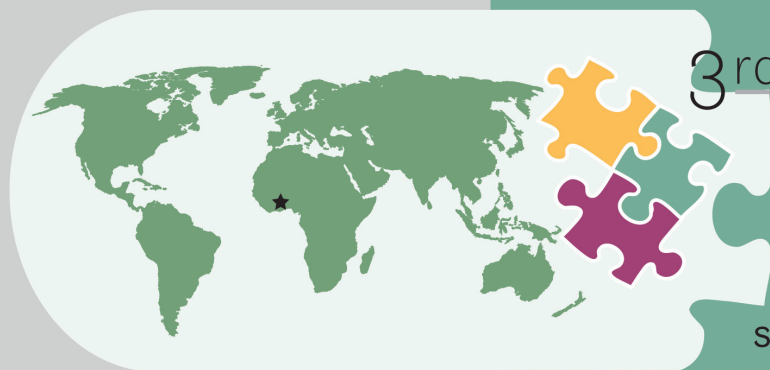


AID EFFECTIVENESS

A PROGRESS REPORT ON IMPLEMENTING THE PARIS DECLARATION



3rd

High
Level Forum
ON AID EFFECTIVENESS

SEPTEMBER 2-4, 2008 ACCRA GHANA



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Foreword

The Paris Declaration on Aid Effectiveness, adopted in 2005 by over 100 countries and aid agencies, defines the principles and commitments by which donors and partner governments intend to ensure that aid is as effective as possible in contributing to the Millennium Development Goals and other internationally agreed objectives. It builds on lessons learned over many years about what works, committing donors and partners to adopt best principles and practices in aid management and to avoid weaknesses, some of which have persisted for decades. The Declaration itself takes forward a great deal of prior work, including agreements reached at Monterrey (2002), Rome (2003) and Marrakech (2004) (OECD and World Bank, 2005).

This report, prepared by the Working Party on Aid Effectiveness (WP-EFF) for the Third High-Level Forum to be held in Accra in September 2008, is intended to underpin with evidence-based material the *Accra Agenda for Action*. It covers the commitments under the five Partnership Principles related to ownership, harmonisation, alignment, results and mutual accountability, together with four subjects of critical relevance: sector perspectives, the role of civil society organisations, situations of fragility and conflict, and the changing aid architecture.

This report draws on many sources, including the 2006 and 2008 Paris Declaration Monitoring Surveys (OECD), which focus on the set of 12 indicators of progress, and the 2008 Evaluation Synthesis Report (Wood *et al.*, 2008). It uses findings from the many work streams that are carrying forward the partnership commitments within the Working Party on Aid Effectiveness (WP-EFF) and its Joint Ventures, in the OECD Development Co-operation Directorate and in a range of other national and international organisations including the World Bank, the United Nations Development Group, regional development banks and the International Monetary Fund. It also draws on DAC peer reviews; self-assessments by partners and donors; the regional consultations held during 2008 with partners in East, West, Central and South Asia, the Pacific, Latin America and the Caribbean, Africa and the Middle East in preparation for the Accra High-Level Forum; and work by the Partner Country Contact Group.

ACKNOWLEDGEMENTS

This report was prepared by the Working Party on Aid Effectiveness (WP-EFF), the international partnership of donors and partner countries hosted by the OECD/DAC.ⁱ The WP-EFF mandate is to support, facilitate and monitor the implementation of the Paris Declaration on Aid Effectiveness. It provides guidance on policy and good practice, and is the focal point for preparations of the Third High Level Forum on Aid Effectiveness (HLF-3) that will review progress in implementing the Paris Declaration and will take place in Accra, Ghana, on 2-4 September 2008.

The Working Party is co-chaired by Jan Cedergren (Sweden), Chris Hall (World Bank) and J.B. Siriboe (Ghana). It has established the following sub-groups, all of which contributed to this report: Joint Venture on Monitoring the Paris Declaration, Joint Venture on Managing for Development Results, Joint Venture on Public Financial Management, Joint Venture on Procurement, Advisory Group on Civil Society and Aid Effectiveness, and Task Team on Health as a tracer sector.

The report was drafted by Alex Duncan (the Policy Practice) and Cecilie Wathne (Overseas Development Institute) under the management of Stephanie Baile (OECD). The Working Party acknowledges the special contributions received from many officials from partner countries and donor agencies, as well as the OECD Development Co-operation Directorate.ⁱⁱ

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- i. The Working Party on Aid Effectiveness comprises senior policy advisers from the 23 DAC members as well as representatives from 22 developing countries and 11 multilateral organisations.

Bilateral donors: Australia, Austria, Belgium, Canada, Denmark, European Commission, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and United States. In addition non-DAC OECD countries are regular participants including the Czech Republic, Hungary, Korea, Mexico, Poland, the Slovak Republic and Turkey.

Multilateral donors: World Bank; regional development banks (African Development Bank, Asian Development Bank, Inter-American Development Bank, European Bank for Reconstruction and Development); United Nations Development Programme with other agencies of the United Nations Development Group (WHO, UNESCO); International Monetary Fund; Strategic Partnership with Africa; Global Fund to Fight AIDS, Tuberculosis and Malaria.

Partner countries: Bangladesh, Bolivia, Cambodia, Ethiopia, Fiji, Ghana, Honduras, Indonesia, Kyrgyzstan, Mali, Morocco, Mozambique, Nicaragua, Niger, Philippines, Rwanda, Senegal, South Africa, Tanzania, Uganda, Viet Nam and Zambia. In addition, Cameroon, Colombia, Nigeria and Sri Lanka are recent participants.

- ii. The report draws in particular on inputs from OECD staff involved in the following DAC Networks: Governance; Gender Equality; Environment and Development Co-operation; Conflict, Peace and Development; Development Evaluation; Human Rights Task Team; Fragile States Group; Peer Reviews; Working Party on Statistics; and the work streams on capacity development, aid untying, aid for trade, non-DAC donors and aid architecture.

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List of Abbreviations

AG-CS	Advisory Group on Civil Society and Aid Effectiveness
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organisation
EC	European Commission
FTI	Fast Track Initiative
HIPC	Heavily Indebted Poor Country
HLF-3	Third High-Level Forum on Aid Effectiveness
IHP+	International Health Partnership Plus
IMF	International Monetary Fund
JAS	Joint Assistance Strategy
LDC	Less-Developed Country
LHI	Legal Harmonisation Initiative
MA	Mutual Accountability
MDG	Millennium Development Goal
MfDR	Managing for Development Results
NGO	Non-Governmental Organisation
NSDS	National Strategies for the Development of Statistics
ODA	Official Development Assistance
PBA	Programme-Based Approach
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIU	Project Implementation Unit
SEA	Strategic Environmental Assessment
SPA	Strategic Partnership with Africa
STA	Single Treasury Account
SWAp	Sector-Wide Approach
WP-EFF	Working Party on Aid Effectiveness
WTO	World Trade Organization

Executive Summary

This report is a mid-term review of progress towards the 2005 Paris Declaration commitments made by partners and donors. The report has been prepared by the Working Party on Aid Effectiveness for the September 2008 Accra High-Level Forum (HLF). It draws on many sources, including the *2008 Paris Declaration Monitoring Survey* and *Evaluation Synthesis Report*. Part I highlights the main actionable lessons and messages emerging from the analysis of progress to date, and links to the *Accra Agenda for Action*. The longer Part II presents the main evidence and findings relating to the five Paris Declaration principles (ownership, alignment, harmonisation, development results and mutual accountability) and four additional issues that will be discussed at Roundtables at the Accra HLF (sectoral perspectives, civil society and aid effectiveness, situations of fragility and conflict, and the changing aid architecture).

What stage should have been reached by mid-point between the signing of the Declaration in 2005 and its target date of 2010? There should by now be progress at least on developing shared clarity of purpose, momentum in new ways of co-operating, the beginnings of behaviour change, some results on the ground, and sound monitoring and evaluation systems. In the years immediately after 2005, at least the preconditions for sustainable acceleration should have been built. The priority over the remaining years to 2010 will be to make maximum use of these to achieve rapid measurable progress.

Part I

Part I sets out eight main messages from the progress report:

1. Good progress is being made in some important respects, but not in others. Insofar as the (sometimes partial) data allow us to judge, an acceleration will often be needed if the aims of the Paris Declaration are to be met by 2010.
2. Progress varies by partner and by donor.
3. The ultimate rationale of the Declaration must always be borne in mind: it is a key instrument to bring about improved development outcomes; and it will only be fully effective in achieving these if it is made mutually complementary with measures in other policy areas, and if its wider (and changing) context is understood.
4. Accelerated progress on the Paris Declaration requires political leadership, but the Declaration does not yet have enough political resonance.
5. If the Paris Declaration's aims are to be met, donor and partner patterns of behaviour must change; but this will only happen if the underlying incentives shift.

6. Aid effectiveness requires the involvement of wider groups beyond governments and official donors.
7. A great deal is being learned from experience in applying the Declaration. While its principles are largely being validated (including the centrality of partner country ownership), its limits are also being revealed, and new dilemmas and tasks are being highlighted.
8. The emphasis in the Paris Declaration on measuring progress has been justified both by what it has done to strengthen the demand for evidence, and by the usefulness of the information being generated. Nevertheless, there is much to do to improve the systems for monitoring and evaluation.

Part I sets out priority measures for partners, for donors, and for partners and donors jointly if the needed acceleration is to be achieved. These are complementary to the *Accra Agenda for Action*. In summary, they are:

Partners to:

- reinforce national ownership of development strategies;
- enhance domestic accountability to citizens and parliaments, and engage more constructively on aid effectiveness with the private sector;
- adapt the Paris Declaration to different country and regional contexts;
- intensify leadership in strengthening country systems across the board.

Donors to:

- develop communication and public education strategies for strengthening political support for the Paris Declaration;
- decentralise more authority to country offices and embassies;
- move further towards using strengthened partner country systems;
- build the capabilities of donor agency staff to meet the changing challenges of aid management.

Partners and donors to:

- provide high-level political leadership to re-energise aid effectiveness reforms so as to achieve the 2010 targets;
- set up more inclusive and systematic forms of dialogue with all stakeholders, including development assistance providers outside the DAC and the major foundations;
- shift the incentives that shape behaviour within partner governments and donor agencies;
- press ahead with harmonisation, but in the context of aligning with country systems rather than separately;
- galvanise momentum behind implementing the two newer principles of the Paris Declaration (managing for development results and mutual accountability);
- make aid management coherent with government actions in such areas as trade, finance, migration and the environment;
- address the concerns relating to some aspects of monitoring progress with the Declaration.

Part II

Ownership

The Paris Declaration is based on the recognition that development will be successful and sustained, and aid fully effective, only where the partner country takes the lead in determining the goals and priorities of its own development and sets the agenda for how they are to be achieved. Ownership is the most overtly political of the five Paris Declaration commitments: strengthening partners' ownership represents a shift of power in the aid relationship, while underlining the need for mutual accountability.

There is evidence that national development strategies have been strengthened since 2005, and the principle of partner ownership has gained greater prominence and acceptance. However, while ownership has increased, it often remains narrowly based within partner countries. There is a generalised weakness in making national strategies operational (in particular in linking the vision to budgets and to operational measures), and in strengthening results-orientation. While there are signs of progress towards fulfilling the Paris Declaration commitments on ownership, it is uneven among partners and donors. If current trends continue, the 2010 targets will not be fully achieved. Many partners and donors call for clearer definition and measurement of ownership, tailored to local conditions.

Several lessons on strengthening ownership have emerged. The Paris Declaration has prompted a progressively wider approach to thinking about ownership, taking the governance agenda in new directions. These often involve stepped-up support for capacity development (including capacity to exercise leadership), but also extend to civil society, local governments and the private sector. The currently more politically aware understanding of ownership has led to more use of political economy and governance analysis. There is growing convergence between partners and donors around some priorities (human rights, gender equality and women's empowerment, and good governance) that are widely accepted as having intrinsic merit, and where the Paris Declaration can promote effectiveness. Ownership presents particular difficulties in situations of fragility and conflict; and there can be dilemmas for the more aid-dependent partners when they seek to create development strategies with goals and priorities that are both nationally owned and donor-endorsed.

Alignment

For aid to be effective, partners must develop credible national development strategies, and donors must support and use strengthened country systems. The mutual commitments involved create a large agenda for partners and donors; major efforts are under way to deliver on it. While in very broad terms there are significant advances in many areas, acceleration will be needed to reach the 2010 targets. In particular, donors must step up efforts to support country systems and to use them (recognising that using them can help to strengthen them).

As compared with 2005, donors are increasingly basing their activities on partners' national development and sectoral strategies, medium-term expenditure plans and budgets. Despite signs that new approaches to conditionality are aligned with partners' strategies, partner and donor perspectives are often still some way apart. There are also efforts to build capacity of central and local government, and also of civil society.

However, these efforts need to be better co-ordinated. The evidence on reducing the number of parallel Project Implementation Units is mixed and unclear.

In public financial management (PFM), the use of country systems appears to be improving in a gradual and selective way. Although many donors are willing to invest in and use partners' PFM systems, this usage is not comprehensive or systematic, and needs to go further. Different sources of evidence on the extent to which partner budgets capture aid flows point to progress, but it is uneven among countries. The increase in the within-year and medium-term predictability of bilateral aid has been slow, with multilateral agencies generally performing better. Positive results in predictability and use of country systems appear linked to budget support, based on observations in 14 African countries and 20 donors providing budget support.

In procurement, there has been a gradual and selective improvement in the use of country systems. In some countries, partner governments have succeeded in developing their own procurement systems, thanks to the experience of implementing donor-funded projects. However, more needs to be done if the 2010 targets are to be achieved. In strengthening statistical capacity, there have been signs of improvement in most cases where the Paris Declaration principles have been followed; the best results tend to be found where the partner government is itself results-focused. A milestone in strengthening country systems for Strategic Environmental Assessments was the 2006 publication of the DAC *Good Practice Guidelines* which is now being used by many countries and agencies. To date, few partner countries have well-articulated strategies and systems for aid management, although some are taking steps to rectify this with donor support. There has been significant progress towards aid untying. In fact, almost all the aid that should be untied according to the 2001 DAC Recommendation has been fully untied, the volume of aid to less-developed countries (LDCs) and the LDCs share in total bilateral official development assistance (ODA) have increased, and there has been no shift into activities not covered by the Recommendation. In May 2008, the DAC members agreed to expand the coverage of the recommendations to eight heavily indebted poor countries (HIPC) that are not LDCs. However, many partners wish to see further progress towards untying.

Harmonisation

Aid can be more effective when donors adopt common procedures to harmonise aid delivery, including using common approaches, reducing fragmentation and rationalising the division of labour. There is evidence of a modest increase in the use of programme-based approaches (PBAs), although further effort will be needed. It should be noted here that the goal of the Paris Declaration is not to remove all funding for projects, but rather to use the optimal combination of instruments for each country situation. To share analysis, donors have started working together at reducing the number of separate, duplicative, missions to the field and diagnostic reviews.

Excessive fragmentation of aid reduces its effectiveness and overburdens recipients in many countries and sectors, but it is possible to reduce the number of donors without significantly reducing the volume of aid flows. Division of labour is a critical, yet sensitive, dimension of the Paris agenda, with links to comparative advantage, specialisation and delegated co-operation. Difficult though it is, many donors increasingly seek a better division of labour with others and have launched a number of activities to bring it about. Much of the progress has come in the form of greater consensus building (such as through the 2007 EU Code of Conduct on Complementarity and Division of

Labour). A task team has also developed good practice principles on in-country division of labour. The task is to further apply these to reduce the number of active donors in overcrowded sectors while maintaining (or increasing) the overall volume of financing. This is likely to require more co-operative arrangements, silent partnerships and delegated co-operation.

There are a number of factors that make success with the harmonisation agenda more likely: awareness and political will at both partner country and donor levels; mutual trust; clearly defined objectives that are tailored to country circumstances; agreements on priorities and results; government capacity to lead, co-ordinate and manage aid; operational national policies on division of labour; formal co-ordination and dialogue platforms; good information on donor activities; and agreement on how comparative advantage will be measured.

Managing for development results

The Paris Declaration is part of an increasing push for results which is supported by numerous international initiatives. However, putting the managing for development results (MfDR) principle into effect is both politically and technically demanding, going well beyond the confines of aid management. It requires a range of internal reforms, developing human resources, building country capacity, strengthening evaluation, enhancing links between results and the planning and budgeting process, and above all encouraging greater leadership and accountability.

In part as a result of the late start and inherent difficulties of MfDR, a necessary condition for making progress has been to raise awareness and exchange information on best practices. Progress against MfDR commitments themselves is moderately encouraging. Strong progress has been achieved in particular countries and sectors. A number of countries are also working to improve their monitoring frameworks. However, relatively few countries have quality results-oriented strategies, and only a few donors rely on these countries' results and monitoring frameworks. There is a call for more definitional clarity, accelerated construction of monitoring frameworks and greater agreement on how to strengthen systems.

Two issues do much to explain the challenges in moving forward with MfDR: the need to develop critical capacities to address the inherent complexity of the tasks, and the incentives and disincentives facing different stakeholders. Managing for development results in partner countries is often weak, due to lack of capacity to plan, budget, manage and account for results of policies and programmes. Encouragingly, almost all donors are supporting some form of related capacity building. Furthermore, a number of partner countries have taken action to improve their systems. Changes to incentives can influence managers and officials to bring about the necessary reforms. However, the needed changes to behaviour will not happen automatically as there are a number of up-front and long-term costs (institutional, financial and political) associated with changing the way donors and partners conduct themselves.

Mutual accountability

The Paris Declaration calls upon donors and partners to be mutually accountable for development results. Individual and joint actions can create and reinforce shared agendas by building trust, shifting incentives towards results, embedding common values, deepening responsibilities and strengthening partnerships.

Progress towards mutual accountability has been slow, when gauged by the number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness. This may be in part because mutual accountability is a relatively new principle, and is demanding of capacity. However, despite the undeveloped nature of the mutual accountability system as a whole, more pieces of the solution are actually at hand than is generally assumed, and a range of mechanisms make contributions toward fulfilling this commitment. For example, in a number of countries, donors and recipients have agreed on localised aid effectiveness agendas, some with strong elements of mutual accountability.

It is important for donors and partners to ensure that mutual accountability relationships complement, rather than crowd out, national accountability between governments and citizens. For partner governments, this means at a minimum keeping parliaments and civil society involved and informed about engagement with donors. For donors, it requires being open about their aid flows as well as supporting local accountability mechanisms. It also means better explaining to their own domestic accountability mechanisms (including parliaments) the importance of mutual accountability. Timely, transparent and comprehensive information on aid flows is key to strengthening country-level mutual accountability, but progress towards this is sometimes lagging.

The emphasis of the mutual accountability principle is on results at the country level, but international mechanisms can complement country-level measures by strengthening the incentives and the political momentum to accelerate the pace of reform. These international mechanisms play a particular role in strengthening donor accountability, as aid-dependent countries often find it difficult to hold donors to account. A number of these mechanisms have been developed over the past few years, including independent information on partner and donor performance, forums for debate, peer reviews and arrangements by which donors and partners oversee one another's performance.

Sector perspectives

Applying the principles of the Paris Declaration at the level of sectors is critical to maximising the impact of aid and achieving development objectives. Special efforts are being made in particular in health, education, agriculture, infrastructure and aid for trade.

The health sector is a major recipient of aid, including from innovative financing sources. While gaps in financing still exist, resources can be more effectively used to increase the quality of aid in a complex and fragmented sector. Major initiatives are directed towards scaling-up for better health results. Although more attention should be given to improving the health status of the poorest, the sector nevertheless offers several examples of continuing progress: a renewed interest in health system strengthening; better harmonisation and alignment of aid in country-led plans; stronger focus on results and improving information, as well as more coherent aid architecture; and addressing the cross-cutting issues of gender equality and human rights. Applying lessons learned will not only help scale up for better health, but also provide direction to other sectors and the broader agenda on aid effectiveness.

Major efforts are under way within the education sector of many partner countries to apply the Paris Declaration principles. Two of the main studies commissioned to assess the Paris Declaration implementation in the education sector are not yet completed, making it difficult to assess progress to date. Results that are available suggest levels of

progress that vary greatly by country. Further, capacity for policy making, planning and service delivery is often insufficient to strengthen country ownership and the credibility of country systems. Considerable efforts have been made to increase donor support for, and alignment with, country systems, but there is still a general case for channelling more funds through government systems. There is a need to rationalise donors' roles: in many partner countries, there are still too many donors active in the sector. An international managing-for-results tool is in place, but country-owned monitoring systems are often weak. Work is under way to identify fit-for-purpose financing tools for restoring education in situations of fragility and conflict, where country systems have wholly or largely broken down.

The present food crisis has brought into sharp relief the fact that agriculture and rural development offer the greatest opportunity to overcome hunger and poverty, and to address cross-cutting issues. However, it is difficult to apply the Paris Declaration principles, in light of the diversity of agricultural production systems and livelihoods requiring heterogeneous and context-specific solutions and the absence of key stakeholders. While budget support, PBAs and sector-wide approaches (SWAp) are important instruments for alignment and mutual accountability, projects are also useful, including in areas where the state plays a limited role.

The size and complexity of some infrastructure projects results in unique challenges in partner-country capacity constraints and in management for results. The principles of the Paris Declaration are fully relevant to infrastructure (for instance harmonisation is well-advanced), but the principles must be adapted to particular features of the sector (for instance the need to mobilise resources for very large-scale implementation).

Aid for trade provides a framework to address the supply-side constraints that limit the ability of many partner countries to benefit from international trade. A 2007 review found that the dialogue around trade has been strengthened, that donors are harmonising procedures and aligning their support, and that donors and partner countries are increasingly engaged in joint monitoring and evaluation.

Civil society and aid effectiveness

As well as providing services and funding development, civil society organisations (CSOs) are fundamental to good governance and accountability to citizens. CSOs were only included to a very limited degree in the preparatory processes for the first and second High-Level Forums in Rome and Paris, but greater recognition of the multiple linkages between CSOs and the aid effectiveness agenda has led to the establishment of the Advisory Group on Civil Society and Aid Effectiveness, and to the participation of CSOs as central players in the 2008 HLF.

Joint efforts are being directed towards three outcomes:

- Recognition and voice: A better understanding and recognition of the roles of CSOs as development actors and as part of the international aid architecture, and engagement of CSOs in general discussions of aid effectiveness.
- Enriching the international aid effectiveness agenda: An improved understanding of the applicability and limitations of the Paris Declaration for addressing issues of aid effectiveness of importance to CSOs, including how CSOs can better contribute to aid effectiveness.

- Lessons of good practice: A greater understanding of good practice relating to civil society and aid effectiveness by CSOs themselves, by donors and by developing country governments.

Situations of fragility and conflict

Situations of fragility and conflict pose specific challenges for development and effective use of aid. In these situations, the Paris Declaration principles need to be complemented by the DAC principles for “good international engagement in fragile states and situations” and adapted to the specific contexts. Whole-of-government approaches are crucial.

At the policy level, there has been significant progress over the past three years. DAC members have adopted the principles for international engagement in fragile states and situations, and the European Union, the World Bank and others have endorsed these principles. Many policy statements acknowledge the challenge of peace-building and state-building, the importance of political settlement, elite negotiations and broad-based reconciliation, and also that in some cases it may take generations to make meaningful progress. Recognising this, whole-of-government strategies and mechanisms have been established, along with tools such as shadow and partial alignment. A range of analytical tools, such as conflict and post-conflict needs assessments, and political economy and governance analysis, have also been developed. These tools have laid the foundations for the development of donor strategies and policies on situations of conflict and fragility, and organisational innovations such as the establishment of dedicated policy units at headquarters.

The evidence base for assessing progress at the country operational level is weak, but it is clear that results are at best mixed. In contrast to the important gains made at the policy level, implementation remains a serious hurdle, and progress on internal and external co-ordination among development partners has not yet produced any notable development impact. Overall, OECD governments have all too often been risk-averse; they have responded to many situations of conflict and fragility too slowly, too inefficiently and in an uncoordinated manner. Monitoring the DAC principles for international engagement in fragile states and situations could potentially improve donors’ behaviour.

Implications of the changing aid architecture

Beyond the traditional bilateral and multilateral donors, there is an increased diversity of actors involved in development finance, including emerging economies, private foundations, global thematic funds, civil society organisations and the private sector. These contribute not only additional funding, but also experiences, expertise and approaches that are raising the prospects for successful development.

Development assistance providers outside the DAC are increasingly recognised for bringing innovative partnerships (including South-South and triangular co-operation) and experiences that could enrich the global reflection on how to improve the effectiveness of development co-operation. While there is not yet comprehensive understanding of how the Paris Declaration is interpreted and applied by different actors, there is widespread agreement that aid effectiveness principles are important for all, and that DAC and “non-DAC” donors can greatly benefit from learning more about each other’s experiences and

approaches. Further effort is necessary to build stronger, more inclusive partnerships with all development actors, based on partner country strategies and priorities.

Global programme funds can effectively complement multilateral and bilateral country programmes to achieve specific development objectives, and efforts are currently under way to better integrate their assistance at the country level. However, as new global challenges emerge, partners and donors should think carefully before creating separate channels; priority should be given to channelling these new funds through existing mechanisms rather than creating new ones that would risk increasing fragmentation at the country level. A balance should also be maintained between funding for targeted mechanisms, and for those with a broader remit to build the capacity of systems as a whole.

