateral channels to provide aid in Ecuador. In this sense the analysis of Korea and Spain performance regards alignment is more relevant, than the case selected from the multilateral sector.

Figure 5
Aid Market Share in Ecuador 2014



Source: SETECI

Once the case studies were presented with a brief analysis of the alignment indicators based on the interviews carried out with the government officers responsible for the execution of each project, this study found that the Korean aid is not completely aligned to the priorities of the country if we only consider the Paris Declaration parameters and indicators.

KOICA's support is delivered by project-base modality which according to PD is not the most effective modality for aid delivery and also KOICA doesn't use neither PFM nor procurement systems and institutions of Ecuador and the aid delivered in all the cases is tied aid which does not contribute at all with the improvement of the recipient country in terms of economy growth. However, in one of the projects presented here (Photovoltaic Plant) despite not achieving most of the PD indicators the behavior and modality of cooperation implemented by the donor country was the most appropriated and regardless of all contradictions with PD this project is aligned to the priorities of Ecuador and is effective at the same time. Since it met the primary goal of the government described not just in the PNBV but in the Agenda for International

Cooperation elaborated by SETECI as well. So here it can be seen that is not necessary to meet all the PD alignment indicators to align a project to the priorities of the country. A project can be aligned depending on other relevant factors like the necessity of the implementation of that specific project and of course the factors that PD also considered.

On the other hand, in the current project of health is not the same, because here the modality has been judged by the implementing counterpart by disapproving the tied aid factor not for the limitation of goods and services but for the waste of resources due to the double effort put it in the design section, while Ecuador has a standardized designs for the construction of any type of health center, KOICA due to tied aid hired a Korean company to do the same design that was already done.

In the case of Spain, the behavior and procedures of alignment goes along with the guidelines of the Paris Declaration, which is great for the development purposes, since its aid works in the seven indicators, first of all and should be highlighted that Spain is the most active donor country which is frequently having meetings with SETECI at national level and with the provincial governments at local level, in order to know from firsthand what exactly is needed by people, what kind of projects must be implemented to improve the quality of life of them. This is what makes special to the Spanish aid. Second, they reply on the PFM and procurement system so they can disburse the money in terms of budget support, money that goes directly to the government budget so for the use of that money in the implementation of any project or program has to go through the local national systems. The aid provided most of the time is untied and predictable, but also this “sources can experiment the fungibility risk due to economic crisis or natural disasters” (Xavier, G, personal communication, October 22, 2016).

Spain aid is boosted by some incentives to be aligned. Regarding to the argument included in the literature review, the more share in the aid market the more aligned

with the country priorities. So, in the Table 9 we can see, that Spain is the second biggest aid partner in the aid market in Ecuador. Thus, Spain tend to use more the local system to reinforce them to make more effective the aid provided. Because is a huge amount of money they need that the systems work well.

Table 9.

Distribution of grants in Ecuador by country/IO, 2011-2013 (million dollars)

#	Country/Organization	No. of Projects	Disbursement 2011	Disbursement 2012	Disbursement 2013	Disbursement 2011-2013	% of participation
1	USA	410	\$ 62.84	\$ 70.77	\$ 65.66	199.26	18.6%
2	Spain	467	\$ 64.39	\$ 58.94	\$ 67.75	191.08	17.9%
3	EU	124	\$ 43.68	\$ 35.24	\$ 20.87	\$ 99.79	9.3%
4	Germany	153	\$ 45.66	\$ 31.80	\$ 20.83	\$ 98.29	9.2%
5	UN	187	\$ 32.56	\$ 31.32	\$ 30.27	\$ 94.15	8.8%
6	Korea	17	\$ 24.76	\$ 21.56	\$ 11.53	\$ 57.85	5.4%
7	UK	55	\$ 17.68	\$ 15.17	\$ 11.32	\$ 44.17	4.1%
8	Belgium	71	\$ 7.15	\$ 13.26	\$ 20.63	\$ 41.04	3.8%
9	China	16	\$ 5.44	\$ 12.32	\$ 21.18	\$ 38.94	3.6%
10	IADB	102	\$ 11.93	\$ 14.08	\$ 10.49	\$ 36.50	3.4%
11	Japan	128	\$ 12.98	\$ 11.85	\$ 5.65	\$ 30.48	2.9%