Part I: Main Messages

Introduction

This first part of the 2008 Progress Report on the Paris Declaration highlights some of the main messages from the report, with a particular focus on those which have implications for actions by ministers attending the High-Level Forum in Accra. It draws on the evidence provided in Part II, as well as other assessments of progress, notably the *2008 Evaluation Synthesis Report* and the *2008 Monitoring Survey*.

What stage should have been reached by mid-point between the signing of the Declaration in 2005 and its target date of 2010? This progress report is a mid-term review: there should by now be progress at least on developing shared clarity of purpose, momentum in new ways of co-operating, the beginnings of behaviour change, some results on the ground, and sound monitoring and evaluation systems. In the years immediately after 2005, at least the preconditions for sustainable acceleration should have been built. The priority over the remaining years to 2010 will be to make maximum use of these to achieve rapid measurable progress.

This part of the progress report emphasises eight messages, summarised in Box I.1.

Box I.1. Main messages

1. Good progress is being made in some important respects, but not in others. Insofar as the (sometimes partial) data allow us to judge, an acceleration will often be needed if the aims of the Paris Declaration are to be met by 2010.
2. Progress varies by partner and by donor.
3. The ultimate rationale of the Declaration must always be borne in mind: it is a key instrument to bring about improved development outcomes; and it will only be fully effective in achieving these if it is made mutually complementary with measures in other policy areas, and if its wider (and changing) context is understood.
4. Accelerated progress on the Paris Declaration requires political leadership, but the Declaration does not yet have enough political resonance.
5. If the Paris Declaration's aims are to be met, donor and partner patterns of behaviour must change; but this will only happen if the underlying incentives shift.
6. Aid effectiveness requires the involvement of wider groups beyond governments and official donors.
7. A great deal is being learned from experience in applying the Declaration. While its principles are largely being validated (including the centrality of partner country ownership), its limits are also being revealed, and new dilemmas and tasks are being highlighted.
8. The emphasis in the Paris Declaration on measuring progress has been justified both by what it has done to strengthen the demand for evidence, and by the usefulness of the information being generated. Nevertheless, there is much to do to improve the systems for monitoring and evaluation.

These are followed by recommendations, which are summarised in Box I.2.

Box I.2. Recommendations

Partners to:

- reinforce national ownership of development strategies;
- enhance domestic accountability to citizens and parliaments, and engage more constructively on aid effectiveness with the private sector;
- adapt the Paris Declaration to different country and regional contexts;
- intensify leadership in strengthening country systems across the board.

Donors to:

- develop communication and public education strategies for strengthening political support for the Paris Declaration;
- decentralise more authority to country offices and embassies;
- move further towards using strengthened partner country systems;
- build the capabilities of donor agency staff to meet the changing challenges of aid management.

Partners and donors to:

- provide high-level political leadership to re-energise aid effectiveness reforms so as to achieve the 2010 targets;
- set up more inclusive and systematic forms of dialogue with all stakeholders, including development assistance providers outside the DAC and the major foundations;
- shift the incentives that shape behaviour within partner governments and donor agencies;
- press ahead with harmonisation, but in the context of aligning with country systems rather than separately;
- galvanise momentum behind implementing the two newer principles of the Paris Declaration (managing for development results, mutual accountability);
- make aid management coherent with government actions in such areas as trade, finance, migration and the environment;
- address the concerns relating to some aspects of monitoring progress with the Declaration.

Messages from the Progress Report

1. Good progress is being made in some important respects, but not in others. Insofar as the (sometimes partial) data allow us to judge, an acceleration will often be needed if the aims of the Paris Declaration are to be met by 2010.

Some good progress can be seen in meeting the Paris Declaration commitments, but it is uneven. In many areas a change of gear will be needed if the 2010 targets are to be met. As Part II of the Progress Report shows, a great deal of activity since 2005 has created approaches, frameworks and mechanisms for moving forward with the Paris agenda. There are many examples of good practice on the part both of partners and donors; and there are areas in which there is measurable progress in delivering on the commitments. There are others, however, in which inefficient prior patterns of doing business persist, show too few signs of change and appear to be entrenched. The challenge between now and 2010 is to make the new approaches work.

Conclusions on the extent of progress must be qualified by the fact that there are weaknesses in the available information: one possible ultimate answer to the question of whether the Paris Declaration's aims have been reached is that in some areas the information is just not available to allow judgements to be made.

While it is not possible in a few sentences to do justice to the diversity of achievement since 2005, there have been successes in priority issues identified by partner countries (described in greater detail in Part II). In respect of **aid untying**, real progress has been made in implementing the restricted scope of the Paris commitments, and it is encouraging that in May 2008, DAC members agreed to extend the coverage of the DAC untying recommendation to eight HIPC countries that are not LDCs. But partners express concern that progress has been slow in extending the scope to cover excluded areas (technical assistance and food aid) and other countries. In respect of donors improving the **predictability of aid flows**, there are positive examples, for instance among those providing budget support, and in the health sector; but the admittedly weak data suggest that there is limited measurable overall progress. **Conditionality** guidelines are being aligned with Paris Declaration commitments, and some (but not all) donors have made progress in implementing them. Many partners, however, consider that conditionality is being reshaped rather than reduced. In respect of **capacity development**, partners' rates of progress vary from considerable success with developing more capable individuals, institutions and systems, to little or no progress, or even weakening. Overall, very substantial efforts are being made to develop capacities, but they are fragmented, and partner-led co-ordination is often weak.

While the Paris Declaration will stand or fall according to whether it results in benefits to people, and especially poor people, in partner countries, at this mid-term stage a significant intermediate achievement is that it has created (or supports) an international dialogue that is more inclusive and often of a higher quality than what has gone before. It has shifted the debate about how to make aid effective in a way that has empowered those partner countries that have the capacity and will to take a stronger leadership role in working with donors (this is particularly important in aid-dependent countries, but less so in larger and middle-income countries like Brazil or Indonesia). It has created an authoritative set of aims and standards against which the practices of all donors, even those which did not originally endorse the Declaration, explicitly or implicitly are being assessed, as are the aid management practices of governments in partner countries. It has

helped partner countries to hold donors to higher standards of practice, and the onus is now on those donors and partners who wish to opt out of improved approaches to provide a justification in terms of how this contributes more to development. In doing so, it has empowered reformers within donor agencies. It has also created a set of commitments against which partners and donors can be called to account by parliaments, informed citizens and civil society organisations. The Declaration's influence is measured in part by the fact that some new players (both development assistance providers outside the DAC and foundations) use its substance as a guide for their own actions. That said, however, many new actors have yet to do so, and this will remain a challenge to full implementation of the Paris Declaration.

2. Progress varies by partner and by donor.

Progress, whether assessed in terms of re-engineering aid processes or in terms of results achieved, varies between and among partners and donors. A general finding is that a better balance needs to be struck in adapting the Declaration to different contexts, while strengthening its incentives for working together for common purposes.

Consultations with **partners** emphasise a widely held view that “one size does not fit all”. The Declaration's relevance is perhaps strongest in low-income countries that receive large amounts of aid, and combine significant capabilities with strong political leadership that determinedly pursues development objectives. For some other partner countries neither aid nor, by extension, the Paris Declaration are major determinants of development success. Survey results make it clear that different partners are making different rates of progress with applying the Declaration principles. The range is wide: some partner countries have strong ownership of the agenda, are pushing for donors to use country systems and see donor harmonisation as something to be undertaken on their own terms. In fact, a number of countries have put in place localised versions of the Paris Declaration as a way of tailoring it to their own context, and of bringing it more clearly into their development strategy and their preferred ways of engaging with donors. There are also good examples of building results-oriented management systems and strengthening domestic accountability. By contrast, in some situations of fragility, important features of the Declaration are of doubtful relevance; for instance, in extreme cases where basic state functions are weak to non-existent, the ownership principle barely applies in the short term. Within individual partner countries, there are also wide disparities between different groups in terms of their understanding of the Declaration and the incentives needed to put it into effect. For instance, often officials in ministries of finance or central aid units are empowered by the Declaration and supportive of it, while others in spending ministries or in local government may be less so.

Among **donors** also, the range is as wide. Some donors have the Paris Declaration “wired into their DNA”, and are internalising the new ways of working to the extent of revising staff incentives to accord with it. For others, the Declaration is less central. A general finding, though, is that those donors whose operations are more decentralised to their country offices or embassies tend to be more supportive of partner ownership and the use of country systems. Compared with bilateral donors, multilateral agencies have different accountability mechanisms and organisational procedures. They have structured forms of accountability to partners and member states, and different organisational procedures, relating for instance to procurement and the use of country financial systems.

There are large areas of consistency **between partners as a group and donors as a group**, with agreement on many of the actions needed to make the Paris Declaration effective. But at the risk of generalisation, there are also broad differences between them,

notably: some of the donors are perceived as placing growing emphasis on managing for results, and certain aspects of mutual accountability, as well as harmonisation, while partner countries tend to be more concerned with strengthening ownership and ensuring that country systems are used. Some partners see the Declaration as being donor-led and too prescriptive when applied to them, but not prescriptive enough when applied to donors. There are also different views on what is really limiting the use by donors of country systems; and there are differences between partners and donors in level of concern that the transitional and transaction costs involved in changing systems to live up to Paris Declaration commitments have increased and are not yet diminishing.

3. The ultimate rationale of the Declaration must always be borne in mind: it is a key instrument to bring about improved development outcomes; and it will only be fully effective in achieving these if it is made mutually complementary with measures in other policy areas, and if its wider (and changing) context is understood.

The Paris Declaration is a major international initiative that builds on activity and learning about how to make aid effective that began many years before 2005. In part it has systematised and taken forward good practice, and has responded to aid practices that clearly were not working optimally in most circumstances (too many projects often not included in a partner country's programme, with donors often in the driving seat, providing high conditionality and low predictability).

The Paris Declaration's rationale is that it is a key instrument for achieving internationally shared goals that are set out in the Millennium Declaration and in other agreements. However, because it is about aid effectiveness, and its details are about aid practices, it is easy to give too much weight to processes at the expense of bringing about real change to development outcomes, notably the quality of life of poor people. The emphasis on development results, if it becomes fully effective, should act as a corrective to any such tendency.

Among the longstanding truths that have been underlined is that partners and donors must keep a strong focus on all the factors, alongside aid, that determine success in achieving development aims. Aid must be managed in ways that are coherent with a wider range of government actions in such areas as trade, finance, migration and the environment.

In recent years, the context has continued to change, with new political configurations and development actors, changing and deepening of norms, new priorities for the international community and reforms to the aid system. New donors and sources of development financing are emerging, and established donors are playing new roles. The important question is not who did, or did not, endorse the Paris Declaration, but rather the extent to which all main actors share broad goals and underlying principles, and whether constructive dialogues are under way. Here, the findings of the progress report are mostly encouraging. Norms are also changing over time, as international agreements are increasingly providing shared frameworks (for instance, on human rights, women's empowerment and good governance). Discussions of the principle of ownership by partner countries are more and more being cast in terms of democratic ownership, emphasising that consultative processes need to become more inclusive. In addition, new priorities are emerging onto the international agenda, most strikingly climate change and most recently food prices, where the relevance of the Paris Declaration principles is being constantly tested according to whether they enable partners and donors to rise to the challenges.

4. Accelerated progress on the Paris Declaration requires political leadership, but the Declaration does not yet have enough political resonance.

The critical steps in moving forward with the Declaration require political momentum and champions at the highest levels, especially because the implications of the Paris Declaration can be difficult and can generate resistance. Applying its principles in reality calls for a shift of power, most notably from donors to partners, but also potentially within partner countries between different parts of government and (as concepts of democratic ownership widen) towards civil society. The single most important determinant of progress in moving forward with the commitments is vigilant and proactive leadership, in both partner and donor countries, driven from the political level and intent on achieving the Millennium Development Goals (MDGs) and other goals. There are some encouraging results: among both partner and donor countries there are fine examples showing that where the political understanding and support are strongest, so are the levels of commitment, capacity and incentives for implementation on all fronts. Conversely, where the Declaration remains the enclave of small circles of officials, working on what are treated as technical issues, the basis for overcoming the obstacles and resolving real political difficulties is much weaker.

However, the Paris Declaration is publicly a “hard sell”. The steps it entails are sometimes resisted, it has so far not succeeded sufficiently to resonate politically or to capture the public imagination, and levels of awareness and understanding are often low outside fairly narrow circles. Despite the potential for public support because of its importance for the MDGs and other development outcomes which enjoy popular endorsement in many countries, the implementation of the Declaration has (perhaps necessarily) been approached as a technical instrument to influence aid practice and process. And working as it does largely through forums and frameworks means that it comes across as being mainly about high-level processes, and only indirectly about doing things differently on the ground and changing people’s lives for the better. In this situation, it can be hard to widen the understanding that, if aid is to be effective, then unpopular and sometimes counter-intuitive actions must be taken; constituencies must sometimes be offended, and risks must be taken. In some countries, whether partner or donor, one way forward might be to embed the aid effectiveness debate in a wider agenda of how to manage public resources to maximum effect.

Strengthening the basis for enduring political support will be essential. Three mutually supportive conditions are needed to achieve this: results, leadership, and communications and public education. Faster movement from rhetoric to action by both partner governments and donors that leads to demonstrably more effective aid before 2010, underpinned by strong monitoring and reporting, would go a long way to creating constituencies of support. Concrete measures are needed to re-energise and sustain high-level political engagement in the implementation of aid effectiveness reforms, both in partner countries and in donor systems. And public education and professional communication, to reiterate both the important role of aid alongside other means of promoting development, and the specific contributions of the Paris Declaration, would do much to sustain the momentum.

5. If the Paris Declaration's aims are to be met, donor and partner patterns of behaviour must change; but this will only happen if the underlying incentives shift.

If the aims set out in the Declaration are to be met, the central task is to change the ways in which the main actors do business. Patterns of behaviour need to change; yet they have lasted so long and are difficult to shift because they are the result of deep-seated patterns of incentives. These affect political leaderships as well as managers and staff in partner governments and donor agencies.

If incentives are to change, a number of measures are in order, ranging from strengthening wider systems of accountability to parliaments and publics, to internal reward systems within ministries and development agencies. The first point to note is that the Paris Declaration and Accra processes themselves are a part of strengthening co-ordinated action by donors and partner countries to change incentives and behaviour. The broader process of strengthening incentives includes several key elements. Stronger mutual accountability is central, through country-level processes (such as more evidence and voice from civil society), and internationally (such as donor and partner-country peer reviews). Domestic accountability within both partner countries and donors is vital to mutual accountability and to achieving results. The case is evident in partner countries, whose actions (for instance in respect of capacity development, but in many other areas too) are much more influential than those of donors in determining outcomes. In donor countries, it is important to change internal incentives within their agencies, and to rise to the political challenge of getting aid effectiveness principles better accepted and built into domestic accountability systems.

6. Aid effectiveness requires the involvement of wider groups beyond governments and official donors.

The primary responsibility for many of the actions needed lies with central authorities of partner governments and bilateral and multilateral development agencies, but effective aid requires the active engagement of much wider groups: citizens, parliaments, local government officials, advocacy groups, private funders and service providers. Among the most important, especially in their role as agents of accountability, are citizens and civil society organisations in partner countries and donor countries. As such, CSOs have become progressively more involved in the HLF process and are actively involved in Accra. The community of those donors with an interest in applying aid effectiveness principles is also widening well beyond those that originally endorsed the Declaration. It now includes development assistance providers outside the DAC, including some former aid recipients that are becoming donors themselves, and large foundations. However, the private sector (other than as the source of funds for some of the foundations) has barely featured in the process.

7. A great deal is being learned from experience in applying the Declaration. While its principles are largely being validated (including the centrality of partner country ownership), its limits are also being revealed, and new dilemmas and tasks are being highlighted.

Old truths, new dilemmas. Experience in applying the Declaration since 2005 has both endorsed many of its underpinnings, and created new dilemmas. Overall, it reaffirms the case for the integrated, balanced and reciprocal character of the full package of Paris Declaration commitments; and it highlights the central role of country ownership in creating the conditions for other commitments to be met. But it has also shown the need to tailor the Paris Declaration to particular country circumstances without losing its

essential commonalities, and it has raised questions over the conditions in which some of the commitments are relevant, or less so. Experience has borne out that several provisions of the Declaration itself were correctly drafted to recognise that adaption to local realities would be needed, as would nuanced judgements as to when and how to apply the principles – and when not to (for instance in such difficult areas as situations of fragility and conflict, and the use of country systems and parallel project implementation units (PIUs)).

Strengthening capacities and trust in country systems. The emphasis in the Declaration on developing capacities as a core task is wholly validated, as there is abundant evidence that capacities widely limit progress, both among partners and also to some extent donors. One of the most important obstacles to implementing the Declaration is that capacities and systems in some partner countries are not strong enough to carry the full responsibilities for managing aid. In part, capacity development is an outcome of a technical process. There are many lessons of good practice for partners and donors to follow: tremendous progress has been made in some countries. But there has been much less, and even regression, in others, reflecting wider factors such as the level of education among the general population. However, ultimately if capacities are to be strengthened and sustained, the lead needs to be taken at a political level from within the partner country.

The Monitoring Surveys of both 2006 and 2008 have noted that the quality of many country systems, for example for procurement and public financial management, is not high and that their use by donors is low. A particular feature identified in 2006 (and apparently confirmed by provisional 2008 data) is that there is apparently only a weak correlation between the quality of partners' systems (at least as measured by the World Bank) and the use of those systems by donors. If confirmed, this suggests that there may be a continuing reluctance among many donors to use country systems, even when the countries believe they can demonstrate that those systems have been upgraded. This difficulty is being addressed by joint work on common standards, yet compounded by the fact that for systems other than audit there is no professionally determined international standard. Donors can help build capacity and trust by using country systems to the fullest extent feasible, while accepting and managing the risks involved and building in additional safeguards.

Broader sets of actors. The diverse landscape of development, especially with the development assistance providers outside the DAC and the growing role of the large foundations, is creating new possibilities for making aid effective by capitalising on their expertise and partnerships. However, it raises new challenges, at two levels. The first is the need to widen the community for mutual learning and co-operation on aid effectiveness, whilst recognising the need for a degree of flexibility and time for the dialogue to mature. This involves building on what has already been done following the Paris Declaration to create new forms of dialogue with all stakeholders, and looking now beyond 2010 to consider the basis for more inclusive forums. The second is to ensure that partner countries take the lead to ensure that all donors find mutually complementary ways of working on the basis of shared principles. It is heartening that there are already strong bases on which to work together; but there can also be difficulties, some created by the increasing reliance by donors on vertical funds and global programmes. While a great deal is in practice done to reconcile these with Paris Declaration principles at country level, there are differences in the underlying models which require careful reconciliation.

Transaction costs. Donors have also learned, in a finding confirmed by partners, that they face high transaction and transition costs in moving to new ways of working that apply the Paris Declaration principles, and common approaches that in the longer term should offer relief are not yet doing so. Some of these costs necessarily affect the ability of (and incentives for) managers and staff to apply the Declaration's provisions. Partners and donors can do more to apply Paris Declaration principles to bring about the potential efficiencies (for instance, rationalising the division of labour at country level between donors). Until such time as those gains are realised, senior managers at donor agencies need to ensure the necessary human and financial resources are available to deal with the high costs.

8. The emphasis in the Paris Declaration on measuring progress has been justified both by what it has done to strengthen the demand for evidence, and by the usefulness of the information being generated. Nevertheless, there is much to do to improve the systems for monitoring and evaluation.

A unique feature of the Paris Declaration is its emphasis on measuring progress, using a combination of monitoring indicators, evaluation and assessment mechanisms (based on both qualitative and quantitative measures), and drawing on sources among both donors and partner countries. The process has strengthened the demand for evidence and support for monitoring, as shown by the large increase in countries taking part in the surveys (and some countries are even using the surveys to drive domestic reforms). It has also brought about more rigour in defining terms and international standards in areas where these have often been (and in some cases still are) unclear.

This initiative has recently begun to generate a large amount of valuable information on progress, and on the practical lessons to be drawn. While there are concerns about some aspects relating to methodology, data and relevance, both the 2008 Evaluation Synthesis Report and the 2008 Monitoring Survey produce some highly pertinent material that advances our understanding of progress, and draw out the implications for actions to be taken by partners and donors separately and jointly. Looking to the future, there may be a need to refine and supplement some of the information that will be generated before 2010, with further work started now to strengthen the systems for the period thereafter.

What needs to be done, and by whom?

A range of measures will bring about the change of gear that is needed in many areas if the 2010 aspirations are to be met. The following suggestions, which are complemented by the Accra Action Agenda, and by recommendations set out in the 2008 Evaluation Synthesis Report and the 2008 Monitoring Survey, are kept to a strategic level.

Partners to:

- Continue with efforts to reinforce national ownership of development strategies, and in particular strengthen the linkages between broader statements of intent and the planning, budgeting and implementing systems that are needed to put them into effect.
- Enhance domestic accountability to citizens and parliaments, further deepening engagement with, and strengthening capacities of, wider groups outside of government that can contribute to strengthening aid effectiveness, including citizens, advocacy groups, funders and service providers; and engage more

constructively on the aid effectiveness agenda with the more strategic elements of the private sector.

- Adapt the Declaration to different country and regional contexts, while maintaining its incentives for the most important collaborative improvements; and build on the good existing examples of local variants on the Declaration.
- Intensify leadership in strengthening country systems across the board, creating the necessary incentive systems; and work with donors to develop internationally accepted standards for country systems, ensure that technical and financial resources that are made available for this purpose through aid programmes are used according to best practice, and work with donors to manage any risks involved in the use of country systems.

Donors to:

- Develop communications and public education strategies for strengthening political support, within parliaments but also more widely, for the often politically difficult measures needed to implement the Paris Declaration.
- Move further towards decentralising authority to country offices and embassies.
- Move, where feasible, towards using strengthened partner country systems, by conducting diagnostic reviews that provide reliable assessments, reviewing risk management systems, and implementing standards to ensure strong transparency and accountability; build incentives to ensure a closer match between the capability of a partner's system and its use by donors.
- Build and adapt the capabilities of the staff of donor agencies to meet the changing challenges of aid management; and make available sufficient human and financial resources so that managers and staff can meet the transitional and transaction costs involved in changing systems to live up to Paris Declaration commitments.

Partners and donors to:

- Provide the high-level political leadership, in both partner and donor countries, that is the most important single determinant of progress in making the new approaches work; take concrete measures to re-energise and sustain high-level political engagement in the implementation of aid effectiveness reforms (such as are set out in the Accra Action Agenda); replicate the encouraging examples which show that where the political understanding and support are strongest, so are the levels of commitment, capacity and incentives for implementing the Paris Declaration commitments; and take advantage of the variability of progress by different partners and donors, and apply the many examples of good practice available.
- Set up more inclusive and systematic forms of dialogue with all stakeholders, including development assistance providers outside the DAC and the major foundations, so as to widen the community of those working together to raise aid effectiveness; look now beyond the end of the Paris Declaration in 2010 to consider how to shape dialogue and learning processes around aid effectiveness and the Paris Declaration, so that these can translate into development results.

- Shift the incentives that shape behaviour within partner governments and donor agencies, with measures ranging from strengthening wider systems of accountability to parliaments and publics, to internal reward systems within ministries and donor agencies, and to ensuring that legislators in donor countries have a stronger understanding of aid effectiveness (so that, for instance, they recognise the need for lower visibility of individual donor projects).
- Press ahead with harmonisation and reducing the transaction costs for partner governments, but in the context of aligning with country systems rather than separately.
- Building on the conceptual and design work done since 2005 in respect of the two “newer” principles of the Paris Declaration (managing for development results and mutual accountability), galvanise the organisational momentum and human and financial resources needed to make them work by 2010.
- Manage aid so as to be coherent with government actions in such areas as trade, finance, migration and the environment that, alongside aid, influence success in achieving development aims.
- Address the concerns relating to some aspects of the mechanisms for monitoring progress with the Declaration, take steps after the Accra HLF to identify corrective actions, and begin to design stronger systems for the post-2010 period, including internalising them in country systems and building the necessary statistical capacities.

Part II: Findings

Chapter 1

Ownership – Leading National Development in Practice

There is evidence that national development strategies have been strengthened since 2005, and the principle of partner ownership has gained greater prominence and acceptance. However, this chapter emphasises that while ownership has increased, it often remains narrowly based within partner countries. There is a generalised weakness in making national strategies operational (in particular in linking the vision to budgets and to operational measures), and in strengthening results-orientation. While there are signs of progress towards fulfilling the Paris Declaration commitments on ownership, it is uneven among partners and donors. If current trends continue, the 2010 targets will not be fully achieved. Many partners and donors call for clearer definition and measurement of ownership, tailored to local conditions.

Ownership is rightly being seen at the heart of aid effectiveness

The Paris Declaration is based on the recognition that development will be successful and sustained, and aid fully effective, only where the partner country takes the lead in determining the goals and priorities of its own development, and sets the agenda for how they are to be achieved. As the Partner Country Contact Group preparing for the Accra HLF noted: “[t]he purpose of aid should be to contribute to effective development results. This requires giving top priority to **democratic country leadership, capacity development, and use of country systems**” (Partner Country Contact Group, 2008). Donors can be constructive in support; but if they lead, the prospects for effective aid are much reduced. Accordingly, *the Paris Declaration commits partner countries to exercise leadership in developing and implementing their national development strategies, and donors to respect and encourage this leadership, by helping to strengthen partners’ capacity to exercise it* (see PD § 14-15 for details). Partner country priorities for discussion at the Accra HLF (see Box 1.1) reflect the pre-eminent importance of the ownership principle, together with its inter-linkages with others.

Box 1.1. Partner country priorities

“Partner countries welcome the commitment by the 2008 DAC High-Level Meeting to accelerate progress in six priority areas. However, we suggest the following priority actions in ten areas:

- i. **Ownership:** Partner countries deepening and broadening democratic ownership, and donors aligning with partner national and sectoral strategies
- ii. **Capacity Development:** Partner countries designing national capacity development plans, on which donors should base all technical assistance, and conducting joint assessments of its outcome, sustainability and cost-effectiveness.
- iii. **Alignment to Country Systems:** Partners improving environmental and social assessment, public financial management, procurement, and evaluation, and donors using these systems and dropping other procedural conditions.
- iv. **Incentives:** Partners and donors improving incentives for aid effectiveness by establishing clear policies and ensuring that rules, procedures and work practices reinforce these – and donors decentralising much more to field level.
- v. **Predictability:** Partners establishing medium-term expenditure frameworks, donors maximising three- to five-year commitments, and joint monitoring of performance against the resulting disbursement targets.
- vi. **Policy Conditionality:** Partners defining their own outcome-based benchmarks, which should replace policy- and project-related conditionalities.
- vii. **Aid Allocation:** Donors tailoring aid programmes more clearly to country needs, especially for fragile states, and allowing partner countries to lead division of labour based on alignment to their sectoral and regional priorities.
- viii. **Untying and Value for Money:** Donors untying 100% of aid including food aid and technical assistance, and partners and donors assessing value for money, cost-effectiveness, speed, quality and sustainability of aid-financed spending.
- ix. **National/Global Mutual Accountability:** Ensuring all national mechanisms are led by partner countries’ development and aid policies; and regularly reviewing progress on scaling up, mutual accountability and effectiveness in a representative global forum which includes all key stakeholders.
- x. **Managing for Development Results:** Partner countries reinforcing their performance assessment frameworks and evaluation systems, and donors using these to assess aid’s contribution to national development results.”

Source: Partner Country Contact Group (2008), “Position Paper on Priority Areas of Concern”, 31 May, Part II.

Ownership is central because what the country does is more important in determining development outcomes than what donors do. Much of the aid effectiveness agenda therefore flows from ownership; with strong ownership, the prospects for progress against other Paris Declaration principles improve. If partners “own” priorities, plans and programmes, they are more likely to exercise effective leadership in getting donors to **align** to national objectives and strategies, and to use the country’s own systems for public financial management, procurement, statistics, and so on, and to help strengthen these systems. If donors align, the incentives for partners to strengthen their own systems will be reinforced. In this context, a shift of power in the aid relationship towards the partner country (while establishing mechanisms of mutual accountability) is necessary. That shift also highlights the importance of seeking a common base of goals, values and political commitment on which the aid partnership can be built. Not surprisingly, in some countries this can lead to difficulties and dilemmas. If, in turn, donors use country systems, then they are more likely to act in ways that are mutually consistent and complementary (*i.e.* to **harmonise**) though harmonisation can also happen in the absence of leadership by partners. Real leadership of the agenda by partners has the potential to create virtuous circles: if it induces donors to align behind country systems, then partners have more of an incentive to strengthen their own systems. Box 1.2 provides an example at sectoral level of national ownership supported by donors and civil society.

Box 1.2. Nepal: Support to the Safe Motherhood Programme

Over recent years, the Nepalese government has put much stronger emphasis on the National Safe Motherhood Plan (2002-17) within a broad sector-wide approach framework. It has also developed a Rights and Social Inclusion Policy and formed a Gender and Social Inclusion Unit, led by a high-level ministry official. But ownership is about more than just government. Donors are responding by providing assistance for human resource development, service strengthening, infrastructure, procurement, monitoring and research, and a national financial incentives scheme. Civil society’s voice has also been strengthened: an Equity and Access Programme focused on the poor and socially excluded is implemented by ActionAid and its local non-governmental organisation (NGO) partners.

Growing evidence is now suggesting that, as a result, women are becoming more informed, empowered and organised. Local government officials and health workers are increasingly accepting the legitimacy of the approaches used – particularly in the light of Nepal’s new more inclusive political context. Quantitative data show the extent of service exclusion, and qualitative voice data tell many of the stories behind the figures, and confirm the value of advocacy and accountability initiatives. Civil society has been instrumental in building synergies between rights holders, facilitating dialogues between rights holders and duty bearers, and providing information for policy reform and political advocacy.

Source Case study presented at workshop on “Strengthening the Development Results and Impacts of the Paris Declaration on Aid Effectiveness through Work on Gender Equality, Social Exclusion and Human Rights”, London, 12-13 March 2008.

There is progress on ownership, but a step change is needed if the 2010 targets are to be met

The Paris Declaration Evaluation found that in all of the eight partner countries surveyed, national development strategies had been strengthened since 2005; and more generally, the principle of partner ownership had gained greater prominence and acceptance. However, while ownership has grown, it often remains narrowly based (being

stronger in central government than regionally) and based in some sectors more than others; and civil society involvement tends to be stronger in cross-cutting and humanitarian areas. Importantly, there is a generalised weakness in making national development strategies operational: in particular in linking the vision to budgets and to sequenced and prioritised operational measures, and in strengthening results orientation. This broad conclusion is echoed by a 2007 workshop on ownership which found that ownership remains far from a reality in many developing countries (OECD, 2007a). Lack of local expertise in preparing strategies was a commonly cited reason for lack of ownership. But it is not difficult to find examples of effective practice, as, for instance, in the cases of Viet Nam and Indonesia (OECD, 2007a, p. 5).

The monitoring work, based on the World Bank's most recent assessment (World Bank, 2007), which covers many more partner countries (62) than does the 2008 Paris Declaration Evaluation, supports the conclusions that, while some progress is being made in terms of the quality of operational development strategies, this is too slow to reach the Paris Declaration targets.¹ Eight countries, or 13%, have a "largely developed" operational development strategy, up from 8% of the countries that were covered in the last major review, the 2005 Comprehensive Development Framework progress report. More encouragingly, the percentage of countries that have taken some action towards this goal, which was already 56% in 2005 has risen to 67% in 2007. Similarly, while the percentage of countries that have a largely developed results-oriented framework remains small (rising from 3 % in 2005 to 5% in 2007) more than half have taken action towards a results-oriented framework.

Among **donors**, the Paris Declaration Evaluation also found that some progress has been made, concluding that a majority of donors are now expecting partner country leadership and are responding to it: all of the 11 donors surveyed have since 2005 put in place measures to do so. These measures range from high-level statements, through training and guidelines, to new capacity-building initiatives and incentives, to strengthening their acknowledgement and respect for partner country ownership. However, the donors' own political and administrative systems were found to put limits on the extent of support for partner country leadership.

Emerging lessons for further strengthening ownership

Several lessons have emerged since 2005 that provide pointers to how to move further forward in the coming years.

First, despite the narrow focus of the indicator,² the Paris Declaration has prompted a progressively wider approach to thinking about ownership, one that recognises its inherently political nature. For a partner country to set the agenda, and for donors to put their weight behind it, is less and less seen as a technical matter of having prepared a strategy document. As the Paris Declaration Evaluation noted, "In both partner countries and donor administrations, engagement and leadership at the political level do most to determine how they act to strengthen country ownership in practice." However, the evaluation found that most donors have yet to prepare their publics, and adapt their legislation and regulations to allow for key Paris Declaration commitments. The wider approach to ownership also highlights that it is more than just about government-to-government aid agreements, even if locally led. Since 2005, a more democratic sense of ownership, and local ownership, has emerged, acknowledging the crucial role of parliaments, civil society and the wider public as important "owners" of development

strategies and policies. They are central to the processes and mechanisms of domestic accountability and strengthening the demand for reform, and as key players in aid relationships. As the DAC's guidance on capacity development notes, "transforming the general institutional rules is only promising if the political commitment is strong and coming from the highest level. Stronger effective demand from parliamentarians, the court system and citizens in general is a likely source of increased commitment, but one that may take some time to evolve" (OECD, 2006).

Second, lack of clarity in the definition and measurement of ownership itself is the subject of concern. The Paris Declaration Evaluation found that many partners and donors felt that the concept of ownership (and that of leadership) lacked clear definition and practical meaning; further, many of the country evaluations found the indicator to be inadequate,³ a concern echoed in the monitoring report.⁴ The indicator is certainly relevant to aid effectiveness, and has the merit of being monitorable; but it has limitations in how far it can capture the reality of country ownership and leadership, particularly given their inherently political nature. The prospect is therefore that under present arrangements it will not be possible in 2011 to arrive at a definitive view on how far the target has been achieved; further development of the approach to monitoring is needed along the lines proposed in the monitoring report.

Third, this more politically aware understanding of ownership highlights the dangers of assuming that institutions in the poorest countries operate in the same way as they do in OECD countries, and has led to new ways of analysing the issues. Greater efforts, using political economy perspectives, are underway to assess governance and to analyse what promotes or inhibits country ownership (OECD/DAC GOVNET, 2008); a 2008 conference concluded that "with regard to ownership, governance assessments can help clarify the extent of partner commitment."⁵ Increasingly, nationally generated governance assessments and peer-review mechanisms, notably the African Peer Review Mechanism, are being used as one partner-driven means of improving governance. It is too early to judge whether this work is making a significant difference to donor operations. However, preliminary findings suggest that it has allowed donors to gain more insights, including a more subtle understanding of country contexts and the dynamics of how governance change comes about and how donors can best support it (OECD/DAC GOVNET, 2008; Boesen, 2008).

Fourth, supporting a broadening of ownership is taking the governance agenda in new directions, most of which involve **intensified support for capacity development**, including capacity to exercise leadership (PD §15) and manage aid. Donors have over the years invested a great deal in accountability to their constituencies, and not enough in helping developing countries to strengthen local accountability, whether through parliaments, auditors-general, the media, civil society or local communities.⁶ This recognition has prompted new initiatives in several areas, of which three may be noted.

Strengthening civil society. The Paris Declaration itself gives little emphasis to this, and aid for civil society has lagged behind aid for supporting the executive, and some rebalancing of effort may be required.⁷ The greater current involvement of CSOs at Accra and in processes around the Paris Declaration, as compared with previous High-Level Forums, is evidence that this is under way.

Tax and revenue mobilisation. Several donors are now taking an interest in taxation because of its potential to strengthen state-citizen relationships and overall accountability in partner countries.⁸

Some donors support “participative and demand-driven approaches to government and political processes” at **sub-national levels** (see Box 1.3).

Box 1.3. Spain: Working with civil society organisations and sub-national governments

As noted by the DAC Peer Review of Spain, civil society and local governments are at the centre of the Spanish approach. Spain’s direct work with **civil society** mainly focuses on promoting participative and demand-driven approaches to government and political processes. The purpose is to promote a domestic political process that is capable of producing strong development policies based on inclusive ownership. A related feature of Spanish co-operation is its work with **government at the sub-national level**. The reach of even highly capable and committed central government is limited, and ownership of development by regional or local government can be an important enabling factor for success. The fact that Spanish autonomous communities and local administrations are strong development players gives Spain a comparative advantage in this area. The Peer Review’s case study of Spanish aid to El Salvador showed that Spain is widely seen by other donors, partner officials and civil society representatives there as a leader, for working at the sub-national level of government.

Source: OECD (2007), “Peer Review of Spain”, OECD/DAC, Paris.

Fifth, support for local ownership presents particular difficulties in **situations of fragility and conflict**. Here there is commonly lack of security and political stability, social unrest and divided societies. Some governments are not held accountable or act against their citizens, and some do not have the political support or capacity to provide effective national leadership. These issues require modifying, not dropping, the approach to national ownership. However, while these countries face additional challenges, there are some positive signs that steps towards ownership can be achieved in all circumstances. The 2007 World Bank review of national development strategies noted that, though no country in a situation of fragility has a largely developed operational strategy or results-oriented framework, a significant number have taken some steps in this direction (World Bank, 2007). Several of the countries in a situation of fragility have been pursuing a sequenced approach to identifying goals and making policy, and there is some evidence that this approach is helping them address the enormous challenges they face. Some of the most acute difficulties arise in supporting ownership where regimes do not act in the interest of development (discussed further under “donor harmonisation” below). In such cases, alternative donor strategies are required. Short-term service delivery priorities must be accompanied by longer-term state-building concerns, and alternative, multi-stakeholder mechanisms for supporting national ownership should be explored. In such cases, there are risks of overestimating the role and impact of aid: it is but one integral element of a package of international support required to address the challenges involved.

Finally, the deepening and broadening of ownership in partner countries sharpens the possible dilemmas for partners, especially those more reliant on aid, when they create **development strategies whose goals and priorities need to be both nationally owned and donor-endorsed**. Clearly, highly prescriptive approaches by donors are not consistent with local ownership, nor, as reviews of early experience with conditionality show, are they effective in leading to sustained development. On the other hand, national strategies that do not give substantial weight to internationally shared objectives are unlikely to provide an enduring basis for partnership between partner countries and donors. Encouragingly, while there are differences both between and among partners and donors, the area of goals and priorities that are widely shared has progressively expanded.

This is partly a result of internationally negotiated normative frameworks, as well as of policy dialogue at the national and international level (a process that has been lent momentum by the Paris Declaration). At the broadest level, the MDGs and other frameworks provide common ground among almost all governments, and large parts of civil society. Within this framework, there is growing convergence, though not consensus, around some priorities (notably human rights, gender equality and women's empowerment, and good governance) that are widely accepted as having intrinsic merit, and that can be promoted by (as well as contribute to) progress on the principles of the Paris Declaration. A recent review of the Declaration and human rights, gender and equity issues finds that while there has been progress at the policy level, the extent of implementation and monitoring of the commitments is less advanced and has not been given sustained attention by partner governments or donors (Social Development Direct and Oxford Policy Management, 2008). These are briefly discussed below.

Human rights. The two-way reinforcement between the international human rights framework and the Paris Declaration applies most obviously to ownership and mutual accountability" (OECD, 2007d). Regarding both, agreement on human rights values within national strategies is aided by the international human rights treaties and their implementation structures. The human rights framework can help, in particular by strengthening voice, accountability and ownership of development processes. The human rights principle of meaningful participation provides a basis for inclusive consultative processes that enhance the quality and depth of ownership, ensuring that national agreed priorities address the concerns of all groups in society and contributing to sustainable development outcomes. Human rights accountability processes include UN monitoring mechanisms, regional and national judicial processes, national human rights commissions and ombudspersons as well as parliamentary committees and social reporting and audit mechanisms. These processes often involve a broad range of stakeholders and can strengthen public support for national and sector policies. Creative use of political, legal and administrative mechanisms can strengthen accountability relations at all levels, generating clearer and more sustainable development results.

Gender equality and women's empowerment. The call in the Paris Declaration for attention to be paid to gender equality (PD §42) is showing itself to be a potentially powerful instrument for advancing the achievement of gender equality and women's empowerment, all the more so because the adoption of the Declaration coincided with the failure to achieve MDG3 (gender parity in primary and secondary school enrolment) by its target date of 2005. This has prompted a convergence of views as donors have made commitments to increasing investments in achieving MDG3 and in women's economic empowerment, reinforced by accumulating evidence and understanding on how gender inequality undermines aid effectiveness and development impacts.⁹ But there is also evidence that resources for and operationalisation of gender equality policy commitments have been inadequate, compared with requirements and promises.¹⁰ To help achieve genuine broad-based national ownership of the development agenda, there is also a need for donors to support partner government efforts to align their strategies with existing gender equality and women's empowerment commitments, such as the Convention on the Elimination of all forms of Discrimination against Women (CEDAW) and the Beijing Platform for Action, and to translate these strategies into budgeted and results-oriented operational programmes.

Governance. Governance is high on the agenda of partners and donors, although they do not always share the same perspectives on it. Pre-dating the ownership commitments of the Paris Declaration, but lent weight by it, governance considerations are central to

the prospects for nationally owned development strategies to be endorsed by donors. There are important initiatives, some partner-led (notably the African Peer Review Mechanism), some shared (a small number of joint governance assessments), and some donor-led (governance assessments as part of planning and programming cycles). The dimension of governance that is explicitly emphasised in the Paris Declaration is corruption (PD § 4). Aside from the damage that corruption may do to partners' development prospects, for donors it represents a source of high political risk, and influences their willingness to support country-owned strategies and use country systems. Since 2005, there has been a clear shift in thinking in terms of the need for collective, harmonised and aligned support in the fight against corruption (OECD, 2007d). Some limited progress has been made on the ground, including testing by donors in six partner countries the feasibility of "common response principles" to encourage more harmonised and consistent responses to corruption.

Conclusion

In summary, some progress is being made towards fulfilling the Paris Declaration commitments on ownership, but it is uneven among partners and donors and further acceleration is needed if the 2010 targets are to be achieved. The Paris Declaration has helped to shift norms towards the expectation that the initiative should lie with partners, and to some extent practice in some countries is following. However, the generalised change of behaviour that is needed is far from being realised.

Notes

1. The targets for Indicators 1 and 11 are that at least 75% of partner countries should have largely developed operational development strategies and 32% should have largely developed results-oriented frameworks.
2. The indicator is the number of countries with national development strategies that have clear strategic priorities linked to a medium-term expenditure framework and reflected in national budgets.
3. Indicator 1: Partners have operational development strategies with clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets.
4. See also OECD (2008).
5. Conference on “Governance Assessment and Aid Effectiveness”, OECD/DAC, London, 20-21 February 2008, www.oecd.org/dataoecd/4/4/40057688.pdf.
6. This case is made in OECD (2005).
7. The USD 250 million 2008 Governance and Transparency Fund established by DFID is a potentially important innovation in this direction.
8. The interested donors are France, Germany, Ireland, Netherlands, Norway, Spain, and United Kingdom. “Of the USD 7.1 billion spent in 2005 on bilateral aid for government administration, economic policy and public sector financial management, only 1.7% went on tax-related assistance” (OECD/DAC, 2007). The figures for 2004, 2003 and 2002 were 2.7%, 2.2% and 3.5% respectively. These data exclude substantial support from the international financial institutions, but nevertheless suggest that financing needs should be further complemented by work on the revenue side.
9. It has been estimated that persistent gender inequality and discrimination against women due to restrictions on access to employment and education alone cost between USD 58 billion and USD 77 billion every year in the Asia-Pacific region (ESCAP, 2007).
10. Multiple evaluations and assessments were conducted by agencies and governments since 2000 on progress with implementation of their gender equality policies and strategies.

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Chapter 2

Alignment Using National Development Strategies and Country Systems

For aid to be effective, partners must develop credible national development strategies, and donors must support and use strengthened country systems. The mutual commitments involved create a large agenda for partners and donors: major efforts are under way to deliver on it. While in very broad terms there are significant advances in many areas, this chapter stresses that acceleration will be needed to reach the 2010 targets. In particular, donors must step up efforts to support country systems and to use them recognising that using them can help to strengthen them.

Alignment creates a large agenda for partners and donors

Under the Declaration, a range of commitments support the use of partner countries' national development strategies and country systems. *Donors agree to align with partners' strategies, basing their support on them, and where possible, drawing conditions from the partner's own strategy, and to link their funding to a single framework of conditions derived from this strategy (PD § 16). Donors and partners commit to work together to use strengthened country systems (PD § 17-21), through such means as: jointly establishing common assessment frameworks; partners carrying out joint diagnostic reviews and undertaking reforms; and donors using country systems wherever possible and adopting harmonised performance assessment frameworks. Partner countries commit to strengthening development capacity with support from donors (PD § 22-24), and specifically in the areas of public financial management (PD § 25-27) and procurement (PD § 28-30). Donors also commit to continue to make progress in untied aid (PD § 31).*

As the previous chapter noted, partners developing credible national development strategies, and partners and donors supporting and using strengthened country systems, are key components of aid effectiveness. They are central to increasing partner countries' ownership over policy design and delivery. These systems include (but are not restricted to) public financial management, accounting, auditing, statistics, procurement, results frameworks and monitoring. Alignment is expected to contribute to development outcomes by supporting partners' strategies and implementation frameworks, specifically by: increasing the consistency of aid with the partner countries' priorities, systems and procedures; reducing the transaction costs for partner countries receiving aid; and improving partner countries' capacity to design, implement and account for its policies to its parliament and its citizens. Regional consultations highlighted the priority that many partners give to making progress with the alignment agenda.

The challenge is to create a virtuous circle: partners define priorities and strengthen their systems; as the systems become more credible, donors become more confident in using them, and can reasonably be pressed to do so; and as more resources flow through the systems, partners' incentives increase to improve them further. A partner country's sustainable capacity to develop, implement and account for its policies to its citizens and parliaments can be expected to be strengthened quasi-automatically when donors rely on, align with and use the partner country's own institutions and systems. Further, successful alignment will go a long way to achieving donor harmonisation.

Aligning with partners' strategies

Basing support on partners' strategies. The Paris Declaration Evaluation finds abundant evidence from partner and donor studies, that, as compared with 2005, at the broadest level donors are increasingly basing their activities on partners' national development strategies, medium-term expenditure plans, budgets, and sectoral and thematic strategies. This progress is noted in all the countries examined, although it varies according to the contexts and systems of individual countries and donor agencies. It is also clear that even in the most advanced situations, these different strategies are not always clearly linked, internally consistent or politically durable enough to channel aid flows to priority areas. Alignment at the relatively high level of policies and strategies is proving considerably easier than alignment at the operations and implementation level,

where the record is uneven in aligning aid allocations, using and building country systems, reducing parallel project implementation units (PIUs) and co-ordinating support to strengthen capacity (Wood *et al.*, 2008).

Alignment and conditionality. Appropriate forms of conditionality are key to achieving development goals and maintaining accountability to citizens in both partner and donor countries. New approaches to conditionality provide one area in which some progress towards aligning with partners' strategies can be detected, albeit one in which partner and donor perspectives are often still some way apart. In line with PD §16, the World Bank in 2005 adopted five conditionality principles: *Ownership*: reinforce country ownership; *harmonisation*: agree up front with the government and other financial partners on a co-ordinated accountability framework; *customisation*: customise the accountability framework and modalities of support to country circumstances; *criticality*: choose only actions critical for achieving results as conditions for disbursement; and *transparency and predictability*: conduct transparent progress reviews conducive to predictable and performance-based financial support (World Bank, 2007). The European Commission has also modified its approach to conditionality when linked to budget support, basing it on fixed and variable budget-support tranches (European Commission, 2005). Fixed tranches are based on a limited number of conditions; in respect of variable tranches, the intentions are to focus on results, protect the political space for partner governments to determine policy, streamline conditionality, promote domestic accountability and draw indicators from the national strategy. Broadly, these principles of conditionality represent internationally accepted good practice, and are consistent with the Paris Declaration. However, different donors have different emphases, as illustrated by the Box 2.1.

Box 2.1. Promoting country-led approaches and rethinking aid conditionally

DFID has developed a new approach to conditionality whereby agreed benchmarks for measuring progress on the reduction of poverty will be the basis for both sides to be accountable to their citizens, rather than policy conditions set by donors. According to DFID, an effective aid partnership should be based on a shared commitment to three objectives: reducing poverty and achieving the MDGs; respecting human rights and other international obligations; and strengthening financial management and accountability, and reducing the risks of funds being misused through weak administration or corruption.

Source: OECD/DAC (2006), DAC Peer Review of the United Kingdom, p. 69.

How far is good practice in conditionality followed? The picture is mixed, and different reviews come to different conclusions. The World Bank's recent review of its own performance was favourable,¹ confirmed by a review for Irish Aid which found that "contrary to common assumptions, the International Monetary Fund and World Bank have amended their conditionality practice in important ways, both streamlining their conditions and making fewer attempts to compel governments to do things they do not want to do; in contrast, some bilateral donors and the European Commission participating in budget support programmes appear to have moved backwards in their conditionality practices." However, an independent civil society review by contrast suggests that, at least as far as the greater use of outcome-based conditions is concerned, the World Bank and International Monetary Fund are lagging while EC's approach has promoted a

results-based approach, been a catalyst to increase government focus on poverty reduction, streamlined the number of conditions and contributed to improving the policy dialogue (Eurodad, 2008). The 2007 Strategic Partnership with Africa Budget Support Survey indicated an apparent reduction in the number of conditions attaching to aid, but cautioned that this might reflect a move by bilateral donors away from a reliance on “specific triggers” towards a greater reliance on “underlying conditions” (Strategic Partnership with Africa, 2008). At the same time as the data can be hard to interpret, the views of partners and donors on the extent of progress sometimes differ. A recent regional consultation stressed that: “Donors have not committed much in terms of reducing conditionality, and the emphasis seems to be shifting from a reduction in conditionality to a redesign of conditionality. Donors distort democracy building through over-imposing conditionality.”² In summary, partners and donors accept that conditionality has a legitimate role in aid relationships, but there is an ongoing debate about the form, extent and source of appropriate conditions.³

Capacity development

Under the Paris Declaration (PD §22-24), partner countries commit to *integrate specific capacity-strengthening objectives in national development strategies and pursue their implementation through country-led capacity development strategies where necessary. Donors commit to align their analytic and financial support with partners’ capacity development objectives and strategies, make effective use of existing capacities and harmonise support for capacity development accordingly.*⁴ *Closely linked to this, donors also commit (PD §21) to avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes.*⁵

Capacity development is agreed to be the responsibility of partner countries, with donors playing a supporting role. It is central to the aid effectiveness agenda. To be effective, it requires political leadership and actions that strengthen both the supply and demand sides for stronger capacity. Operationally, it seeks to strengthen the capacities of individuals, institutions and systems (which are crucial to fulfilment of all commitments set out in the Paris Declaration); and more broadly to achieving development objectives. The Paris Declaration focuses on improving the effectiveness of partner country systems as one aspect of capacity development. As noted above, capacities beyond the executive arms of government (including parliaments and civil society) are also important to aid effectiveness. A north-south workshop on capacity development in May 2008 in Bonn, Germany, identified for the first time a north-south consensus and a set of action priorities, importantly going beyond government to include also civil society and the private sector (see Box 2.2).