Source: SETECI

Finally, regarding to the multilateral organization project implementation, is not much to conclude. Is known that ODA is given within a loan so the money will go directly to the government budget, which afterwards will follow the same procedure as the aid provided by Spain. However, there is a problem in the delivery of this aid due to the - usual harsh- conditionality impose to the recipient country in order to disburse the money. The conditions change depending on the project and the amount of money. In the case of the project carried out by the Ministry of Public Works “Technical Assistance to the Infrastructure and Road Conservation Program” the IADB imposed

the conditionality of the use of their systems to proceed with the implementation of the project, which does not agree with the PD alignment indicator. But indeed, the project itself aligns with the priorities of the country.

As it was exposed here even within the same institution the implementation process or each project regarding to alignment issues has its own particularities. On the one hand the implementation can meet all the indicators and processes that the PD requires to consider a project to be aligned, or on the other hand, can follow completely or partially those indicators and include some others in order to align to the priorities of the country.

CHAPTER V: CONCLUSION

The Paris Declaration on Aid Effectiveness is seen as unprecedented event where donor and recipient countries as well International Organizations and NGOs reached a consensus to laid out new concepts of managing and delivering aid. As it contains action oriented commitment on aid effectiveness, it is meaningful to asses in what extend this new paradigm particularly the alignment commitment is executed by donors and recipient countries, and which factors must be considered in the process.

In this sense, from the result of the qualitative analysis in this study, we could find out that not all the alignment indicators does exert a positive and significant improvement in its implementation, regarding to the Paris Declaration. Factors such as reliability and use of Public Financial Management and Procurement Systems, aid flows to the government budget and untied aid shows a discrepancy in its application.

Since the aid flows in Ecuador uses two main modalities, budget support and the project-support, donors like Korea, Japan among others tend to use the project-support rather than budget support, which is seriously promoted by the Paris Declaration for effectiveness in the alignment process. As it was mentioned, the aid market in Ecuador is mostly covered by bilateral aid, having Korea's aid modality implementation as an example that represents most of the donor countries that operate in Ecuador. In this sense, since Korea does not use the PFM systems, do not disburse money to the government budget, do not provide is aid as untied aid, the perception of alignment is vague and still far from been reached if we just base our study in the Paris Declaration commitments. Nevertheless, the projects executed under the project-support modality can be also considered as aligned with the priorities of the country because they not just achieve the output but also has an impact when they are done.

On the other hand, the Spanish cooperation is one of few examples in its kind related to budget support, this represents few countries that are working with this modality in Ecuador. The main difference between donors is that the money disbursed as budget support is bigger than the one disbursed as project-support despite that more countries uses this modality, as the table 9 shows, Spain and Germany and if we include the international organizations like the European Union (SETECI, 2015:51) the participation is even bigger. The mentioned donors are four out of five top donors that most disburse aid in Ecuador. This results can be direct linked to the efficient intervention of SETECI in the negotiation of the implementation processes that guides donors to perform according to Ecuador preferences and priorities. SETECI seeks to get a complementarity support from donors in the projects that were already prioritized based in the needs of people.

In addition to this, it was found that donor's decision to give foreign aid are not truly based on the quality of recipient countries' system or level of ownership of recipient countries. The use of recipient countries' is base in the incentives they have like the Spain aid, which according to Knack (2013) the use of PFM depends on the incentives the donor receives, which relies on the share of aid market in the recipient country, the larger share the larger benefits from investments in strengthening country systems, which actually is in line with the Spain behavior when deliver aid.

In fact, Ecuador does not depend on foreign aid so the complementarity that foreign aid can give to the efforts made by the government to foster development can be accepted in any way only with the condition to align to the sectors that the government consider strategical for development, such as change of the productive matrix, technology and innovation and capacity building.

In conclusion, the alignment process in Ecuador is still fuzzy, because alignment process is divided, on one side with the application of the rigid parameters set by the

Paris Declaration, which does not consider little changes in its implementation. And on the other side the processes related to project-support that are more flexible and can consider more or less indicators compared with the ones in the PD, and which if are properly designed with the accompaniment of the recipient government can be perfectly aligned to the policies and priorities of development.

Finally, since there is not much information from the donor side, the analysis and considerations of this study are limited. In the future, it will be meaningful to carry out a research focused more in information that donors can provide and compare with the recipient government position.

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