Box 2.2. The Bonn Workshop Consensus

We recognise that capacity development is critical for sustainable development and national ownership. It is primarily a developing country responsibility.

Capacity development is a fundamental change process requiring that:

- a) Developing countries commit to the capacity development of their human resources, systems and institutions at all levels, and
- b) External partners commit to strengthen their own capacity and adapt their approaches to deliver responsive support for capacity development.

Six areas of action:

- Developing countries agree to integrate capacity development as a core element of national, sector and thematic development efforts.
- Developing countries will take the lead in addressing key systemic issues that undermine capacity development, with support from external partners as required.
- To enable developing countries to exercise ownership of capacity development through technical co-operation, external partners agree to a) the joint selection and management of technical co-operation to support local priorities and b) expand the choice of technical co-operation providers to ensure access to sources of local and South-South expertise.
- Developing countries and external partners also jointly commit to enable the capacity development of civil society and the private sector to play their development roles more fully.
- In situations of fragility, notably in post conflict, external partners will provide tailored and co-ordinated capacity development support for core state functions earlier and for a longer period. Interim measures should be appropriately sequenced and lead to sustainable capacities and local institutions.
- Beyond Accra, developing countries and external partners jointly agree to a strengthened and consolidated international effort to expand capacity development knowledge and apply resulting good practice.

Note: The workshop conclusions may be seen at: www.oecd.org/dataoecd/44/25/40713038.pdf.

Over the years, partner country and donor recognition of the central importance of capacity development to aid effectiveness has led to major efforts:

The work on public financial management provides support at country level, including not only the Public Expenditure and Financial Accountability (PEFA) framework, but also Public Expenditure Reviews, and Country Financial and Accountability Assessments, among others.

A major initiative to support procurement capacity development, under way since 2003,⁶ has developed a common methodology for the assessment of procurement systems and specific capacity needs. An encouraging initiative has been the setting up of a Procurement Capacity Development Centre in Copenhagen.

For the strengthening of statistical capacity, the PARIS21 consortium is helping partner countries to design, implement and monitor National Strategies for the

Development of Statistics (NSDSs). Countries take advantage of a dedicated financing mechanism, the World Bank's Trust Fund for Statistical Capacity Building.

In the area of environmental analysis, various donors have developed and implemented training courses and methodologies that support capacity development for the implementation of the DAC Guidance on Strategic Environmental Assessments.

In support of these, a variety of initiatives are now underway. A JICA-co-ordinated partner country and donor joint study *Effective Technical Co-operation for Capacity Development* will provide empirical evidence on the factors that influence it. Preliminary conclusions note the strong need for country ownership and leadership in the capacity development area, particularly in relation to national and sector strategies and organisational change management.⁷ The Strategic Partnership with Africa is currently conducting a study on support for partner countries' aid management capacity. Initial findings from the 15 partner countries surveyed confirm that pervasive capacity problems hinder aid effectiveness.⁸ And 21 donors have joined together in Train4Dev, a training initiative to improve aid effectiveness.⁹

Results on co-ordinated capacity development. The Monitoring Survey and the Paris Declaration Evaluation have begun to generate some evidence on results with co-ordinated capacity development, but encountered definitional and methodological problems. The core question addressed by the Monitoring Survey was "Have relevant country authorities (government or non-government) communicated clear capacity development objectives as part of broader national or sector strategies?" The headline change in the score was an 11 percentage point improvement between 2005 and 2007, but due to problems with the data set, the forward movement may be smaller than indicated.

The country reports for the Paris Declaration Evaluation provided little information on co-ordinated support to strengthen capacity, but did identify a number of capacity-strengthening initiatives, many of them linked to countries' strategic priorities and to the Paris Declaration's key concerns with public financial management and procurement (para. 98). Consistent with the Monitoring Survey, the Paris Declaration Evaluation concluded that the lack of visibility and clarity around capacity development efforts suggests a need for more systematic ways of collecting and processing information on the integrated capacity development component of projects and programmes.

Results on parallel project implementation units. The Declaration commitments on reducing the number of parallel PIUs as part of strengthening capacity were based on long experience of circumstances in which "in all regions and types of projects, PIUs have often undermined long-term institutional development in countries' line ministries, sustainability, and ownership" (World Bank, 2005). However, both the Paris Declaration Evaluation and the 2008 Monitoring Report found difficulty in reporting on progress with reducing the number of parallel PIUs, due to the nature of what is being monitored and the difficulties of reporting accurately. A few reports for the Evaluation mentioned substantial reductions in parallel PIU numbers that were achieved or planned, but most reveal a very mixed picture (see Chapter 3). Moreover, in practice the Evaluation found considerable confusion and controversy over what actually constitute "parallel" types of implementation arrangements discouraged by the Paris Declaration. Similarly, the Monitoring Report puts little credence on the headline numbers.¹⁰ Overall the combination of the quantitative and qualitative reporting does not suggest that there has been comprehensive movement on this issue over the last two years. There are, however, countries in which the reported progress on PIUs seems real, reflecting major joint efforts

to mainstream donor-funded activities and wind up or merge parallel PIUs (OECD, 2008a, Section 3).

The Monitoring Survey also noted the complexity of factors affecting progress against this indicator (OECD, 2008a, Section 3), while the Evaluation synthesis called for flexible and discerning approaches to implementation. Principled differences of opinion on this subject interact with vested interests on both sides of the donor-government relationship (Kizilbash and Williamson, 2008). There is need for a continuing debate on ways that build effective means of implementation in different country and sector circumstances while avoiding parallel arrangements that undermine ownership and weaken capacity.

Public financial management (PFM)

Commitments. In recognition of the importance of using partner systems, PD § 21 commits donors to *use country PFM systems and procedures to the maximum extent possible*. Where the use of country systems is not feasible, donors commit to establishing additional safeguards and measures in ways that strengthen rather than undermine country systems and procedures. Likewise, under PD § 25, partner countries (with donor support) commit to: *intensify efforts to mobilise domestic resources, strengthen fiscal sustainability, and create an enabling environment for public and private investments; publish timely, transparent and reliable reporting on budget execution; and take leadership of the public financial management reform process*.¹¹

Actions taken. There has been a major focus since well before 2005 on PFM systems that are strengthened by partners and supported by donors; this has been given further momentum by the Paris Declaration (OECD, 2008b). Many partners have undertaken significant PFM reforms to strengthen budget execution, financial reporting, and auditing to improve the credibility and transparency of their budget process. Key elements of reforms in PFM include: a country-led strategy and co-ordinated donor support around that strategy; better prioritising and sequencing of reforms given the limited capacity in some countries to implement those reforms; PFM reforms encompassed within broader public sector reforms; a strong demand for reform; and broader consultations and stakeholder involvement.

Key inputs for designing effective reform strategies include assessing the quality of country PFM systems, identifying the main weaknesses and monitoring the impact of PFM. A number of diagnostic instruments have been developed to assess PFM systems and capacity. In order to reduce the resulting overlap and increased transaction costs, the PEFA PFM Performance Measurement Framework was launched in 2005 after two years of testing. This high-level analytic instrument provides a shared pool of information on PFM. It will facilitate dialogue on reform priorities among domestic and external stakeholders; inform donor and partner internal decisions related to PFM issues; and help rationalise the use, frequency and scope of other more specific diagnostics. The framework has been applied in an increasing number of countries and is being used by several donors. It has the potential to provide sound assessments of the quality of PFM systems for countries at all income levels¹² as long as the consistent quality and timely public disclosure of PEFA assessments can be guaranteed. As a result of these and other efforts,¹³ the quality of the PFM dialogue has been stepped up, as has the understanding of what is needed, and how it can best be achieved. This will help partner countries and donors to shift from diagnosis to implementation.

Progress. The main sources of evidence on progress here are the Paris Declaration Evaluation, the Monitoring Report and the 2008 Report on the Use of Country Systems produced by the OECD-DAC Joint Venture on PFM. The focus is shifting from the diagnosis of weaknesses in PFM systems to seeking to address them. The quality of a country's PFM system is measured through Indicator 2a which is derived from the World Bank's Country Policy and Institutional Assessment (CPIA). The 2008 Survey Report shows that progress has been achieved in strengthening PFM systems for 32% of the countries participating (by at least one measure in the CPIA scoring system). Partners have generally made more progress with the "upstream" tasks of improving budget procedures, but less with the more difficult areas of strengthening implementation. Despite progress, however, many countries have yet to significantly improve the quality of their PFM systems. The Evaluation synthesis found that many donors are willing to invest in partners' PFM systems, but may be held back by uneven progress in implementation.

The Evaluation suggests that the use of country systems is improving in a gradual and selective way. According to the 2008 Monitoring Survey, in some countries progress is substantial (*e.g.* Kenya, Moldova, Peru, Viet Nam and Zambia) and is validated by qualitative assessments. However, at the aggregate level, results show that the improvements are modest (the use of country systems increasing from 40 to 43% over the period 2005-07). Much, however, remains to be done by donors in making greater use of country systems.

The variability in the use of country systems for the same CPIA score (in terms of the quality of country systems) suggests there is mixed evidence that increasing the quality of PFM systems results in increased use by donors. This finding suggests that the apparent slow progress on the use of country systems is not entirely due to the slowness of improvement in country systems. Donors are continuing to make choices on other grounds too. This suggests that there are other levers which can be pulled to increase donors' responsiveness to improved country systems. The use by donors of partners' PFM systems is closely bound up with the realities and the perceptions in their risk assessments, and their willingness to accept governance and corruption-related risks for the sake of longer-term objectives of strengthening PFM. There is a need for more examination of the full set of factors underlying the varying willingness of donors to use country PFM systems, including guidance, capacity to bear risks, and different political and accountability environments as well as partner countries' own preferences.

The 2008 Survey indicates that in some countries the use of country systems continues to be restricted to those donors providing budget support (an aid modality that by definition uses partners' systems). In Rwanda, for instance, the use of PFM systems has increased from 39% to 42% and this is mainly on the basis of wider use of direct budget support. At the same time, the report on the Use of Country Systems in Public Financial Management shows that some progress has been made, with the proportion of non-budget support aid reported as using country systems increasing from 20% to 26%. This gain is largely due to increased reliance on country national financial reporting and auditing requirements. After the Accra HLF, there should be a discussion of how aid modalities other than budget support can effectively use and support the capacity development of country PFM systems.

In sum, this mid-term assessment suggests that real progress has been achieved in developing a commonly accepted framework to assess country PFM systems, but that progress in donor use of those systems is uneven, and too slow to meet the 2010 targets.

While donors show willingness to support country systems there is no assurance, for reasons of risk-aversion or other incentive problems, that this will result in a change of general practice.

Future priorities. The Joint Venture on PFM's report on the Use of Country Systems in Public Financial Management outlines a clear set of recommendations, notably:

- Partner countries should take an enhanced role in work on country PFM systems. It is each country's responsibility to take leadership of its development processes: assessing the PFM system, developing a credible strategy for PFM reform, linking it with the overall aid management strategy, and prioritising and implementing reforms. In addition, countries need to create an enabling environment for the use of their PFM systems by addressing such related areas as governance, corruption and procurement.
- Donors should better equip themselves to carry out their commitments related to using country PFM systems. Donors must support countries' efforts to strengthen their PFM systems by aligning their interventions with the countries' own strategies. Even more, they should adopt internal measures and incentives that will enhance their ability to fulfil their Paris Declaration commitments to use countries' PFM systems and decrease their use of parallel project implementation units. For example, they should make their default arrangement the use of country PFM systems when circumstances permit, requiring staff to explain any proposal to not use such systems; similarly, they should require staff to justify creating a parallel project implementation unit. They should provide better guidance and training to give staff an understanding of the benefits of using country systems, the appropriate use of country systems in various aid modalities and various country circumstances (including fragile situations), and the appropriate assessment and management of the risks of using country systems. Management needs to guide staff in balancing the risks and benefits of using country PFM systems, and support those staff taking decisions involving the use of country PFM systems.
- Partner countries and donors need to work together to operationalise this agenda at the country level. While the international community and donor headquarters have a role to play in this agenda, it is at the country level that the real progress must be made. This is where country and donor staff need to work together in partnership by forming country PFM teams, developing mutual trust, establishing realistic goals, choosing aid modalities that promote sound budgeting and an integrated approach, and showing that they are delivering on their commitments.
- The development community should develop a multi-year programme of PFM diagnostics and increase its reliance on the emerging lessons. With donor support, partner countries should develop a multi-year programme of PFM diagnostics, with the PEFA framework as its core assessment and monitoring tool. All parties should disclose diagnostic and monitoring information in an open and transparent way. The development community as a whole should encourage south-south learning mechanisms and the OECD-DAC Joint Venture on Public Financial Management should identify and disseminate lessons learned from work on country PFM systems.
- There is a need for better communication at all levels. Partner countries and donors should work internally and within their external accountability bodies to

strengthen the demand for implementation of the Paris Declaration. At the country level, in particular, they will need to collaborate in strengthening the role of supreme audit institutions, parliaments and public accounts committees, and civil society organisations. In addition, all parties should give greater attention to enhancing communications: within donor and partner organisations, among donors, between donors and partners, and with stakeholders. Providing partners with regular and timely information on donors' annual and multi-annual aid flows and activities appears to be a crucial task to underpin sound planning and budgeting. Partner governments can then be fully accountable to their parliaments and citizens on the use of domestic and external development resources.

There is no easy road to strengthening and using country PFM systems. As the report on the Use of Country Systems in Public Financial Management and the 2008 Survey show, there have been some notable successes in recent years, as partner countries and donors strive to achieve their Paris Declaration commitments; and many important elements have been put in place on which to build in the coming months and years. However, it is also clear that while many necessary elements are now in place to build on, substantially more remains to be done to meet the 2010 Paris targets.

Including aid in the budget

Including aid in the government's budget processes is supported by several partnership commitments. Partners commit to: *undertake reforms ... to ensure that national systems, institutions and procedures for managing aid and other development resources are effective, accountable and transparent (PD § 20); publish timely, transparent and reliable reporting on budget execution and take leadership of the public financial management reform process (PD§ 25); and strengthen the linkages between national development strategies and annual and multi-annual budget processes (PD § 44)*. Donors commit to: *provide reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion, and rely to the maximum extent possible on transparent partner government budget and accounting mechanisms (PD§ 26); make increased use of programme based approaches (PD § 32); and provide timely, transparent and comprehensive information on aid flows (PD § 49)*.

Including aid in the budget is central to achieving several of the Paris Declaration principles, especially in the more aid-dependent countries. From the partner's perspective, it will ensure that resources are used in line with policy priorities.¹⁴ Including aid in the budget has several possible dimensions.¹⁵ Using these definitions, it is particularly important that aid is on plan as well as on budget; there is additional value to putting it on treasury.

Different aid modalities have different implications for putting aid on budget. General budget support automatically leads to increased aid on budget since, by its nature, it uses the government treasury, accounting and reporting systems. For budget support to be included in the budget proposals submitted to the legislature, donors need to provide credible commitments in advance of the fiscal year. Non-budget-support aid can be disbursed in various ways, ranging from projects entirely managed by donors, which provide goods and services in kind, to "basket fund" arrangements (some of which are able to use regular government systems and differ from budget support only in being earmarked for particular uses). The 2008 report on the use of country systems for PFM

noted that facilitating the use of country PFM systems for non-budget-support modalities may require a greater unpacking of the specific benefits and the specific risks attached to the use of each component of a PFM system (OECD, 2008, p. 39).

Collection and interpretation of quantitative data on the extent of aid on budget is difficult.¹⁶ There are two main sources of information on progress. The 2008 Monitoring Survey, analysing the extent to which budgets accurately captured donor disbursement plans (Indicator 3), concluded that as compared with the 2006 survey, some countries are making progress, but many are not (OECD/DAC, 2008a, Section 3). But analysis in the SPA-CABRI study of data for 15 countries from the DAC Paris Declaration Survey is somewhat more positive: it found “undoubted progress, achieved and under way, in bringing aid on budget. But there is still a lot of scope to improve the alignment of external and domestic resources” (Mokoro Ltd., 2008, p. 61). It indicated that the proportion of non-budget-support aid for the government sector which was not on budget exceeded 30% in seven of them, and exceeded 50% in two of them, suggesting that considerable progress is still needed. The difficulties that hinder governments in capturing project aid on budget have been exacerbated in recent years by donor fragmentation and vertical funds,¹⁷ and by increased availability of grant-financed projects.¹⁸ However in some countries, notable efforts have been made to improve transparency of aid and to include it appropriately in the budget. For example, the Mozambique government, as part of its PFM reforms, is merging its bank accounts into a Single Treasury Account (STA), and the donor agencies belonging to the Programme Aid Partners group (which provide budget support) have agreed to disburse at least 60% of their development assistance to the government through the STA system by 2009. Significant reforms have also been made in Tanzania¹⁹ and Malawi.²⁰

Priorities for putting aid on budget are as follows.²¹ It is important to take a broad view of country systems, linked to the entire budget cycle (not just the budget document presented to the legislature); putting aid on budget is relevant to all aid modalities, not just budget support; the quality of information on aid flows is crucial; processes to put aid on budget need to reflect the partner government’s institutional framework, and also take account of incentives within different parts of the partner government and among donors; incremental progress in putting aid on budget is possible, but donors and partner governments need to be careful that safeguards and compromises which donors request do not undermine the potential benefits; there are close links between improving aid management and strengthening PFM more generally; and there is evidence that partner government leadership (in some cases at sector level, in others at central level) strengthens the prospects for successfully putting aid on budget. Further necessary work is under way to strengthen technical aspects of recording financial flows.²²

Improving the predictability of aid flows

The within-year and medium-term predictability of aid flows is important if partners are to successfully manage their public finances and undertake realistic planning. Aid-dependent countries are particularly vulnerable when funds are committed and scheduled, but not disbursed on time, or when there is insufficient information about donors’ intentions to disburse. In recognition of this, the Paris Declaration commits donors to *“provide reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules”* (PD § 26). Progress towards this goal is measured by Indicator 7, with a 2010 target of halving the proportion of aid not disbursed within the fiscal year for which it was scheduled. The

monitoring indicator is designed to assess both whether disbursements are on schedule, and whether partner governments are capturing them in their budgets (a combination that, as the 2006 and 2008 Monitoring Surveys note, makes interpretation difficult).

Actions to improve predictability. Donors have taken a number of actions to increase predictability, ranging from improving information flows with partners, moving in some cases towards a greater use of budget support (away from “investment lending” in World Bank terminology, where disbursement is more influenced by delays in implementing programmes, and fixed expenditure plans are hard to adhere to). The DAC 2008 Survey of Aid Allocation Policies showed that most DAC donors operate a multi-year programming framework, which is generally limited to their priority partner countries. These multi-year frameworks are not consistently shared with partner countries: “some donors include indications of future funding levels in signed co-operation agreements; others share the information on an informal, non-committal basis; yet others do not share the information or share it only with selected partners or in relation to budget support” (OECD, 2008c). One instance of developed practice is that of New Zealand, where the country report for the Paris Declaration Evaluation notes that funding for its Pacific and Global programmes are voted in multi-year appropriations.²³ And the European Commission (EC) is committed to develop new, more predictable and less volatile aid mechanisms, based on an MDG Contract as a longer-term form of budget support: ten African countries have been initially identified as candidate countries. As compared with bilateral agencies, multilateral agencies generally perform better on predictability, in good measure because they work with multi-year allocations for all partners, and are not subject to annual parliamentary appropriations.

The DAC has been monitoring aggregate donor performance on future ODA commitments since the Monterrey Consensus, and is taking this work further in order to improve information on medium-term commitments. The DAC 2008 Survey on Scaling Up expanded this work to collect information on donors’ aid allocation policies and future spending intentions by partner country.²⁴ While the Survey is useful to monitor delivery of the global promises, it also predicts future trends in aid flows for 153 individual countries up to 2010. It highlights that 102 countries can expect a real increase in their aid by 2010 and 51 countries can expect decreases in aid by 2010 (and nearly half of these countries will face a decrease in aid above USD 20 million). For the emerging countries, this is a continuation of the process of graduating from aid, but the decreases to some LDCs and countries in a situation of fragility deserve particular attention. Through the Survey, it will be possible to develop an indicator to measure medium-term predictability of aid on a yearly basis.²⁵

While the Paris Declaration commitments focus on donors, parallel actions to improve predictability, and potentially to strengthen mutual accountability, are also being taken at the country level. In particular, “In a number of settings, donor-led Consultative Group meetings are giving way to country-led forums [...]. In Ghana what once was a ‘periodic pledging session’ is now an annual partnership meeting for reviewing [...] external resource flows.”²⁶

Results. Despite these positive efforts, results from the Paris Declaration Evaluation and the Monitoring Survey (though both partial) are broadly in agreement that the increase in the predictability of bilateral aid has been slow. The Evaluation notes that partner and donor reports generally provide little evidence of progress towards greater predictability. Even among donors that generally perform strongly on Paris Declaration criteria, some acknowledge that in this area they do not do well. Most donors quote

seemingly intractable legal and financial obstacles as reasons why they are less able to anticipate aid flows firmly and deliver projected amounts; but predictability of disbursement is also affected by a range of implementation realities, including conditionality. Both the 2006 and 2008 Monitoring Surveys found a mixed picture: there are cases both of under-disbursement (funds not being disbursed on schedule), and of over-disbursement (the disbursement of unscheduled amounts), with little if any progress towards greater in-year predictability.

Positive overall results on predictability come from the group of donor countries that provide budget support (Strategic Partnership with Africa, 2008) to African countries. Based on results from 20 budget-support donors, and 14 partner countries in Africa, general budget support commitments (by these donors to these partners) amounted to USD 2.67 billion in a 2007 survey, of which USD 2.45 billion was disbursed in-year; 91.6% of 2006 (2006/07) commitments were disbursed in-year, compared with 84.7% of 2005 (2005/06) commitments, and the report noted an “... encouraging aggregate medium-term trend”. Disbursement rates of budget support from these bilateral agencies were generally high, while amongst multilateral agencies, the African Development Bank dramatically improved its disbursement rate, from 48% in the 2004 survey, to 100% in the 2007 survey whilst undergoing a dramatic increase in its total general budget support disbursements. The EC had disbursed 79% of its committed funds over the last four surveys on average; the undisbursed portion in most cases was in the variable tranche in line with the design of the EC’s general budget support programmes. Reasons given by donors for delays include “administrative problems on the donor side” (43% of donor responses) and “the government failed to meet fiduciary conditions” (down to 7% in the 2007 survey from 24% in the 2005 survey).

Priorities for the future. During the regional consultations preparing for HLF3, African partners noted: “Donors need to increase predictability of their aid through multiyear indicative frameworks.”²⁷ Many partners need to take actions to ensure that their planning and budgeting systems adequately capture the information available while, more broadly, partners and donors need to address the performance and implementation factors that delay disbursement. Despite the factors that make it difficult for many bilateral donors to increase the predictability of their aid, there are enough examples of improving practice (notably multi-year programming, budget support, and use of base commitments and variable tranching) to suggest that further gains can be made by 2010, and that it should be possible to see improvements in predictability at the aggregate level. However, what is needed is a change of gear, to up the pace.

Procurement

Under the Declaration (PD § 28-30) partners and donors jointly commit to: *use mutually agreed standards and processes to carry out diagnostics, develop sustainable reforms and monitor implementation; commit sufficient resources to support and sustain medium and long-term procurement reforms and capacity development; and share feedback at the country level. Partners commit to taking the leadership and implementing the reform process. Donors commit to progressively relying on country systems for procurement when the country has implemented mutually agreed standards and processes; and adopt harmonised approaches when national systems do not meet mutually agreed levels of performance or donors do not use them.*

Close engagement between partners and donors that predates the Paris Declaration²⁸ has led to a good understanding of what constitutes best practices associated with a high-quality procurement system,²⁹ although some differences of perspective remain. The biggest challenges in meeting these aspirations are: first, for partners to build the necessary capacities of country systems (with donor support), and for donors to make greater use of them; and, second, to build political support and accountability among both donors and partners so as to ensure that best-practice systems are not only implemented, but also endure.

From the start it has been understood that for partners to make progress with strengthening procurement systems, and for donors increasingly to make use of them, there needs to be a shared framework of understanding, together with forums for joint actions including agreement on diagnostic standards and processes for assessing partner country procurement systems. Accordingly, partner countries and donors have made considerable investment into a common benchmarking and assessment tool, the Methodology for Assessment of National Procurement Systems.³⁰ Starting in early 2007, the methodology has been applied in 22 volunteer partner countries on a pilot basis. The aim has been to learn from experience how to best apply and improve the approach, and for its application by partner countries to lead to prioritised action plans for procurement reforms. This work has improved the quality of the international dialogue around procurement issues, and created a basis for concerted action in the coming years. Most recently, this has been endorsed in Arusha, Tanzania, by the participating donor and partner countries and the multilateral organisations of the Joint Venture.³¹

Early in 2008, the World Bank launched a pilot on the use of country procurement systems. This will take place in an initial ten countries, ranging from low-income to middle-income countries across all regions, in which national procurement systems are of sufficient quality and capacity to achieve similar results in terms of economy and efficiency as can be achieved through application of World Bank's procedures. A thorough methodology has been set up to assess quality and compliance, to undertake pilots, to report on these and to build missing capacity. The proposed pilots and associated capacity-building activities will be carried out in close co-operation with other development partners, and in particular the other multilateral development banks.

Results. At the partner country level and among donors, evidence is trickling in on progress in strengthening country systems and in donors using them. Some Asian countries such as Viet Nam and Bangladesh have succeeded in developing their own procurement systems, assisted by the experience of implementing donor-funded projects, but there are still weaknesses in many partner countries (see Box 2.3). The Paris Declaration Evaluation has found that most donors are willing to invest in country systems, but that (as with PFM systems), current efforts are neither comprehensive nor systematic.

After reviewing the data, the Monitoring Survey concluded that there are good country examples of the gains that can be made from using country systems, but that overall progress is modest. This is consistent with the Paris Declaration Evaluation which concludes that, as far as donor willingness to use country procurement systems is concerned, there is gradual and selective improvement, but that some donors are reluctant or formally constrained from using them. On a practical level, both donors and partner countries stress that delays and complications in many countries' national systems are frequently a strong practical reason for the resort to donors' systems (Wood *et al.*, 2008,

pp. 15-16). (Where donors are unable or unwilling to use national systems, some have made progress in adopting harmonised approaches - see Box 2.4 for details.)

Box 2.3. Strengthening procurement in Ghana

The Government of Ghana has played a leading role in the OECD/DAC Joint Venture on Procurement in developing and using a tool to measure compliance and performance of the public procurement system in Ghana at the entity level. Ghana's Public Procurement Monitoring and Evaluation (PPME) tool allows for the qualitative and quantitative measurement of public procurement at the level of the procurement entity and is based on the assessment methodology of the Joint Venture on Procurement.

Ghana's Public Procurement Act was approved in December 2003, and a pilot self-assessment of the procurement system using the PPME tool was carried out in 2005 (covering 96 entities). This was followed by a more comprehensive assessment in 2006 including 213 entities. The objective of the 2006 assessment was to obtain a country-wide overview of public procurement in terms of performance and compliance with the provisions of the Public Procurement Act.

During 2007, a Joint Assessment by the World Bank and the Ghanaian Public Procurement Authority of the public procurement system was undertaken to validate Ghana's self-assessment PPME tool. Overall, the joint assessment concluded that the Ghanaian public procurement system is performing at an "above average" level. The 2007 assessment exercise involved validation workshops and a wide number and variety of national stakeholders including national and local procurement entities, oversight authorities (*e.g.* audit authorities, the anti-corruption agency), national ministries, procurement training institutions, civil society bodies, representatives of the private sector and development partners.

Box 2.4. Procurement where donors are not prepared to use country systems

The Nordic+ Procurement Group of bilateral members of the WP-EFF Joint Venture on Procurement (Norway, Sweden, Finland, the Netherlands, Denmark, Ireland, the UK, Germany and Canada) has agreed on a common approach to procurement if the members are not able to agree to use the partner country's procurement systems. The challenge remains to see evidence that all the member countries actually apply this common approach.

See "Implementing the Joint Procurement Policy and Promoting the use of Reliable Country Procurement Systems: A Guide for Programme Directors, Managers and Officers".

All sources providing evidence on progress with procurement, including the Monitoring Survey (OECD, 2008a), are in agreement that there is no close correlation between the quality of a country procurement system and its use by donors. As discussed above, donors have other considerations when deciding whether to use a country system than solely that of its quality.

Future priorities. In the years leading up to 2010, and beyond, the priority will be to implement country-level capacity-development strategies.³² This will build on country-level experiences and lessons learned in the areas of: measuring the performance of country procurement systems; engaging local stakeholders in planning and implementing assessments and in procurement reforms generally; and encouraging greater accountability for procurement reform to elected parliaments and other stakeholders. However, for the full potential of these measures to be realised, some underlying factors

will need to be addressed. First and most important is the need for political leadership among partners in sustaining the drive to strengthen country systems.

Second, there are important links to the ways in which donors organise themselves and the modalities they use. Two stand out: the Paris Declaration Evaluation suggested that donors that have made most progress with decentralising their own operations are more likely to make use of country systems; and as in the case of PFM, there is a close link between the use by donors of the budget support modality and the use of partners' procurement systems.

Third, the reasons for the persisting preference to use donor systems, even where progress is being made in strengthening partners' systems, need to be understood and addressed. They are partly, as the Paris Declaration Evaluation (para. 107) noted, the practical one of wishing to avoid the weaknesses and delays that are still sometimes associated with partners' systems. However, the donor peer review report (Joint Venture on Monitoring the Paris Declaration, 2008) confirms that some donors are constrained from using country systems by their own policies and restrictions. Other factors include: how much public understanding there is in donor countries of the case for using partners' systems; the nature of the donor's accountability relationships with parliament, auditors and other parts of government; bureaucratic imperatives such as the pressure to disburse funds; and variations in access to staff with the necessary skills. Bilateral and multilateral donors are subject to different pressures, but neither are free from a range of complications that slow down progress in using partner countries' procurement systems. This is a difficult area in which priorities and perceptions are sometimes not easy to reconcile. Donors tend to emphasise risks, while some partners feel "disappointment at the slow adoption of national systems by donors and, in particular, the weighty, transaction-cost approach that is prone to delay associated with the use of some donor procedures and processes."³³

Conclusion. Overall it is fair to conclude that the substantial amount of activity undertaken since 2005 has strengthened the basis for progress towards achieving the procurement goals of the Paris Declaration. There is a common understanding of the tasks, and substantial joint actions are under way to strengthen and to use country procurement systems. However, more needs to be done by committing to strategic investments to strengthen a partner country procurement system and thus foster its usage, in identifying lessons learned, studying capacity development strategies, and measuring their impact so as to favour the achievement of the 2010 targets. And as with other Paris Declaration commitments, close attention is needed to strengthen the incentives among both partners and donors that will accelerate progress.

Strengthening statistical systems

Using country systems includes the strengthening of statistical capacity, a priority recognised by donors and partners³⁴ as crucial not just broadly to good governance, but more specifically (as discussed below) to managing for development results and to partners' aid management systems. The statistical systems must be designed not only to generate better data and indicators, but also to ensure that these outputs are used to support evidence-based decision making. Partners and donors support National Strategies for the Development of Statistics (NSDSs), which are based on Paris Declaration principles. These were endorsed in the Marrakech Action Plan for Statistics at the 2004 Second International Roundtable on Managing for Development Results, and are guided

by the Partnership in Statistics for Development in the 21st Century (PARIS21).³⁵ NSDSs aim to integrate statistics into national development policy through inclusive, country-owned processes, with donors providing co-ordinated support. Partners and donors agree to monitor the implementation and outcomes of NSDSs within a framework of mutual accountability.

Since 2005, NSDS guidance has been shared with countries through a series of sub-regional workshops and the facilitation of direct technical assistance. Funding for NSDS design has been provided through channels such as the World Bank's Trust Fund for Statistical Capacity Building and the regional development banks. A new Statistics for Results Facility is being developed by PARIS21 partners to provide additional funding. As of February 2008, 35 of the 80 World Bank/International Development Association countries are currently implementing an NSDS, and another 40 are either designing a strategy or planning to do so in the near future.

Experience indicates that the NSDS approach can overcome haphazard and *ad hoc* donor approaches, reduce duplication and shift the focus from donor-driven activities to country-owned plans based on the priorities that partner countries identify. However, participants at the Hanoi Roundtable on Managing for Development Results in 2007 noted that (despite increased recognition of the importance of statistics) aid programmes and national budgets have still not sufficiently addressed weak national capacity to produce, analyse and use statistics.

A 2008 study of capacity development for statistics, completed as part of the evaluation of the Paris Declaration (though going back over 15 years of experience), draws many lessons (Oxford Policy Management, 2008). The study found that in most cases where Paris Declaration principles have been followed, support to statistics has improved. However, in comparison with other sectors, support to statistics has tended not to follow Paris Declaration principles. The main reasons are that official statistics are produced and used by a system composed of several different organisations and that often there are no effective strategies to co-ordinate this system. The multiplicity of users has meant that ownership is often weak, and “[t]he accountability of statistics agencies to their own governments and citizens is often very weak, a problem exacerbated by the fact that a majority of funding often originates from donors.” Unsurprisingly the review concluded that the best results were found where the partner government was strongly results-focused; it also found that “[i]t is increasingly common to deliver support through globally managed initiatives. Management at a global level makes these initiatives particularly difficult to administer in ways that meet the Paris Declaration principles, because they are neither owned by individual countries nor well aligned to their strategies, institutions or procedures.” By contrast, country-based programmes (and particularly country-held common funds in support of NSDSs) seemed more likely to meet the Paris Declaration principles.

The evaluation also reviewed statistical support to countries in situations of fragility: it found an often inhospitable environment for statistics, statistics often being a low priority for donors, and the need to focus initially on staff development and on not overloading fragile offices.

Starting in 2007, the emphasis has moved on from helping countries to design their NSDSs to helping with their implementation. This calls for a scaling-up of investment in statistics and an individual country-by-country approach. The way forward has been identified as a statistical system-wide approach, learning lessons from SWApS. Drawing on the evaluation, priorities include: strengthening results-based management at the

highest levels of government, a precondition for the necessary political momentum and accountability; building local accountability, and avoiding parallel accountability to donors; and preparing a strategy for statistics that is securely funded and realistic in terms of country capabilities, and which creates a framework within which donors can align and harmonise.

Strategic environmental assessments

The Paris Declaration calls upon development agencies and partner countries to develop common approaches to environmental assessment generally, and to strategic environmental assessment (SEA) specifically: *to deepen progress around harmonisation including on addressing implications of global environmental issues such as climate change, desertification and loss of biodiversity (PD § 40); to strengthen the application of environmental impact assessments, to deepen common procedures for projects and for SEA at the sector and national levels, and to continue to develop the needed policy and technical capacity (PD § 41).*

SEAs are important in order to make poverty reduction strategies and national sustainable development strategies effective in addressing both environment and development issues in an integrated and mutually reinforcing manner. SEAs are “analytical and participatory approaches that aim to integrate environmental considerations into policies, plans and programmes and evaluate the inter linkages with economic and social considerations” (OECD, 2006b). Hence, SEA is not a single, fixed and prescriptive approach, but rather a tool-kit of analytical and participatory instruments. It is largely principles-based and adaptive, focused on strengthening institutions and governance, and tailored to a specific context.

A milestone in strengthening country systems for SEA was the 2006 publication of the *Guidelines for Applying Strategic Environmental Assessment: Good Practice Guidance for Development Co-operation*, the first major SEA accomplishment in support of the Paris Declaration principles (OECD, 2006b). This guidance is aimed primarily at professionals working in development agencies and partner governments directly involved in policy, plan and programme development, assessment and implementation. The core of the guidance explains how SEA can be applied to country strategic planning and to aid delivery. It has now had significant influence and is being used by many countries and agencies around the world. The guidance is backed up by good-practice case studies, a monitoring mechanism, and a range of training and capacity-building initiatives for policy makers, administration officials and NGO representatives. It has been field-tested in a range of countries. A series of supplementary advisory notes will serve as bridging documents to show how SEA links to the key topical challenges of climate change, post-conflict situations, disaster risk reduction and ecosystem services. Progress in SEA is visible and ongoing: currently, SEA systems are in place in approximately 20 countries and jurisdictions, with others poised to take them up.

These processes are diverse and operate under different arrangements. Collectively, their scope of application encompasses policy, legislation, plans, programmes and other strategies across a range of different sectors. For instance, in Ghana and Tanzania, SEA has been used to support poverty reduction strategy processes, while China has introduced an environmental impact assessment law that incorporates provision for broader SEAs. However, few, if any, countries have so far established SEA systems that

are comprehensive in their coverage. Furthermore, not all of the systems apply to the highest levels, whether for policy making or legislation.

A linked initiative is that earlier in 2008 the World Bank decided to continue and extend a pilot on the use of country environment (and social) safeguard systems, using the country's own safeguard systems (covering laws, regulations and practices), whenever these are assessed equivalent to the Bank systems, in Bank-financed projects and programmes. This approach will facilitate harmonisation and leverage country capacity in a more sustainable way. Building environmental capacity in the country is key to the approach. This initiative is being scaled up from project to country level, which implies that all Bank projects in a given country can use country social and environmental assessment systems when the country systems are positively evaluated.

Conclusion: Where there has been progress, it highlights the value of applying SEA in the full realm of planning, policy and programme design in all development and governance sectors where the environment is a crucial element. But progress towards integrating implications of global environmental issues such as climate change, desertification and loss of biodiversity in the context of national development plans remains slow. Where progress lags, it underlines the need further to develop capacity and understanding of the approach and the tools, underpinned by strong political leadership.

Aid management

Aid management is crucial to achieving greater progress towards alignment, as well as other commitments. However, to date, few countries have well-articulated strategies for the management of aid (Mokoro Ltd., 2008). Rather, the responsibilities for aid within governments are often poorly defined, and the lines of communication with donors confused. In addition, countries often lack capacity to manage consultative processes and co-ordinate diverse interests of stakeholders in policy making and resource-allocation processes. They often lack the capacity to constructively participate in policy dialogue and monitoring (Mokoro Ltd., 2008). Continued donor funding of aid outside the budget, as well as the lack of timely, comprehensive information on aid flows, present additional challenges. (See the above discussions on capacity building, aid on budget, statistics, predictability and PFM for details.)

A number of recipient countries are taking steps to overcome these challenges. Cambodia's Strategic Framework for Development Co-operation and the Rwanda Aid Policy detail the roles and responsibilities of various government organisations when interacting with donors, as a way to streamline and make clear communication channels. In Afghanistan the government has adopted clear national policies and systems, as well as conditions for the acceptance of aid (Killick, 2008). Further examples are highlighted in a recent SPA study which finds that, in a number of countries, there has been considerable progress in strengthening effective aid management, and modest progress in extending capacity development to line ministries and local governments.³⁶ However, the study also pinpoints a number of hurdles, including overstretched aid management staff and weak economic management and planning.

International efforts are in place to build the capacity of aid management systems so that recipient countries can effectively negotiate, record, report, audit and monitor aid flows; co-ordinate and harmonise donor practices; and design and monitor results frameworks. For example, the UNDP is supporting the deployment of aid information management systems in over 50 countries to help record and process information about

development initiatives and related aid flows. They hosted a discussion of Aid Information Management Systems in 2007, which provided lessons about their role and sustainability (see Box 2.5). Some of the aid management tools have been updated to monitor and provide information on progress towards the Paris Declaration targets – an exercise that helps eliminate reliance on occasional surveys for key information on aid effectiveness.

Box 2.5. Aid Information Management Systems (AIMS)

AIMS are financial tracking tools that cover external aid flows including commitments and disbursements. AIMS should address government planning as well as donor co-ordination. However, the relevance of the tool depends on the regular update of data in the AIMS and there are often challenges to obtaining timely and complete information from donors on their assistance. Linking an AIMS with other financial management systems and integrating it into the broader aid co-ordination and management architecture is critical, but often difficult.

AIMS are used in many countries, with off-the-shelf systems like the Development Assistance Database (DAD) and Aid Management Platform (AMP) more widely used than home-grown systems. These off-the-shelf AIMS are in most cases customised to individual country needs. The majority of existing AIMS are located either in the Ministry of Finance or the Ministry of Planning.

While AIMS can have positive and catalytic effects for donor-government dialogue and for individual business processes such as reporting, it is unrealistic to assume that a whole aid co-ordination and management architecture could be built from scratch around AIMS. An AIMS should not be viewed as an end itself, but a tool embedded within the aid co-ordination and partnership framework between donors and governments

Success with AIMS depends on:

- **Governments providing** leadership; applicable policies for information disclosure and exchange; complete and verified development data; classification systems that are in line with accepted standards; and adequate staffing; and
- **Donors providing** complete, reliable and comprehensive project data, including full disclosure of financial assistance; mid-term projections of assistance delivery including disbursement schedules; validated data across reporting sources; and resources and training for setting up an AIMS.

For more information see www.devaid.org and www.aideffectiveness.org/index.php/AIMS.

However, as was made clear at the Pacific regional consultation in preparation for Accra (Pacific Islands Forum Secretariat, 2008), improving aid management is a complex challenge. “More effective aid management requires a number of changes both within partner government institutional arrangements for planning and budgeting as well as in their relationships with a wide range of development partners and regional organisations, each with differing processes and procedures. Given this, it is vital that ... governments set a roadmap that allows sequential change and improvement to processes and that this roadmap is well understood by all parts of the Government as well as partner agencies.”

Aid untying

Building on the 2001 DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries (under which members pledged to untie all

aid to LDCs other than food aid and technical co-operation), donors committed under the Paris Declaration *to continue progress towards untying aid* (PD § 31).³⁷ The tying status of aid has long been considered a key test of donors' commitment to coherent policies and effective aid delivery. Aid untying continues to figure prominently on the international development agenda, and most recently at the June 2007 Heiligendamm G8 Summit which noted, "the need to continue enhancing efforts to untie pursuant to the 2001 ... Recommendation." Partner countries have consistently identified the practice of tying as one of the principal practices that undermine aid effectiveness; it is one of the six issues on which partners at the WP-EFF meeting in November 2007 will call for progress at Accra, and it was highlighted in May 2008 as a priority by the Partner Country Contact Group (see Box 2.2).

Significant progress has been made. The 2008 Monitoring Survey finds that "untying seems to be characterised by quite a consistent upward trend." The proportion of financial aid from DAC members that is recorded as untied has increased appreciably (from 42.5% in 2002 to 53.0% in 2006) and the proportion reported as tied has fallen (from 7.3% to 3%).³⁸ However, the tying status of a large share of financial aid is not reported, amounting to 50.2% in 2002 and a still-high 43.9% in 2006, making it impossible to say if the proportion of untied financial aid has really increased (OECD, 2008e). The paucity of data is unfortunate as substantial progress has been made in several areas, revealing a willingness of many donors to proceed in practical terms. First, almost all the aid that should be untied according to the Recommendation has been fully untied. Moreover, many donors have untied their aid more broadly than the limited geography and activity coverage of the Recommendation: a number of donors have untied their bilateral aid programmes either fully³⁹ or almost fully.⁴⁰ In addition, the European Community has adopted two regulations on access to EC external assistance, which untie all aid to the LDCs (including technical co-operation and food), while EC budgetised aid will be open to other donors, although only on the basis of reciprocity. The US Millennium Challenge Corporation also provides its aid untied, and Canada has recently announced that all its food aid is now untied. Second, the DAC has built on the 2001 Recommendation by abolishing the threshold above which aid would be untied. Third, since the entry into force of the Recommendation, both the volume of ODA to the LDCs and the LDCs' share in total bilateral ODA has increased, while there has been no shift into activities not covered by the Recommendation.⁴¹ Fourth, effort-sharing amongst Members has improved markedly. And most recently, at the May 2008 DAC High-Level Meeting, Members agreed to extend the coverage of the 2001 DAC Recommendation on aid untying to those eight HIPC countries that are not already covered by way of LDC status.⁴² They have also called upon development assistance providers outside the DAC to untie their aid in parallel and to promote respect for international principles of corporate social and environmental responsibility. And they agreed to work together to promote local and regional procurement. However, transparency provisions (a key test of the Recommendation) are not being comprehensively implemented and adherence needs to be strengthened, both for *ex ante* notifications but especially for *ex post* reporting on contract awards.

In sum, substantial progress has been made towards fulfilling and in some cases going beyond, the terms of the recommendation, and some progress has been made in expanding its coverage. Partners are, however, urging further measures to progress towards the untying of aid (Partner Country Contact Group, 2008).

Notes

1. European Commission (2005): "... this report confirms that Bank support remains broadly consistent with good practice principles on conditionality. In particular, the paper gives broad evidence for government ownership of Bank-supported programs, including where they support sensitive reforms"
2. "Consultations on the High-Level Forum on Aid Effectiveness", Bangkok, 21-22 April 2008, para. 40.
3. See Box 2.1 and its source document for partners' emphasis on conditionality.
4. These commitments link to Indicator 4: Strengthen capacity by co-ordinated support, measured by the percent of donor capacity development support that is provided through co-ordinated programmes consistent with partners' national development strategies.
5. This links to Indicator 6: Strengthen capacity by avoiding parallel implementation structures, measured by the number of PIUs per country.
6. Under the aegis of the Joint Venture on Procurement of the Working Party on Aid Effectiveness.
7. Preliminary findings are available at www.jica.go.jp/cdstudy/.
8. An update of this work and new analyses were presented at the SPA Annual Plenary Meeting, 18-22 February 2008 in Tunis.
9. See www.train4dev.net/
10. For the record, the report notes that headline numbers indicate a reduction in total parallel PIUs across all countries participating in both the 2006 and 2008 surveys from 1 832 to 1 329. However, the figures for both years are problematic, and the later total is affected by missing information and is the result of corrections in both directions.
11. Target 2(a) specifies that half of partner countries move up at least one measure (*i.e.* 0.5 points) on the PFM/ CPIA (Country Policy and Institutional Assessment) scale of performance.
12. See Chapter V, "Measuring the Performance of Country PFM Systems" in OECD (2008).
13. For example, OECD (2006a), which includes a chapter highlighting some of the good practices in supporting PFM capacity development.
14. The most useful study of the issues has been Mokoro Ltd. (2008). This study covers ten African countries, and was conducted during 2007-08 for the Strategic Partnership with Africa (SPA) and Collaborative African Budget Reform Initiative (CABRI). See www.africa-sbo.org/

15. The “dimensions” of including aid in the government’s budget:

Term	Definition
On plan	Integrated into strategic planning.
On budget	In the budget documentation.
On parliament (or “through budget”)	Approved by the legislature.
On treasury	Mixed with government funds and managed through regular government systems.
On accounting	Included in government’s accounts.
On audit	Audited by government’s system.
On report	Included in government’s <i>ex post</i> reports (e.g. sector reviews).

16. One reason for this, highlighted by the 2006 and 2008 Monitoring Surveys and the SPA-CABRI country case studies, was the variation between countries in terms of the definitions used and of the government requirements for how aid of different modalities should be included on budget. A second reason is that there are several dimensions of “aid on budget” which people often confuse.
17. Some observers suggest this factor may affect some sectors (e.g. health and education) more than others (e.g. infrastructure).
18. The difficulties in this case arise because governments need to keep track of loan liabilities.
19. For aid disbursements to projects and baskets, comparing 2004/05 with 1999/2000, the value captured in the Budget Estimates quadrupled, disbursements captured in the Exchequer as a share of Budget Estimates doubled (to 74%), and Budget Estimates as a percentage of disbursements in the Ministry of Finance Aid Flows Database rose from 67% to 87%. See Tanzania Assistance Strategy Annual Implementation Report FY 2002/03 -2004/05, Table 6, at www.mof.go.tz/index.php?option=com_content&task=view&id=28&Itemid=42.
20. In December 2005, Malawi established a new system to track donor funds. Starting in 2006/07, budget documentation presents separately “Aid on budget” and “Extra-budgetary aid”. Together these constitute total aid. “Aid on budget” is meant to include only aid which is managed by government and channelled through the government account. “Extra-budgetary aid” is meant to include all other aid, whether for the government sector or not, and including aid through NGOs. See also the Annual Debt and Aid Reports for 2005/06 and 2006/07 at www.finance.gov.mw.
21. These are elaborated in Mokoro Ltd. (2008) and the linked Good Practice note.
22. The activities of the Joint Venture on PFM enable progress in this area by supporting the establishment of accounting standards for disclosure requirements of external assistance and by working with other organisations to set out good practice in recording aid flows in national budgets. The Joint Venture has worked with the IPSAS Board to elaborate an International Public Sector Accounting Standard (IPSAS) and Disclosure Requirements for Recipients of External Assistance.
23. New Zealand Country Report, quoted in Wood *et al.* (2008).
24. The *DAC 2008 Survey on Scaling Up* (OECD, 2008c) is a complementary tool to the *Paris Declaration Monitoring Survey* which only focuses on in-year predictability.

The Survey provides a key stimulus to improving medium-term predictability of aid. Data on trends in aid flows at country level are most useful for reviewing global aid allocation decisions by the donors, but, can also serve as an input to in-country processes, such as Consultative Groups and Roundtables.

25. “Scaling Up”. The new indicator has two elements: an *ex ante* element which is “the estimated share of CPA (country programmable aid) for which donors provided forward estimates”, and an *ex post* element which is “the ratio of delivered CPA/announced CPA”. The predictability indicator will be presented in Accra.
26. http://siteresources.worldbank.org/INTPRS1/Resources/383606-1170086079630/ScalingUp_Newsletter_02.pdf.
27. “Preparing for the Third High-Level Forum on Aid Effectiveness: Kigali Consultations Workshop—A Synthesis Note”. May 2008.
28. Primarily through the World Bank/DAC Roundtable on Strengthening Procurement Capacity under which partners and donors have agreed on joint programmes.
29. Set out *inter alia* in OECD (2005).
30. The methodology determines the quality and the performance of public procurement systems. At the heart of this approach, a partner government undertakes a self-assessment of its own system, which is validated through a process involving a range of stakeholders including donors, local civil society (including the media), the private sector and parliamentarians. A consensus on this methodology, however, has not yet been reached.
31. See Arusha Statement of the OECD/DAC Joint Venture on Procurement, May 2008.
32. This work will be informed by the compendium of experiences to date in the application of the methodology that is being drafted. This is expected in due course to evolve to be a guide of good practice.
33. E-mail from the Ministry of Economy and Finance, Government of Rwanda, to S. Baile, OECD, 24 June 2008.
34. Including in recent partner consultations, see “Preparing for the Third High-Level Forum on Aid Effectiveness: Kigali Consultations Workshop – A Synthesis Note”, May 2008, p. 3.
35. PARIS21 is a global partnership of national and international statisticians, development professionals, policy makers, analysts and other users of statistics with the goal “to develop a culture of evidence-based policy making and implementation which serves to improve governance and government effectiveness in reducing poverty and achieving the MDGs”. PARIS21’s work is facilitated by a Secretariat which is hosted by the OECD in Paris. For more information, consult www.paris21.org.
36. SPA, Fact Sheet Number 5 “What Needs to Be Done to Strengthen Capacity to Manage Aid at Country Level?”
37. The DAC monitors annually progress towards the implementation of the 2001 Recommendation. See OECD (2008d). In addition, a thematic evaluation of aid untying is currently under way.
38. Data are provided in the 2008 review of the 2001 Recommendation (*ibid*).

39. For example, Australia, Ireland, Luxembourg, Netherlands, Norway, Sweden, and the United Kingdom.
40. For example, Belgium, Denmark, France, Germany, Japan, and Switzerland.
41. This finding indicates that the fear was misplaced that untying aid might cause aid to be diverted into areas not covered by the Recommendation.
42. Bolivia, Cameroon, Cote d'Ivoire, Ghana, Guyana, Honduras, Nicaragua, Republic of Congo.

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Chapter 3

Harmonisation – Rationalising Aid Delivery

This chapter underlines that aid can be more effective when donors adopt common procedures to harmonise aid delivery, including using common approaches, reducing fragmentation and rationalising the division of labour. There is evidence of a modest increase in the use of programme-based approaches, although further effort will be needed. It should be noted here that the goal of the Paris Declaration is not to remove all funding for projects, but rather to use the optimal combination of instruments for each country situation. To share analysis, donors have started working together at reducing the number of separate, duplicative, missions to the field and diagnostic reviews. Difficult though it is, many donors are also increasingly seeking a better division of labour with others and have launched – with partner country consultation – a number of activities to bring it about.

Introduction

If donors were able to align aid flows completely with partner countries' policies and systems, harmonisation would be less of an issue.¹ However, given the difficulty of achieving full alignment, aid effectiveness can be enhanced when donors harmonise their actions and adopt – where possible – simple and transparent common procedures. To this end, the Paris Declaration calls upon donors to be more harmonised, transparent and collectively effective in their actions. Commitments under the Paris Declaration (PD § 32-42) include: *donors implementing common arrangements and simplifying their procedures; partners and donors strengthening complementarities and bringing about a more effective division of labour (through for instance partners providing clear views of donors' comparative advantages, and donors delegating authority to lead donors); donors and partners jointly reforming procedures and strengthening incentives to promote harmonisation, alignment and results; jointly adapting the principles of effective aid to situations of fragility and conflict; and jointly promoting a harmonised approach to environmental assessments, as well as to cross-cutting issues such as gender equality.*

In part as a response to this and the Rome Declaration on Harmonisation (2003), a number of donors and partner governments are involved in activities intended to harmonise aid delivery, including efforts to make more use of common approaches, reduce fragmentation and rationalise the division of labour.² However, changing aid systems requires time, resources, a willingness to compromise and strong political will. Donors must overcome a number of incentive issues, some deep-seated, that do not favour harmonised approaches. Furthermore, there are some areas that remain contentious; concern remains that harmonised approaches, inadvertently or otherwise, could undermine national ownership.

Progress towards implementing common arrangements and simplifying procedures³

Using common arrangements

Donors have committed to “*implement, where feasible, common arrangements at country level for planning, funding (e.g. joint financial arrangements), disbursement, monitoring, evaluating and reporting to government on donor activities and aid flows*” (PD § 32). Progress towards this commitment is proxied by the use of programme-based approaches: the goal is for 66% of aid flows to be provided in this form by 2010 (Indicator 9).

The 2008 Monitoring Survey finds a slight increase in the use of programme-based approaches (PBAs); the weighted average proportion of ODA through PBAs, for those countries participating in both survey years, was around 43% in 2005 compared to 46% in 2007.⁴ However, the Survey suggests that progress is likely greater than the indicator implies. One reason for this is that closer attention to the guidance on what constitutes a PBA has probably eliminated some of the over-reporting that took place in the baseline survey. As such, what at first appears to be a reduction in the use of PBAs in some countries may in fact reflect a move towards more realistic reporting.

The DAC Peer Reviews find that “While most donors tend to favour a mix of aid modalities depending on local contexts, the majority are trying to increase the share of programme-based approaches. Donors increasingly develop joint approaches, engage in pooled funding mechanisms and give budget support, relying frequently on common assessment frameworks” (OECD, 2008c). Similarly, the Paris Declaration Evaluation reports that donors are making use of a variety of aid modalities in order to increase support for common arrangements or procedures, including budget support, SWApS and harmonised basket funding. However, while the use of these arrangements is slowly growing in some countries, support for this commitment remains mixed as donors face continuing challenges in agreeing and moving forward on these arrangements. Partner countries participating in the evaluations also note that, even among the five countries with pre-Paris experience and relatively strong capacity, donor use of project modalities and parallel financing remains prevalent.⁵

Further effort will be needed to increase the use of PBAs. However, the goal of Paris is not to remove all funding for projects, but rather to use the optimal combination of instruments for each country situation.

Box 3.1. Common approaches: Joint Assistance Strategy in Tanzania

The Joint Assistance Strategy for Tanzania (JAST), along with the subsequent JAST Action Plan and Monitoring Framework, provides clear guidelines – agreed to by both partner and donors through the signing of a Memorandum of Understanding – on ways to increase harmonisation. In particular, the JAST asks donors to: fully align with national strategies; respect mission-free periods; support government efforts to develop sustained domestic capacity; rationalise the number of sectors or cross-cutting areas that they engage in; limit the number of active donors in each sector; appoint a lead partner for each sector; adhere to criteria of good practice when using basket funds and direct project funds; and harmonise their activities, funding decisions, requirements, analytic work, meetings, missions and reviews. Division of labour selection criteria are also laid out.

In a related exercise, the Development Partner Group on Gender Equality has developed guidance on how best to address gender issues at sector level. The group is currently finalising a division of labour strategy, in line with the JAST.

Source: United Republic of Tanzania (2006) Joint Assistance Strategy for Tanzania; OECD (2008) “Key Messages and Case Studies for the HLF-3 Roundtables” from the workshop on “Strengthening the Development Results and Impacts of the Paris Declaration on Aid Effectiveness through Work on Gender Equality, Social Exclusion and Human Rights,” London, 12-13 March 2008, DCD(2008)6.

Legal harmonisation

Although the need for legal harmonisation is not raised as an issue in the Paris Declaration, harmonising such practices is one way in which progress towards greater use of common approaches can be made.

The increase in fiduciary, procurement, and financial management procedures, anticorruption measures, joint-donor financing schemes and trust fund arrangements pose new challenges to the aid effectiveness agenda. In recognition of this, the World Bank has joined with other international financial institutions, bilateral aid agencies and several UN agencies in launching a Legal Harmonisation Initiative (LHI) aimed at harmonising and

streamlining legal and administrative tools among donors and partner countries, including the removal of existing impediments to harmonised approaches, to support efficient implementation of international commitments on aid effectiveness. The LHI will provide an ongoing forum for legal, operational and policy advisers to discuss (and share knowledge about) legal and policy issues relevant to the harmonisation and alignment agenda.

The LHI Action Plan sets out a series of planned steps, including activities intended to facilitate the use of shared model documentation in SWAs and other joint operations; improve the operation of multi-donor trust funds; facilitate the use of country systems in joint operations; and provide a common approach to dealing with fraud and corruption. A Rapid Response Mechanism for dealing with issues relating to shared documentation as well as multi-donor trust funds has been established. An update on the implementation of the LHI has also been prepared.

Encouraging shared analysis

Donors have also committed to “***work together to reduce the number of separate, duplicative, missions to the field and diagnostic reviews***” (PD § 32). The goal is for 40% of donor field missions and 66% of country analytic work to be joint by 2010 (Indicator 10). The Monitoring Survey finds that as of 2005, 18% of missions and 42% of analytic work in countries participating in both surveys was joint, compared to 20% of missions and 42% of analytic work in 2007. However, once again, the Survey suggests that the indicator likely underestimates progress as clearer survey guidelines in 2008 may have put downward pressure on the reporting of joint activities. Several countries also report haven taken deliberate efforts to avoid double counting in their survey return. Firmly established procedures for missions – as is the case in Malawi – as well as mission-free periods appear to have helped increase joint activities in a number of countries.

Although little attention was paid to the issue of joint missions and analysis in the Evaluation responses, the comments made suggest significant progress only in a minority of countries. And where progress has been made, the practice of moving forward has “proved slow and difficult”, with a high level of sustained commitment required by both partner countries and donors. Joint efforts tend to be better in instances where the partner country either conducts or co-ordinates the analytic work, with the donors integrated into these efforts.⁶ The EU Common Framework for Country Strategy Papers, adopted in 2006, is one way to move forward, having already helped facilitate joint analysis by EU donors and served as a useful stepping stone towards more in-country complementarity.

Complementarity⁷ and division of labour

According to a recent study which covered all DAC members and major multilaterals, in 2005/06, 38 recipient countries were host to 25 donors or more. The DAC estimates that donor fragmentation was present in 24 of these countries.⁸ Fragmentation was also found to be an issue in certain sectors, including health where 80% of donors provide only 10% of total aid (OECD, 2007a).

Excessive fragmentation of aid (at global, country and sector level) reduces aid effectiveness and overburdens recipients in many countries and sectors; however, it is possible to reduce the number of donors without reducing the volume of aid flows. Division of labour⁹ is a critical, yet sensitive, dimension of the Paris agenda – with links

to comparative advantage, specialisation and delegated co-operation. However, the degree of fragmentation varies by country, sector and region. In fact, in some sectors – such as infrastructure and agriculture – there may actually be the need to diversify the number of donors. (See the Partner Countries Contact Group *Position Paper on Priority Areas of Concern* for details.)

Box 3.2. Nordic Plus Group: Rationalising aid

Examples of delegated co-operation and co-financing are increasingly prevalent amongst the Nordic Plus donors (Denmark, Finland, Iceland, Ireland, Netherlands, Norway, Sweden and the United Kingdom). For example, Sweden administers Norwegian support to Mali and Norway administers Swedish support to Malawi; in South Africa, Sweden, Denmark, and the Netherlands are silent partners in the Norwegian-led support to the Media Institute; and Norway and DFID have entered into a joint financing arrangement to support the Anti-Corruption Bureau in Malawi. The group has also developed a number of tools aimed at increasing harmonisation: a guide on joint financing arrangements (2007), a Procurement Policy (2004), Complementary Principles guiding the division of labour part of Joint Assistance Strategy processes (2005), and a practical Guide to Delegated Co-operation (2006).

The Paris Declaration calls upon donors to *make full use of their respective comparative advantage at sector or country level by delegating authority to lead donors for the execution of programmes, activities and tasks* (PD § 35a). To assist with this division, partner countries commit to provide clear views on donors' comparative advantage and on how to achieve donor complementarity at country or sector level (PD § 34). However, the task is not straightforward: "promoting improved complementarity requires changes in the attitude of both donors and recipient countries. It impacts heavily on the planning processes and the long-term partnerships in countries and in sectors. [In consequence, division] of labour will not happen overnight. A long-term perspective and a multi-stage approach are therefore needed" (OECD, 2007b). Findings from the recent Evaluation re-affirm the difficulty in moving towards greater complementarity. In particular, while sectoral concentration is accepted as an objective, it has proven difficult to implement in part because negotiations over division of labour can become contentious (Wood *et al.*, 2008, Chapter 3.13).

Despite the difficulty, the DAC Peer Reviews find that, "Many donors increasingly seek an improved division of labour with others and have initiated a number of pilot activities to engage in delegated co-operation and joint approaches" (OECD, 2008c).¹⁰ The Paris Declaration Evaluation similarly finds that – while there is not yet a strong expanding trend in the use of "silent partner" and "lead donor" arrangements – in some countries and donor agencies, measures have been taken to improve division of labour (Wood *et al.*, 2008, Chapter 3.13, p. 19). Ireland has withdrawn from the education sector in Tanzania and the agriculture sector in Uganda; lead, active and background partners have been designated in each of Zambia's sectors; the activities of each donor in Mozambique have been identified through the electronic aid management tool ODAmoz; Sweden has delegated its entire Malawi programme to Norway; and Germany has entrusted France with the administration of its funds to Mali's education sector.¹¹ Joint Assistance Strategies (see Box 3.1 and Box 3.5 for examples) and Harmonisation and Alignment Action Plans have also been agreed upon and/or signed by donors and partners in a number of countries. Division of labour exercises have also been undertaken in a

number of countries, as highlighted at a recent workshop in Pretoria.¹² However, although examples of good practice are emerging, in a number of countries and agencies, there remains “continuing inertia and counter-pressures to maintain a wider range of traditional engagements and links [as well as reluctance] to phase out or abstain from involvement” (Wood *et al.*, 2008, Chapter 3.13). For further examples of progress made, and challenges faced, in moving towards greater division of labour see Boxes 3.2, 3.3 and 3.4.

Box 3.3. A donor experience with division of labour: Germany

In the late 1990s Germany’s development co-operation supported 118 out of about 146 developing countries worldwide. It was clear that a reduction had to take place to provide a more significant input at the country level. In a first round of concentration 70 partner countries were selected, in a second round this was further reduced to 58. Regional and thematic programmes remain. Challenging internal discussions, starting from a set of criteria which included for example Germany’s comparative advantage, as well as discussions with partners, led to the eventual decisions. At the same time a list of 11 focal areas was agreed upon to ensure a common understanding on priority areas/sectors. In about half of the partner countries, Germany now operates in up to three sectors, in the rest it mainly operates in one (study funds, humanitarian aid etc. are not covered by this list of focal areas). The process allowed for a measure of flexibility, as well as a responsible, in cases multi-annual, exit strategy from discontinued sectors. Discussions with partners and other donors on strategic issues, needs, comparative advantages, interests, division of labour and poverty orientation of the portfolio ensued. For example, the co-operation with Mozambique was focused from a broad array of measures ranging from education, health, energy, transport infrastructure, decentralisation, public sector reform, reintegration of ex-combatants, environmental protection, agriculture, SME-promotion and more to three focal areas. Both sides had the opportunity for internal discussions, involving government and civil society organisations. The remaining sectors were left in subsequent years – for some programmes, other donors were found.

In addition to reducing the fragmentation of its aid, Germany reports that *a)* the overall aid volume has increased since the process; *b)* the discussions forced headquarters to focus more on partner strategies and limit isolated interventions in specific sectors; *c)* the reduction process helped Germany identify possible contributions to SWAPs and partner programs as well as prepare for division of labour discussions; and *d)* it allowed them to assign resources to better participate in sector-wide dialogue and significantly increase resources for the relevant sectors (*e.g.* for education in Mozambique). In countries like Burkina Faso, this joint process with partners was also used to re-evaluate the overall German contribution to the upcoming PRSP processes and poverty reduction orientation. These discussions also led to the agreement on German contribution to a partner country’s strategy or – in cases like Uganda – to Joint Assistance Strategies.

Box 3.4. Geographic and sector concentration: Belgium in Morocco

Belgian assistance in Morocco is heavily concentrated in the Souss-Massa-Draa region, a semi-arid area with a widely scattered rural population and major water supply problems. Belgium is one of the few donors to have targeted its efforts in the south of the country. Belgium also concentrates its support on rural water and sanitation, which accounts for more than 65% of current commitments. This strategy fits with the priorities of the Moroccan government and reflects the needs of the targeted groups of people in the concentration area. It allowed Belgium to develop a comparative advantage *vis à vis* other donors, despite its relatively modest co-operation programme, and to have a real impact in the zones and sectors where it operates.

Source: OECD (2008), “Implementing the Paris Declaration: Lessons from Peer Reviews Synthesis Report”.

Box 3.5. Zambia: Division of labour

In Zambia, following the completion of division of labour exercises (consisting of a peer-reviewed donor self-assessment and a government review of donors in various sectors), the government issued its initial preferred division of labour in April 2006. These preferences were then discussed with donors, resulting in an agreement that each sector would be jointly led by two or three partners; donors should be divided into “lead”, “active”, “silent” and “phasing-out”; and that the 17 sectors should be aligned with the Poverty Reduction Strategy Papers and related ministries.

A number of positive outcomes can already be attributed to the division of labour exercise and agreements, including improvements in donor co-ordination and information sharing, streamlined donor communication with government and fewer bilateral meetings with government officials. However, this exercise has also highlighted a number of challenges: it is extremely difficult for donors to disengage from sectors (in part because donors may feel the need to phase out slowly so as not to disrupt ongoing activities); sectoral coverage is not yet balanced, as exemplified by the continuing popularity of participating in sectors such as health and governance; decentralised decision-making powers vary considerably, with several donors relying on headquarters for direction; some donors feel the need to maintain visibility, making it difficult to assume a “silent” role; and, cross-cutting issues and the importance of emerging donors are not fully dealt with in the current division of labour.

Source: Adapted from the workshop proceedings of the “Rationalising Aid Delivery : Partner Country Experience and Perspectives” workshop in Pretoria, organised by the DAC Task Team on Complementarity/Rationalising Aid Delivery.

Given the amount of political impetus, consensus, restructuring and time required to move the division of labour agenda forward,¹³ a lot of the progress made to date has come in the form of greater consensus building. Of particular importance is the signing of the 2007 European Union Code of Conduct on Complementarity and Division of Labour in Development Policy. While still in the early stages of implementation, the Code of Conduct (see Box 3.6) has “strong potential to bring further harmonization” (Wood *et al.*, Chapter 3.15).

In addition to stressing the importance of close co-operation with partner governments and the need for a country-based approach, the Code of Conduct invites EU donors (as well as any other donor wishing to participate) to follow 11 principles to enhance the effectiveness of EU aid. While it is too soon to see large-scale impact on the ground, the European Commission has prepared a Compendium of Good Practices, based on donor experiences, and is preparing a report on progress in implementing the Code of Conduct and an EU Toolkit (to support donors in implementing the EU Code of Conduct). To jump-start and strengthen division of labour processes at field level, a list of fast track countries has been developed in consultation with partner governments.¹⁴

Box 3.6. EU Code of Conduct Guiding Principles

On in-country complementarity

1. Increase donor concentration: A maximum of three sectors in country + general budget support + support to non-state actors and research and education schemes, based on:

- comparative advantage of each donor, self-assessed, endorsed by partner government and recognised by other donors;
- partner countries to identify areas for increased or reduced support and identify donors remaining engaged in the sector;
- donors to work with governments to identify sectors in which to remain and propose sectors from which they will withdraw;
- assure long-term engagement in sectors by remaining donors.

2. Redeploy funds for other in country activities, based on local negotiations:

- where donors are in more than three sectors, either use delegated co-operation or exit, responsibly redeploying funds in three priority sectors or into general budget support, avoiding any gaps in aid.

3. Lead donor arrangements for each sector to reduce transaction costs.

4. Delegated co-operation/partnership arrangements.

5. Ensure adequate donor support to sectors of key priority for poverty reduction:

- At least one active EU donor per sector, maximum three to five active EU donors per sector.

On other dimensions of complementarity

6. Replicate these practices at regional level.

7. Member states opt for limited number of priority countries; in non-priority countries consider delegation.

8. Address the "orphans" gap, often countries in situation of fragility.

9. Analyse and expand global areas of strength: the Commission to further develop expertise in areas of comparative advantage, at country level in line with deconcentration and ownership.

10. Progress on other dimensions of complementarity (vertical and cross-cutting instruments).

General principle: Deepen the reform of aid systems: decentralised structure, institutional incentives and redeployment of financial and human resources.

Constraints: Avoid the impact of division of labour on global aid volumes and predictability.

In addition, a DAC task team on complementarity/rationalising aid delivery has developed, through regional workshop consultations, good practice principles on in-country division of labour (see Box 3.7). The challenge is to further apply these strategies of division of labour in order to reduce the number of active donors in over-crowded sectors while maintaining (or increasing) the overall volume of financing. This will likely require more co-operative arrangements, silent partnerships and delegated co-operation.

Box 3.7. Good practice principles on in-country division of labour

1. Development results can be improved when donors individually and collectively rationalise their activities at the country level.
2. Partner countries should lead the division of labour process in dialogue with donors, enabling civil society and private sector to participate in a transparent manner.
3. Partner countries and donors should commit to avoiding duplication and fragmentation, ensuring the optimal use of development resources in the sectors, thematic areas, geographical units or aid modalities.
4. Negotiations are a necessary component for finalising the process, and flexibility on both sides is required. All actors are committed to pragmatic and workable solutions.
5. As division of labour is only a tool to more effective use of aid, donors commit to harmonise and better co-ordinate their support for capacity development for overall aid management purposes.
6. The impact of a division of labour process on overall country aid volume should be neutral.
7. Partner countries and donors should measure the added value of division of labour.
8. Partner countries and donors should communicate the added value of division of labour.

Improvement in donor systems

Findings from the 14 DAC Peer Reviews that have taken place since 2005¹⁵ show that donors have designed specific action plans to implement the aid effectiveness agenda and most have engaged in major improvements in their aid systems. In terms of achievements, however, the picture is mixed. Implementing the harmonisation (as well as other Paris Declaration) commitments requires a wide range of adjustments to donor systems; while different reform approaches can be used, the DAC Peer Reviews suggest that certain key organisational and management factors must be in place to facilitate their implementation. In particular, there is a need for high-level support among officials and political leaders; a realistic time scale; wide communication to publics and parliaments in donor countries; and flexibility in order to take into account each country's context. A particular challenge is to build confident partnerships and reconcile conflicting donor staff objectives and incentives. When adjusting their systems, donors will also have to address challenges at the political, institutional (*e.g.* decentralisation and changes to human resource composition) and delivery levels (*e.g.* aid delivery modalities, division of labour and aid predictability).¹⁶

Factors influencing the rate of progress on harmonisation

Experiences to date suggest that there are a number of factors that make success more likely, including: awareness and political will at both partner country and donor levels; mutual trust; clearly defined objectives that are tailored to country circumstances;

agreements on priorities and results; government capacity to lead, co-ordinate and manage aid; operational national policies on division of labour such as Joint Assistance Strategies and Harmonisation Action Plans; formal co-ordination and dialogue platforms to facilitate transparent exchange of information, such as sector working groups; good information on donor activities; and agreement on how comparative advantage will be measured.¹⁷ Early consultation with fiduciary/legal staff and investing up front in clearly defining objectives is also important.

The Evaluation identifies a number of impediments to greater donor progress. In particular, the synthesis report found that “Close to half of the development partner agencies examined claim that they face serious formal restrictions, de facto political vetoes, and/or major institutional obstacles to entering into many such common arrangements.” Harmonisation problems *within* donor country systems were also highlighted as an obstacle in three of the donors surveyed. Additional challenges include: the increased demands on time and staff resources that harmonisation requires; national accountability requirements; and the pressure to show direct, visible achievements. The Evaluation also suggests that incentive issues are at play; for example, the widespread practice of parallel, rather than pooled, financing for PBAs suggests that donors are “hedging their bets” (Wood *et al.*, Chapters 3.13-3.15).¹⁸ Incentive concerns were also highlighted by the DAC Peer Reviews, which found that “Most donors want to be involved in more than one or two sectors in order to minimise risks” (OECD, 2008c).

The Evaluation also finds that partner country commitment in the form of initiative, leadership and influence is sometimes lacking, despite the importance of such commitment for successful harmonisation measures. Several of the surveyed partner countries reveal that they are not strongly pushing for further expansion of common arrangements or division of labour. Reasons include concerns that harmonisation (where it is not driven by partner countries) could undermine ownership and the desire to continue using the already familiar traditional project approaches.¹⁹ The desire to maintain longstanding partnerships with smaller donors and predictable aid flows have also been given as reasons. Partner countries’ capacity to steer harmonisation processes are also often lacking.

Implications for the future

Complementarity and division of labour have rightly been identified by partner countries as a priority for the Third High-Level Forum in Accra. However, “country experiences [...] show that even today some sectors are over-funded, while others remain under-funded.”²⁰ Significant progress will also have to be made in order to reach the common arrangements and joint analysis targets by 2010. It is important that partner countries play a leading role in shaping the agenda, and that donors build the capacity of partner countries to lead and – where possible – base their harmonisation approach on country systems and national development strategies.²¹ It is also important that harmonisation efforts do not limit the diversity and levels of aid available to partner countries. However, as a recent conference on governance noted: “If harmonisation was easy, donors would have done it by now” (OECD, 20008f; OECD/DAC GOVNET, 2008).

Notes

1. Even with full alignment, however, there would need to be a good deal of harmonisation, including “defragmentation” and streamlining to reduce transaction costs, whether on financial support and technical assistance, analysis or donor missions.
2. The *Compendium of Donor Reports on Implementing the Paris Declaration* finds that “The Paris Declaration commitments have led to the development of a number of new and alternative implementation modalities such as Joint Assistance Strategies (JAS), Sector Programme Support (SPS), Programme-Based Approaches (PBA), General Budget Support (GBS), delegated authority and silent partnerships.” It also reports that “over 75% of members noted that progress had been achieved in the implementation of harmonisation-related commitments”, OECD (2008a).
3. Progress towards the harmonisation commitments on incentives for collaborative behaviour, delivering effective aid in countries in situations of fragility, and promoting a harmonised approach to environmental assessments is discussed in the Managing for Results, Situations of Fragility and Conflict, and Alignment chapters, respectively.
4. *2008 Monitoring Survey*, Appendix table A9 (OECD, 2008b). The average was 46% for countries participating in both survey years, compared to 39% for countries participating for the first time in 2008.
5. See Wood *et al.* (2008), Chapter 3.13.
6. See Wood *et al.* (2008), Chapter 3.13 and 3.14 for details.
7. “Complementarity starts with co-ordination, but goes much further: it implies that each actor is focusing its assistance on areas where it can add most value, given what others are doing. Hence, complementarity is the optimal DoL between various actors in order to achieve optimum use of human and financial resources.” See OECD (2008d).
8. Fragmentation is defined as more than 15 donors providing just 10% of a country’s programmable aid; the more donors that, combined, represent just 10% of country programmable aid, the more severe the fragmentation. See OECD (2008e).
9. There are five principle dimensions of division of labour: in-country complementarity, cross-sector complementarity, cross-country complementarity, vertical complementarity, and cross modalities and instruments complementarity. For a more detailed definition of division of labour, see page 9 of OECD (2007b).
10. Note, however, that while “Delegating a programme to another donor is a sign of progress ... specialising in or withdrawing from a sector is still rare.”
11. See OECD (2007b) for details.
12. A team comprising partners and bilateral and multilateral donors organised a workshop on “Rationalising Aid Delivery: Partner Country Experience and

Perspectives” in South Africa in February 2008. This provided an opportunity to recognise policy positions and concerns, as well as discuss future actions to promote efforts to rationalise aid delivery. From the country cases presented, a number of general prerequisites and promising ways to rationalise aid were discussed.

13. See OECD (2007b) and the Pretoria workshop on “Rationalising Aid Delivery: Partner Country Experience and Perspectives” for a more detailed discussion of key drivers and challenges.
14. In the countries identified for early action, supporting measures will be provided through a lead facilitator (responsible for co-ordination and reporting on progress) as well as select supporting EU donors.
15. OECD (2008c) is based on the 14 peer reviews undertaken between 2005 and mid-2008.
16. For further discussion on these issues see also OECD (2008a).
17. See Federal Ministry for Economic Cooperation and Development – BMZ (2008).
18. See also OECD (2008a).
19. See Wood *et al.* (2008), Chapters 3.13 and 3.14 for details.
20. “East & South-East Asia: Outcomes Document, Consultations on the High Level Forum on Aid Effectiveness”, Bangkok, 21-22 April 2008, <http://siteresources.worldbank.org/ACCRAEXT/Resources/47007901208199523477/4893662-1212088917542/East+SouthEast-Asian-Consultation-Bangkok.pdf>.
21. The South East Asian, Pacific Island and African HLF-3 regional preparatory event synthesis notes all make specific reference to the need for donor harmonisation efforts to involve partner country counterparts and to align with country systems, priorities and procedures in order not to undermine ownership. www.accrahlhf.net/WBSITE/EXTERNAL/ACCRAEXT/0,,contentMDK:21690833~menuPK:64861647~pagePK:64861884~piPK:64860737~theSitePK:4700791,00.html.

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Chapter 4

Managing for Development Results

In part as a result of the late start and inherent difficulties of MfDR, a necessary condition for making progress has been to raise awareness and exchange information on best practices. Progress against MfDR commitments themselves is moderately encouraging. Strong progress has been achieved in particular countries and sectors. A number of countries are also working to improve their monitoring frameworks. However, relatively few countries have quality results-oriented strategies, and only a few donors rely on these countries' results and monitoring frameworks. There is a call for more definitional clarity, accelerated construction of monitoring frameworks and greater agreement on how to strengthen systems.

Introduction

The Paris Declaration is part of an increasing push for results which is supported by numerous international initiatives; the MDGs include a series of targets and indicators that allow for the measurement of progress and the Monterrey Consensus specifically addresses means of achieving these goals. To have meaning, these results must be felt at the partner country level. *To this end, the Paris Declaration (PD § 43-46) commits donors and partner countries to manage and implement aid in a way that focuses on the desired results and uses information to improve decision making; partners to strengthen the linkages between strategies and budgets, and endeavour to establish results-oriented reporting and assessment frameworks; donors to link country programming to results and align them with partners' assessment and monitoring frameworks, and harmonise reporting requirements; and partner and donors to jointly strengthen the necessary capacities.*

Managing for development results (MfDR) is an approach supporting evidence-based decision making, shifting from the focus on inputs to the achievement of defined objectives. As such, putting MfDR into effect is both politically and technically demanding, going well beyond the confines of aid management. The Evaluation Synthesis Report notes that MfDR “is very difficult ... to master in many fields ... in the case of new aid modalities such as general budget support, it is extremely difficult to measure and attribute results ... Furthermore, results cannot always be captured in ‘hard’ data” (Wood *et al.*, 2008, Chapter 3.18). Organisationally, strengthening the necessary performance culture requires a range of internal reforms and human resource development, building country capacity (including in statistics), strengthening evaluation, enhancing links between results and the planning and budgeting process, and above all encouraging greater leadership and accountability.

Progress

The Evaluation Synthesis Report, the 2008 Monitoring Survey and the World Bank’s review *Results-Based National Development Strategies: Assessment and Challenges Ahead* conclude that progress against MfDR commitments is moderately encouraging. However – as pointed out by partner country officials at regional consultations and the Survey – definitional clarity, accelerated construction of monitoring frameworks, and greater agreement on how to strengthen systems are needed to reach the 2010 target of reducing by one-third the proportion of countries without transparent and monitorable performance assessment frameworks (PD Indicator 11).

According to the World Bank, three of the IDA-eligible countries reviewed (Mozambique, Tanzania and Uganda), or 5%, had largely developed results-oriented frameworks in place in 2007, compared to 3% in 2005. Progress amongst the sub-sample of countries participating in both monitoring surveys is slightly more positive: the proportion of countries with largely developed result-oriented frameworks increased from 5% to 7.5%. The Paris Declaration Evaluation similarly finds that very few countries have quality results-oriented strategies and that only a few donors rely on these countries’ results and monitoring frameworks.

More encouragingly, the World Bank reports that 12 (19%) of the IDA-eligible countries surveyed were considered to have a largely developed strategy in at least one of

the three criteria used to measure the country's results-oriented framework.¹ Furthermore, the number of countries working to improve their monitoring frameworks (even if these are not yet considered “largely developed”) has increased, from 42% in 2005 to 56% in 2007. Zambia's score, for instance, rose as a result of improved co-ordination between its Central Statistical Office and sector ministries, as well as the development of sectoral performance indicators. Mozambique's rating increased due to improvements in information dissemination and monitoring and evaluation. See the 2008 Monitoring Survey for additional examples as well as Box 4.1.

The Evaluation also finds strong progress in particular countries and sectors, as well as plans to improve systems in the near future. However, difficulties in finding common ground on indicators, data sources and the use of national systems remain. In addition, for many partner countries, results-based monitoring is still seen as the weak link in the overall national governance system.

Box 4.1. Managing for results

International, country and sector-level examples of good practice in moving towards greater results-based development are emerging:

- **International**

Work is currently underway through the Multilateral Organisation Performance Assessment Network to develop a common, simple and practical tool for assessing effectiveness of multilateral organisations. This approach will be launched after consultations with main stakeholders, including partner countries.

- **National**

Tanzania has shifted towards an outcome-oriented development strategy, resulting in greater use of performance data in the budget process and greater incentives for policy makers to develop outcome-oriented rationales for their budget submissions.

In Uganda, a results and policy matrix, with specific targets for key outcomes, is included in the country's poverty reduction strategy (known as the Poverty Eradication Action Plan). The government has also taken steps to improve its development data set, brought the perspective of the poor into planning through participatory poverty assessments and finalised a national integrated monitoring and evaluation strategy.

- **Sectoral**

In Viet Nam the Socio-Economic Development Program for Ethnic Minority and Mountainous Areas includes a comprehensive system of indicators to monitor implementation and evaluate outcomes, disaggregated by gender, ethnic minorities and the poor. The cornerstone of this results-based management is its implementation Roadmap, which was developed in wide consultation with key stakeholders.

Sources: Wood, B., *et al.* (2008), *Synthesis Report on the First Phase of the Evaluation of the Implementation of the Paris Declaration*, Copenhagen, July, www.oecd.org/dataoecd/19/10/40889044.pdf; World Bank (2007) “Results-Based National Development Strategies: Assessment and Challenges Ahead”; and OECD (2008) “Key Messages and Case Studies for the HLF-3 Roundtables from the workshop on “Strengthening the Development Results and Impacts of the Paris Declaration on Aid Effectiveness through Work on Gender Equality, Social Exclusion and Human Rights,” London, 12-13 March 2008.

In part as a result of the late start and inherent difficulties of MfDR, a necessary condition for making progress has been to raise awareness, develop approaches and exchange information on best practices.² The 2007 Third International Roundtable on Managing for Development Results in Hanoi has been a milestone, bringing together representatives from 45 partner countries, 32 development agencies, and 30 civil society and private sector organisations to focus on building country capacity and creating communities with a shared vision about the importance of a results-focused agenda. Following this up, the Asian-Pacific Community of Practice has *inter alia* made considerable progress in providing a forum for exchange, including peer-to-peer learning about results management between partner countries.³

Incentives and capacities for moving forward with MfDR

Two sets of related issues do much to explain the challenges in moving forward with MfDR: the need to develop critical capacities to address the inherent complexity of meeting the Paris Declaration commitment and the incentives and disincentives facing different stakeholders.

Country capacity for MfDR

Managing for development results in partner countries is often weak, for reasons of lack of capacity to plan, budget, manage, implement, and account for results of policies and programmes.⁴ However, as the Evaluation notes, almost all donors have been supporting some form of related capacity building since 2005. Furthermore, a number of partner countries have taken action to improve their systems (see the related discussions in the sections on alignment and harmonisation for details). Three areas merit particular attention here: planning and budgeting, monitoring and evaluation, and statistical systems.

First, planning and budgeting: As partner governments move towards a more results-focused management system, findings from evaluations will need to play a more central role in the design of budgets and national plans. To this end, partner countries have pledged to ***strengthen the linkages between national development strategies and annual and multi-annual budget processes*** (PD § 44a). Several examples of good practice are emerging, including in Uganda and Tanzania. However, the World Bank report and the Paris Declaration Evaluation find that in general this remains one of the weakest areas. While countries are reforming budget systems, these largely remain input-oriented. This is in part to be expected as introducing a results focus into budgets and national strategies takes both time and a fundamental change in management processes (see Box 4.2).⁵

Box 4.2. Results at a glance

One way to strengthen links between budget allocations and national development strategies is to bring together information on inputs, intermediate outputs and longer-term outcomes in one place. The DAC Secretariat has developed a customisable template (Results at a Glance) that does this. The template is designed to be country-owned and produced, providing an overview of the national budget analysed by sectors such as education and health, output indicators such as pupil/child ratios, and outcomes taken from the country's national development strategy and/or the MDGs, such as under-5 child mortality. It also includes donor flows by sector and the Paris Declaration indicators to show how effectively the aid is delivered. The template is designed to promote harmonisation and alignment behind a country-owned system of mutual accountability for results and so contribute to avoiding a proliferation of different reporting systems by each donor. It is also a tool to promote improved aid predictability and management of aid resources. And it is a system that the country itself can use to report to its parliament and citizens.

Source: "Linking Resources to Results", Presentation to the OECD World Forum on Statistics Knowledge and Policy, www.oecd.org/dataoecd/9/29/38934946.ppt?contentId=38934947.

Second, monitoring and evaluation: Country-based monitoring and evaluation are essential if a "performance culture" is to be built to allow for more credible feedback and greater accountability.⁶ To this end, partner countries have committed to *establish results-oriented reporting and assessment frameworks that monitor progress against key dimensions of the national and sector development strategies* (PD § 44b). At the same time, donors have committed to *align, harmonise with and – where possible – rely on local systems* (PD § 45). While it may be tempting to use stand-alone donor-oriented monitoring and evaluation systems, strengthening recipient-owned mechanisms should increase sustainability and accountability in the long run. The use of joint evaluations also increases ownership and reduces government transaction costs. The importance of avoiding parallel systems was further highlighted in the 2008 Pacific Regional Workshop on Aid Effectiveness. According to the outcomes document, "country, regional and donor results monitoring frameworks must be rationalised, leading to one agreed Results Framework for a country".

The World Bank finds that progress has been made in strengthening domestic monitoring and evaluation systems. In particular, four countries – Mozambique, Nepal, Tanzania and Uganda – stand out for their efforts to establish country-level systems. However, only a few countries have articulated clear lines of responsibility, consolidated their often parallel monitoring systems, or established links between their development strategies and result-oriented frameworks. Furthermore, basic data collection often remains fragmented. To assist countries and donors in making these changes, the DAC Network on Development Evaluation is promoting and facilitating joint evaluations. It is also working to improve the quality of evaluation systems by producing and disseminating evaluation quality standards, glossaries and guidance.⁷

Third, statistical capacities: at country level, MfDR has to be built on sound statistical data and open access to information, and there are important initiatives to support this.⁸ See Chapter 2.

Getting the incentives right

Under the Paris Declaration, donors and partner countries commit to ***reform procedures and strengthen incentives (including for recruitment, appraisal and training) for management and staff to work towards harmonisation, alignment and results*** (PD § 36). This commitment was based on the recognition that the needed changes to behaviour will not happen automatically as there are a number of up-front and long-term costs – institutional, financial and political – associated with changing the way donors and partners conduct themselves.⁹ Although technical capabilities are essential components of MfDR, managing for results should not be seen mainly as a set of measuring and monitoring tools. The importance of appropriate incentives in influencing managers and officials to bring about the necessary changes has been emphasised in a number of Paris Declaration Evaluation country chapters.¹⁰

The Paris Declaration Evaluation finds continuing incentive problems applying to **donors**, including *inter alia* in: organisational and individual targets; pressures to maintain the visibility and attribution of agencies' individual contributions, and to satisfy their individual fiduciary and accountability requirements; the desire of some agencies to pursue non-developmental national objectives in aid programmes; and the pressure for disbursements, “maximum development for the money”, and “getting things done quickly”. More encouragingly, the OECD (2008) *Compendium of Donor Reports on Implementing the Paris Declaration* finds that a number of donors “have undertaken significant efforts in supporting the Aid Effectiveness agenda at headquarter and field levels through decentralisation, shifting implementation modalities, and strengthening and reforming guidelines and procedures.” The DAC Peer Reviews similarly highlight a number of positive efforts by individual donors, such as incorporating Paris Declaration principles into their policy documents and increasing parliamentary and public engagements and awareness.

However, if incentives are to shift across the board, there will be a need for sustained senior management leadership and commitment, clearly communicated guidance and priorities, performance management, delegation of authority to the country level, and pressure from well-informed publics in partner and donor countries. These and other success factors are detailed in the DAC Joint Venture on MfDR Good Practice Guidelines on Incentives for Aid Effectiveness, to be presented for discussion at the HLF in Accra along with a self-assessment tool to help donor agencies to identify their strengths, weaknesses and gaps in incentives for promoting aid effectiveness.

In respect of **partner countries**, the Paris Declaration Evaluation identifies incentives that can discourage governments and/or their employees from behaving in a manner consistent with Paris Declaration commitments. In particular: institutional interests can be disincentives; parallel PIUs may be seen to offer more financial benefits and a clear and important mission; and many civil servants continue to rely in part on occasional supplementary benefits for their involvement in aid projects.

Conclusion

In summary, some progress is being made towards fulfilling the Paris Declaration commitments on managing for results, but further acceleration is needed if the 2010 targets are to be achieved. This may entail increasing awareness of the MfDR agenda and its importance; implementing, strengthening and using country-tailored monitoring and evaluation systems; increasing leadership and accountability; and overcoming incentive and political constraints. In implementing these changes, as participants at the 2008 East and South East Asia HLF Regional Consultation noted, donor and partner countries “should not lose sight of the purpose – promoting better actual development outcomes”.

Notes

1. Most of this progress resulted from improved stakeholder access to information, with only a few countries making significant progress in improving the quality of development information and introducing co-ordinated country-level monitoring and evaluation systems.
2. MfDR emerged on the global agenda during the 2002 Monterrey Consensus (though it was not included in the 2003 Rome Declaration). Since then, a number of conferences and initiatives, including the First, Second and Third International Roundtables on Managing for Development Results (Washington, DC 2002, Marrakech 2004, Hanoi 2007) and the formation of the Joint Venture on MfDR have helped to move this agenda forward, though it is still to some extent in the “infant” stage when compared to the first three pillars of the Paris Declaration.
3. For more information about the Hanoi Roundtable visit www.mfdr.org/rt3/. For more information on the Communities of Practice visit www.mfdr.org/CoP/index.html. See also “East and South-East Asia: Outcomes Document, Consultations on the High Level Forum on Aid Effectiveness”.
4. Joint efforts to develop capacity in the public sector to manage for results (as codified in PD § 46) will have to start with an assessment of existing capacity. A capacity assessment tool is currently being developed by the Joint Venture on MfDR, and after pilot-testing in several partner countries will be presented at the HLF in Accra. The tool will allow partner countries to conduct a quick self-assessment to provide them with a clearer view on capacity gaps, pursue the necessary remedies and possible request donor support.
5. For a more detailed discussions of the challenges countries face in improving their budgeting and planning processes see “Planning and Budgeting: Linking Policy, Planning and Budgeting” Background Paper for the Third International Roundtable on MfDR, Hanoi 5-8 February 2007, www.mfdr.org/rt3/Glance/Documents/P&B_final.
6. For more information on monitoring and evaluation, see “Monitoring and Evaluation: Enhancing Development Results”, Background Paper for the Third International Roundtable on MfDR, Hanoi 5-8 February 2007, www.mfdr.org/rt3/Glance/Documents/E&M_final.pdf.
7. The DAC has developed Guidance for Managing Joint Evaluations. In addition, it publishes a glossary of key terms in evaluation and results-based management in several different languages. The quality standards and the glossaries are increasingly used by members and non-members alike, promoting more harmonised evaluation processes. The Network is working to improve dissemination, communication and feedback of evaluation results and guidance, through the DEReC website.
8. See also “Statistics: Better Data for Better Results” Background Paper for the Third International Roundtable on MfDR, Hanoi 5-8 February 2007, www.mfdr.org/rt3/Glance/Documents/Statistics_final.pdf.

9. For further information on incentive issues see OECD (2007a) and OECD (2007b).
10. An upcoming third edition of a sourcebook on emerging good practice in MfDR (based on the 2007 version “Managing for Development Results Principles in Action”) will focus on leadership and explore how it drives organisational and process changes for results, both in donor agencies and partner countries. For an in-depth discussion of the institutional and leadership challenges that need to be overcome, see “Leadership and Accountability: Creating a Culture of Results”, Background Paper for the Third International Roundtable on MfDR, Hanoi, 5-8 February 2007, www.mfdr.org/rt3/Glance/Documents/Leadership_final.pdf.

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Chapter 5

Mutual Accountability

The Paris Declaration calls upon donors and partners to be mutually accountable for development results. Individual and joint actions can create and reinforce shared agendas by building trust, shifting incentives towards results, embedding common values, deepening responsibilities and strengthening partnerships. Progress towards mutual accountability has been slow, when gauged by the number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness. This may be in part because mutual accountability is a relatively new principle, and is demanding of capacity. However, despite the undeveloped nature of the mutual accountability system as a whole, more pieces of the solution are actually at hand than is generally assumed, and a range of mechanisms make contributions toward fulfilling this commitment.

Introduction

The Paris Declaration calls upon donors and partners to be mutually accountable for development results through a set of individual and joint actions. Specifically, under PD § 47-50, *partner countries commit to strengthen the parliamentary role in national development strategies and/or budgets and to include a broad range of development partners when formulating and assessing national development strategies. For their part, donors commit to provide timely, transparent and comprehensive information on aid flows. Partner countries and donors together commit to assess country-level mutual progress in implementing agreed commitments on aid effectiveness, including the Partnership Commitments.*¹

Mutual accountability (MA) – as defined in the Joint Venture on MfDR sponsored studies on mutual accountability at the country and international level – is “the process by which two (or multiple) parties hold one another accountable for the commitments they have voluntarily made”. It is a process through which shared agendas are created, often through contestation, and are reinforced by building trust, shifting incentives towards results, embedding common values, deepening responsibilities and strengthening partnerships (Droop, Isenman and Mlalazi, 2008). This partnership-based approach to development calls for: 1) generating and agreeing upon shared goals and obligations to be undertaken by the respective parties; 2) using information to monitor and review performance; and 3) discussing and negotiating necessary adjustments to the shared agenda (Driscoll and Wathne, 2008).

Behavioural change can be brought about through rewards, sanctions and/or peer pressure. The basis for mutual accountability in the Paris Declaration is the joint recognition that this can help motivate both donors and partner countries to live up to their aid and development commitments. However, there are important obstacles to this mutual accountability. One is competing lines of domestic accountability, which, as the Paris Declaration Evaluation Synthesis Report noted, can lead to political sensitivities. Another is the greater power of donors, particularly through their discretion on commitment and disbursement of their financing. These mean that “hard” mechanisms of accountability are not feasible and that reliance must be on voluntary collaborative mechanisms. The challenge is to make these mechanisms as effective as possible in fostering change in behaviour, in order to achieve better development results.

Progress towards the Paris Declaration commitments

Assessments of progress

Progress towards mutual accountability is assessed at country level, and gauged by the number of “*partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness*” (Indicator 12). As of 2005, 12 out of the 34 countries participating in the baseline Monitoring Survey (36%) had mechanisms of this type in place.² The goal is for all countries to undertake mutual assessments by 2010. However, both the 2008 Monitoring Survey and the Paris Declaration Evaluation find that progress towards this target has been slow. In fact, according to the 2008 Survey, only 13 out of the 55 countries reviewed (24%) had such mechanisms as of 2007. Progress towards greater mutual accountability, like managing for results, is hampered by the lack of clear definition – a view that is widely shared.³

This may be in part because, unlike ownership, alignment and harmonisation – which featured prominently in the 2003 Rome Declaration – mutual accountability is a relatively new principle (see Box 5.1). Thus, the indicator on which agreement could be reached at that early stage was quite general and lacked a shared definition of what constitutes acceptable “mutual assessments”.

Box 5.1. Increasing awareness and understanding of the MA agenda

In recognition of the need to further clarify and develop the mutual accountability initiative, delegations from Cambodia, Laos and Viet Nam (including government, donor and civil society representatives) met on 6 July 2008 to “develop a common understanding of what mutual accountability means”. In addition to exchanging information and peer reviewing each other’s experiences, delegates proposed a set of “building blocks” that can help move the MA agenda forward. These include:

- fully operational multi-year frameworks and financing commitments;
- measurement of individual institutions’ performance against Paris Declaration principles;
- country-specific mechanisms for civil society and Parliament engagement;
- widespread capacity and mainstreaming of AE principles;
- databases with clear definitions and quality data;
- working groups/mechanisms with the right level and number of participants to maximise functionality and quality of dialogue;
- delegation of authority to country offices and availability of data at country level;
- headquarter support to provide standards, information, guidance and enabling conditions.

Source: Submission to the Working Party on Aid Effectiveness, “Recommendations to progress the achievement of mutual accountability” from the Joint Initiative on Mutual Accountability: Cambodia, Laos and Viet Nam (July 2008).

Mutual accountability also depends upon all parties having sufficient capacity to hold the other parties to account. However, as discussed above, capacity limitations within governments (and CSOs and parliaments) often undermine aid effectiveness, and available capacity is often not drawn on to full advantage. The need to build a range of capacities was repeatedly emphasised at the Regional Consultations for the HLF-3 held in Africa and in East and South-East Asia.

Despite the undeveloped nature of the MA system as a whole, the Evaluation finds that “more pieces of the solution are actually at hand than is generally assumed” and that there is “quite a wide range of existing and evolving mechanisms for mutual review at various levels which make contributions toward fulfilling this commitment.”⁴ For example, in a number of countries, donors and recipients have agreed on localised aid effectiveness agendas, some with strong elements of mutual accountability (as is the case, for example, with the Independent Monitoring Group in Tanzania and the Independent Monitoring Report in Viet Nam).⁵ Similarly, in most countries there are forums for two-way dialogue, including Consultative Group meetings and Sector Working Groups, many of which go beyond the exchange of information. Further examples of mutual accountability mechanisms are highlighted in the Paris Declaration Evaluation and the JV

MfDR-sponsored report on mutual accountability at the country level (Driscoll, Steer and Wathne, forthcoming).

Strengthening domestic accountability: parliaments and participation

It is important for donors and partners to ensure that MA relationships complement, rather than crowd out, national accountability between governments and citizens. For government, this means ***expanding good practice in involving civil society and parliament in its engagements with donors***⁶ (PD § 48). The recent Eurodad report *Turning the Tables* highlights a number of cases where civil society has participated in aid-related policy dialogue (for example in Cambodia's Technical Working Groups and Ghana's Consultative Group meetings) (see Box 5.2). However, these examples of good practice have not yet become general practice, and too often the quality of participation remains low. Furthermore, even where civil society is invited to meetings, parliaments and CSOs are rarely included in the formulation of MA mechanisms, nor are they sufficiently informed about domestic resource use and the amounts and types of aid coming into the country.⁷ For donors, increasing complementarity means being transparent about their aid flows as well as (where appropriate) supporting local accountability mechanisms. It also means better explaining to their own domestic accountability mechanisms, including parliaments, the importance of mutual accountability.

Civil society can also play a stronger role in helping move the MA agenda beyond aid management. The joint donor report *Making Aid More Effective through Gender, Rights and Inclusion: Evidence from Implementing the Paris Declaration* (Oxford Policy Management Limited, Social Development Direct and workingtogether Ltd., 2008), finds that bringing parliament and NGOs into the accountability framework can enhance accountability to international and national commitments in areas such as gender equality and human rights.

Box 5.2. Domestic accountability

There are many examples of both local and international NGOs taking steps to strengthen domestic accountability, including:

- In Afghanistan, the local umbrella NGO ACBAR conducted an independent review of donor performance and aid effectiveness.
- In Cambodia, the NGO Forum organised a CSO Forum on Aid event where donors accounted for their aid programmes.
- International NGOs such as AFRODAD and the Parliamentary Centre are working to raise parliamentary capacity through training and information sessions.

Source: Eurodad, *Turning the Tables* and the Joint Venture on MfDR-commissioned study by the ODI on MA at the country level.

Improving information on aid flows

Sufficient information is key to strengthening country ownership and MA. Yet progress towards better provision by donors of information on aid flows is lagging (PD § 49). Most of the Paris Declaration evaluations, by both donors and partners, report “continuing serious difficulties involved in securing and providing timely, transparent and comprehensive information”. In fact, such information is “widely found to be missing or inadequate, even in relatively strong systems” (Wood *et al.*, 2008, Chapter 3.21). Concerns about inaccessible donor information were also raised by civil society and government interviewees in all seven countries reviewed for the Eurodad report *Turning the Tables* (see Box 5.3). (For a more in-depth discussion on this subject – including aid predictability, aid management and aid on budget – see the alignment section above).

Box 5.3. Databases on development assistance flows

Databases to record development assistance flows, managed by the government and/or donors, have emerged in a number of countries. However, the extent to which these databases are able to capture flows in an up-to-date and comprehensive manner varies.

“The most comprehensive information on aid flows available online from the case studies is from Mozambique. The ODAMoz database (www.odamoz.org.mz) was created in response to the Paris Declaration to collate all information on commitments and disbursements from donors to the country including relevant information on joint funds. The database is user-friendly and data quality is good. Information is updated on a quarterly basis, following Mozambique’s official budget cycle.

This initiative still has challenges to overcome: the database relies on donors providing accurate figures, only includes members of the Development Partners Group (therefore excluding Chinese aid, for instance) and there are problems of double counting when donors implement projects through UN agencies. The government says the information is still inadequate for their macro-economic and budgetary analysis, and most CSOs are unaware of its existence” (Eurodad).

Source: Eurodad, Turning the Tables.

International accountability mechanisms

The emphasis of the Paris Declaration (both for mutual accountability and the Paris principles more generally) is on results at the country level, but measures are needed at both country and international levels to achieve them. Although the Paris Declaration specifically refers to country mutual accountability mechanisms, international mechanisms which promote mutual accountability complement these country-level mechanisms by strengthening the incentives and the political momentum to accelerate the pace of reform. While these international mechanisms apply to both donors and partner countries, they play a particular role in strengthening donor accountability as – given the power imbalance – aid-dependent countries often find it difficult to unilaterally hold donors to account.⁸ As such, a number of international accountability mechanisms (both official and non-official) have been developed over the past few years including mechanisms that provide independent and frank information on donor and partner performance, forums for debate, peer reviews and mechanisms by which donors and partners oversee the performance of one another. Current two-way accountability

mechanisms include: the High-Level Dialogue for assessing Financing for Development, the Africa Partnership Forum, the Global Monitoring Report and the Paris Declaration Monitoring Survey.⁹ Indeed the Paris Declaration itself, and the process from Rome to Paris to Accra, are key international mechanisms of mutual accountability. However, there is a need to increase the coherence, strength, partner-country participation and in-country effect of these mechanisms.¹⁰

Implications for the future

Ensuring greater aid and development effectiveness partly depends on partner countries and donors being held accountable for their commitments. However, acceptable mutual assessments – as defined by Indicator 12 – have yet to be established in the majority of partner countries. A number of promising measures have been raised in the context of work by the Joint Venture on MfDR on mutual accountability. One is greater voice for partner countries, building on the strong leadership by partner countries at the country level and on the role of partner countries in the Working Party on Aid Effectiveness at the international level. A second measure is welcoming independent analysis by think tanks and NGOs, at both the country and international levels, as well as closer involvement of parliaments. A third, again at the country and international levels, is improving the evidence base: a key element would be to make data on aid flows, quality and results promptly and widely available. Donors and partners can also keep strengthening country-level accountability mechanisms through agreed and jointly monitored action plans on aid effectiveness, harmonising and aligning support for capacity development, and continuing to build mutual accountability mechanisms into a genuine system that would produce complementarities in changing incentives and behaviour.

Notes

1. The case for mutual accountability is set out in “Background Paper on Mutual Accountability”, presented at the Third International Roundtable on MfDR in Hanoi on 5-8 February 2007, www.mfdr.org/rt3/Glance/Documents/MA&P_final.pdf.
2. The 2006 Monitoring Survey reported that 15 of the 34 countries participating (44%) had such mechanisms in place. However, as a result of subsequent data cleaning, the baseline is now estimated to be 36%, or 12 out of the 15 countries (OECD, 2008a).
3. Lack of common and clear targets was raised as a key difficulty in the donor self-assessments as well as several of the 2008 Monitoring Survey draft country chapters (OECD, 2008a; 2008b).
4. See Wood *et al.*, 2008, Chapter 3.20 and 3.21.
5. Examples include: Harmonisation Action Plans, Aid Policies, Aid Compacts, Partnership Principles, Performance Assessment Frameworks, Memoranda of Understanding and Joint Assistance Strategies. However, the extent to which these documents are jointly created and owned, as well as the extent to which they include commitments and indicators for both donors and governments, varies. For further details, see Driscoll, Steer and Wathne (forthcoming).
6. The Evaluation finds that partner countries are moving forward in their commitments to strengthen the role of parliament and expand participation. See Wood *et al.*, 2008, Chapter 3.21.
7. Reasons given for low quality of participation include lack of capacity as well as the structure of the forum; a number of NGO representatives have stated that the structure of the groups do not encourage CSO debate and input. See “DRI Issue Note 5” available at http://weca.files.wordpress.com/2008/05/issues-note-5_mutaccountability-revised.doc and “Turning the Tables: Aid and Accountability under the Paris framework at www.eurodad.org/uploadedFiles/Whats_New/Reports/Turning_the_Tables.pdf.
8. “The question [as to whether accountability can be fully mutual] was explicitly raised in two country evaluations about the relative means available to the two parties for assuring compliance, pointing out that the donor’s option of reducing or withdrawing its aid has no matching equivalent in the hands of the partner country, which is always constrained to whatever degree it considers the aid involved important” (Wood *et al.*, 2008). The issue of power imbalance was also raised in both the Pacific and African Regional Workshop on AE. However, while there is a clear power imbalance, it is important to recognise that there are constraints on donors as well, including pressure to disburse, www.accrahl.net/WBSITE/EXTERNAL/ACCRAEXT/0,,contentMDK:21690833~menuPK:64861647~pagePK:64861884~piPK:64860737~theSitePK:4700791,00.html.

9. “Paris Declaration on Aid Effectiveness: Study of Existing Mechanisms to Promote Mutual Accountability (MA) Between Donors and Partner Countries at the International Level”, p. 7.
10. *Ibid.*

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Chapter 6

Sector Perspectives

Applying the principles of the Paris Declaration at the level of sectors is critical to maximising the impact of aid and achieving development objectives. This chapter presents the special efforts that are being made in particular in health, education, agriculture, infrastructure and aid for trade.

Aid effectiveness at sector level is crucial and often difficult to achieve

Sector-level policies, institutions and programmes do much to determine success in achieving development objectives. The value of the Paris Declaration principles in promoting aid effectiveness at this level therefore goes a long way to determining its overall usefulness. It is at sector level that many of the most challenging practical issues arise, and where the intersection of global programmes with other aid modalities is often sharpest. It is also at this level where progress with cross-cutting issues and building partnerships with civil society as advocates, funders and service providers is often realised.

The mechanisms needed to implement the Declaration in sectors are largely in place, and major efforts are being made to strengthen them: national development strategies and sector strategies; Consultative Groups and other high-level forums, complemented by sector working groups; and general budget support, linked to SWAs, PBAs and sector budget support. Progress at the sector level is often a necessary condition of wider progress; for example the Paris Declaration Evaluation finds that progress towards establishing result-oriented development frameworks is generally stronger at the sector level (Wood *et al.*, 2008, Chapter 3.17) and the World Bank's review *Results-Based National Development Strategies: Assessment and Challenges Ahead* finds that in a number of fragile states, "elements of operational development strategies and results-oriented frameworks are emerging at the sectoral level" even though the country lacks the capacity for a national plan.

Yet applying the Declaration principles at the sector level is often fraught with obstacles. For example, the Paris Declaration Evaluation Synthesis Report finds countries often face difficulties in translating their national strategies into sector strategies (Wood *et al.*, 2008, Chapter 3.1); likewise, ownership tends to be greatest in central government, rather than sectorally (Wood *et al.*, 2008, Chapter 3.4);¹ and, while donors widely support national strategies, in practice, they tend to fund the sectoral strategies that are either demonstrably strongest and/or closest to their own priorities (Wood *et al.*, 2008, Chapter 3.11), resulting in sub-optimal resource allocation.

Particular importance has been given to SWAs. By providing assistance through these mechanisms, donors can co-ordinate their assistance, agree on a common framework, reduce recipient country transaction costs and align with sector strategies. SWAs also provide a channel for scaling-up aid to achieve the MDGs. To date, the majority of SWAs are in the health and education sector, although a number exist in other sectors as well, including agriculture and infrastructure.² However, as pointed out at the Kigali consultations workshop for Accra, "a SWA is a process rather than a 'one-size-fits-all' financing instrument, and it needs to build on sound sector analysis that takes into account country and sector specificities."

The chapter examines experience with applying the principles of the Paris Declaration to a range of areas: health, education, agriculture, infrastructure and aid for trade. These areas have been selected on the basis that they are central to the achievement of the MDGs, and offer lessons on ways forward in applying the Paris Declaration in the economic and social dimensions of development.

Aid effectiveness and health

While there has been significant global progress in some health-related MDGs – for instance, most regions have experienced a decline in child mortality, and around 3 million people are now receiving ARV treatment – the health sector remains characterised by large unmet needs; outcomes that depend on many other sectors; challenges in building sustainable and more efficient health systems; out-of pocket contributions which often equal or exceed public finance; and the need for robust national strategies with operational plans and budgets. Aid for health is similarly fragmented, and has almost tripled over ten years.³ Much of the recent increase is attributable to the political and financial emphasis placed upon specific diseases, particularly HIV/AIDS, tuberculosis and malaria. At the same time, the channels through which both funds and commodities are supplied have multiplied.

There are several important manifestations of ineffective health aid at country level, as follows:

- Aid is often poorly aligned with government priorities and little attention is paid to building the systems that are needed to deliver better outcomes. Past analyses have illustrated the disconnect between national priorities and donor allocations. Recent work, on the other hand, highlights the scarcity of resources for use in systems building, compared to the amounts available for specific diseases and technical collaboration.⁴
- Aid for health is poorly harmonised, increasing the transaction costs for governments. The impact of fragmentation is felt in terms of time taken responding to demands (multiple reports, missions etc.); in wage increases resulting from donor competition; and in inefficiencies that result from multiple sources for procurement.
- Aid can be unpredictable, short-term and volatile. In a sector with a heavy recurrent cost burden (for salaries and drugs particularly), unpredictability acts as a major constraint to effective budgeting and sustainable financing. There is growing acceptance of the need to link disbursements in some measure to performance but many of the causes of unpredictability are not performance related and need to be addressed.
- Aid fragmentation and unpredictability can undermine the leadership role of the ministry of health. Diversity of funding and unpredictability of aid can make it difficult for the ministry of health to develop a coherent sector policy and to ensure sector regulation. Nevertheless, a diversification of funding sources, and in particular the emergence of new global health funds, has helped to leverage significant additional resources for the sector, which are contributing to improvements in health outcomes.
- Changes in aid modality can have unintended consequences. Three trends emerge from recent analyses. First, the move towards general budget support can negatively impact on the health sector if finance ministries perceive health to be generously treated by global programmes. Second, the capacity of countries to set spending priorities are constrained as increasingly global and regional priorities dominate decision making. Third, existing funding flows for NGOs/CSOs in partner countries also provide essential services within the health system but their

reach and effectiveness require qualitative planning, regular monitoring, effective co-ordination with the public health system and contribution to overall capacity building. Possibilities and effectiveness of addressing these challenges differ of course between countries and are particularly challenging in the context of conflict of fragile countries.

- Allocations of aid between countries with similar health indicators grossly favour some at the expense of others, and countries with comparable levels of health need and performance (expected effectiveness of use of resources) often receive remarkably different levels of assistance.

Implementing the Paris Declaration in the health sector. The following are examples of areas in which substantive progress can be reported. A Task Team on health as a tracer sector is tracking this progress (as well as remaining bottlenecks).⁵

- **Ownership, alignment and harmonisation** are reflected in the “Three Ones” (one national plan, one co-ordinating authority, and one monitoring and evaluation framework) developed in response to HIV and best practice principles for Global Health Partnerships at country level. The full report on health and aid effectiveness reviews evidence of how these principles have been implemented in practice.
- **Building on the experience of sector-wide approaches:** There is a significant body of experience, opportunities and challenges in developing and implementing sector-wide approaches over the last 10 years.⁶ Lessons from SWAps in health and other sector have been influential in the design of the International Health Partnership (see below).
- **Increasing alignment and predictability of aid:** Recent focus interventions from the GAVI Alliance; the Global Fund to Fight AIDS, Tuberculosis and Malaria; UNICEF; WHO; and the World Bank are targeted toward system strengthening and work closely with partner countries. The Global Fund has broadened the scope for financing health systems strengthening as a means of improving outcomes. It will also consider new approaches to funding national strategies through SWAps and other pooling mechanisms. The GAVI Alliance Health Systems Strengthening window is linked to national planning processes and allows countries to focus on key systems constraints. A recent review shows that proposals more closely aligned to national priorities are more successful in receiving funds (Hill *et al.*, 2007). Innovative funding, (such as the IFFim, UNITAID, the AMC, etc.) provide new opportunities for long-term financing arrangements with countries. A recent study on the constraints for donors to provide long-term health aid also shows increasing evidence of long-term commitments of aid for health in the agencies reviewed (Lane, 2008).
- **Harmonisation:** New initiatives, collectively referred to as the International Health Partnership Plus (IHP+), are directed toward strengthening national systems and bringing greater coherence in the donor response at country level. Co-ordination of IHP+ is provided by the eight global health agencies (H8),⁷ which meet bi-annually in an effort to increase the coherence of their work. There are also a number of health SWAps in place.
- **Increased mutual accountability and country ownership:** A number of countries are developing robust compacts for mutual accountability, which

include outcome-oriented national plans and strategies and detailed financial commitments. Ethiopia, for instance, is implementing the third phase of the national Health Sector Development Program (2006-10) with the support of donors who signed the harmonisation Memorandum of Understanding in September 2006. A Harmonisation Manual serves as a roadmap for future progress in the areas of harmonisation and alignment. Ethiopia and other developing countries benefiting from additional support from the donor community through the IHP+ are at various stages in developing country compacts. Also, the GHPs and UNAIDS have demonstrated the benefits of systematic and statutory involvement of civil society at both policy and implementation level. Further, the response to HIV has been the first attempt to deal with a health challenge in a truly multi-sectoral way.

- **Managing for results:** Under the aegis of IHP+ there is agreement on a common monitoring framework for scaling-up health at country level with strong buy-in from recipient countries. Assessing progress on improving aid effectiveness in health is integral to this framework. Global programmes have showed a strong focus on results towards improved health impact, supported by strong performance incentives.

Main messages. Five main lessons have emerged from the ongoing work on health as a tracer sector:

- First, increasing the availability of long-term, flexible financing for health remains a challenge for the entire health system composed of public as well as private institutions and providers (including NGOs/CSOs).
- Second, behaviour change is taking place: Despite the case to be made for increasing sector-wide co-ordination, recent analyses show that remarkably few countries receive this kind of support consistently. There are ongoing efforts to both widen the application of sector approaches that better link additional investments to the achievement of health outcomes and, through the development of compacts, give them greater influence on the behaviour of donors and recipients.
- Third, widening the circle remains crucial: While there is consensus on the need to improve effectiveness of aid for health in principle, practice among donors varies widely. Some of the GHPs have shown examples that it is hoped more parties will increasingly follow.
- Fourth, increased focus on mutual accountability is essential, and this remains an important agenda point. Reporting back and learning from progress in countries will be critical. Also, recommendations and lesson-learning from the UN Special Rapporteur on the Right to Health provides one basis for moving forward.
- Finally, while all low-income countries need the capacity to manage aid effectively, particular consideration is required for the needs of fragile states.

Aid effectiveness and education

MDGs on education have received widespread support from the international development community, resulting in a strong push for universal primary education. At the same time, though, donors are also funding other sub-sectors, including higher

education and international scholarships. SWApS are dominant in education since it is often the largest sector in the national budget and receives heavy public financing; however, SWApS are often restricted to primary education. As with health, applying the Declaration in the education sector requires harmonising existing financing, co-ordination and monitoring mechanisms and delivery systems; as well as education policies and capacity-building efforts, and promoting ownership by developing country partners.

Two of the main studies⁸ commissioned to assess Paris Declaration implementation in the education sector are still underway, making it difficult to assess progress to date. However, preliminary findings (based largely on the 2008 Education for All Global Monitoring Report⁹) indicate that while governments' efforts to develop and implement national education sector plans have gained momentum,¹⁰ in many partner countries ownership remains inadequate, in part because there is insufficient capacity for policy making, planning and service delivery. Although efforts are underway to build local capacity, this remains work in progress. There is also a need for taking a sector-wide approach to achieving the education goals, focusing on all levels of education. Furthermore, "Although civil society has played a much more visible advocacy role [...], opportunities to engage with government in setting national education agendas remain limited" (UNESCO, 2008).

To facilitate greater accountability and alignment, partner governments are taking steps to increase the capacity and credibility of their country systems. For example, the Global Monitoring Report concludes that "[m]any individual governments have installed expenditure tracking systems and other procedures to reduce opportunities for directing financial resources away from schools and other institutions, and to ensure that other resources (such as teachers) are deployed in situations where they will be most efficient and effective." The report also finds some "evidence of governments and civil society organisations working together, often in innovative ways, to improve the transparency and accountability of budgeted expenditure." However, concerns about weak country systems and low capacity remain.

In part because of these concerns, considerable efforts have been made to increase donor support for, and alignment with, country systems, though results have been mixed. SWApS, including the provision of direct budget support, were developed for the education sector from the mid-1990s and funding to education through programme-based modalities, including SWApS, is on the rise.¹¹ Still, use of these modalities varies significantly between donors and there is a general case for channelling more funds through government systems, with continued emphasis on capacity building and collaboration between partners and donors in such areas as sector planning and implementation, development of statistical and modelling tools, and monitoring systems, building on progress so far made through the Fast Track Initiative (FTI). Experience suggests that successful adoption of a programmatic approach is conditional upon a well-prepared plan to which the government is committed, sectoral backing of key ministries including the finance and personnel offices, a strong and transparent country PFM system, broad-based support, and the political and service delivery capacity needed to implement strategies (UNESCO, 2008). Participating in the Education for All global mechanisms and the FTI is one way by which governments and donors can move forward on the alignment commitments (see Box 6.2 for details).

The Global Monitoring Report indicates that some progress has been made in the education sector in moving towards greater harmonisation; however, more could be done (see Box 6.1). Where full alignment with country systems is not possible, effort is needed

by donors to consolidate funding into joint accounts defined by common disbursements, accounting, reporting, auditing and procurement systems in order to have accountable and transparent public financial management. There is also need for rationalising donors' roles; according to the report, 20 low-income countries have eight or more major donors active in the education sector (and ten have at least 12 donors).¹² Another issue for harmonisation is that functions of the UN agencies have not been well defined in the aid effectiveness debate (*e.g.* a number of organisations in the UN system are specialised technical agencies and not donors).

Box 6.1. Aid effectiveness in education: Tanzania and Bangladesh

Tanzania: Donor support in the past was fragmented, including in the education sector, leading to large inefficiencies, high transactions costs, and difficulties in strategic planning and results monitoring. Budget support, a preferred modality for donor financing, has resulted in harmonisation and alignment and improved results through greater country ownership thanks to improved accountability. However, some challenges remain, including the need to balance harmonisation with a more simple and flexible approach to communication, technical assistance and policy dialogue. Furthermore, skill sets of donors and sector line ministries are not necessarily suited for policy dialogue.

Bangladesh: In Bangladesh, a SWAp was developed for formal primary education. After an initial review of the programme revealed that government and donor co-ordination remained poor, the second pooled Primary Education Development Programme was governed by a code of conduct, directing the donors outside the pooled fund to minimise duplication of documentation and demands on government time. However, in particular, there is a need for enhanced co-ordination of capacity development efforts by the government, better monitoring and evaluation of outcomes, improved policy dialogue on education quality, and shared understanding of Paris Declaration principles both by government and donors.

Source: UNESCO (2008), *Education for All by 2015 – Will We Make It?*, EFA Global Monitoring Report 2008, UNESCO Publishing, Oxford University Press, <http://unesdoc.unesco.org/images/0015/001547/154743e.pdf>.

An international managing for results tool is already in place in the education sector. The annual Education for All Global Monitoring Report provides the latest data available and in-depth analysis on progress towards Education for All goals, country policies, aid for basic education as well as aid effectiveness, and offers a direction for the High-Level Group meetings. It is supplemented by review processes and numerous reports produced on aid effectiveness at the country level. However, country-owned monitoring tools are notably absent in many countries. Monitoring and evaluation capacity (including statistical capacity) will also need strengthening.

Mutual accountability: There is also a widely felt need for more open, transparent, consultative dialogue with all stakeholders. Civil society has a key role to play in service delivery, formulation of national education sector policies and holding governments accountable. However, the participation of civil society may be restrained in the partnership with government and donors. In fact, in a number of countries, the participation of CSOs is significantly restrained by government. Experiences of Tanzania and Kenya indicate that direct donor funding which is programmatic and long-term is crucial for the effective development of civil society (Mundi and Maclure, 2006).

The FTI Secretariat has initiated an education sector survey of the Paris Declaration Indicators, which is closely aligned to the 2008 Paris Declaration Monitoring Survey. FTI

partners have acknowledged the education survey as an important instrument to obtain a higher degree of mutual accountability in order to increase effectiveness in the sector. They endorsed that monitoring of the Paris Declaration Indicators will be compulsory for countries receiving funds.

Box 6.2. Education for All, a foundation for increasing aid effectiveness in education, and the Fast Track Initiative, a mechanism for additional financial mobilisation and support

Education for All,¹ an overarching framework for co-operation in education, lays a sectoral foundation for increasing aid effectiveness based on the Paris Declaration principles, particularly ownership, alignment and harmonisation. Several Education for All mechanisms provide a platform for deepening partnerships, building consensus, harmonising contributions and discussing aid effectiveness issues in the education sector such as levels and modalities of aid. These include the Education for All International Advisory Panel, Working Group and High-Level Group convening Education for All partners (including governments, international organisations, bilateral and multilateral donors, civil society and the private sector). Much work remains to be done to better align these global mechanisms with the practical actions needed to support and strengthen country-level processes (UNESCO, 2008).

The Fast Track Initiative, one of the global programmes that are discussed below, is intended to help low-income countries make faster progress towards the MDG of universal primary education.² In addition to providing over USD 1 billion in direct financial support,³ the FTI also promotes more effective use of aid in line with the Paris Declaration by encouraging donors to align their support to the greatest extent possible behind a single nationally led education sector plan. The global agreement reached in the FTI on an endorsement process for education sector plans ensures common sectoral priorities to which all aid should be aligned and harmonised. FTI is also implementing a survey intended to systematically monitor Paris Declaration indicators in the education sector, as part of the joint annual review process. However, more work remains to be done to better ensure use of the most aligned modalities, avoiding duplication and ensuring full mutual accountability based on the education sector plans for all partners.

Notes

1. A commitment to achieve quality basic education by 2015, made by over 160 countries, civil society and multilateral agencies in Dakar in 2000.
2. Supported by all of the major bilateral donors working in the education sector as well as the World Bank, UNESCO, UNICEF, the EC and other multilateral agencies.
3. The FTI currently has pledges of just over USD 1.3 billion through 2009 for the FTI Catalytic Fund and the FTI Education Programme Development Fund. These are multi-donor trust funds administered by the World Bank.

Cross-cutting issues: To mainstream cross-cutting equity issues in country-level and sectoral processes and to ensure government ownership, a proposal on a simple user-friendly tool is being developed to help ministries of education and other stakeholders to include commonly excluded groups through a consideration of gender, HIV, disability, child labour and other equity issues.¹³ The UNESCO Global Action Plan proposes to develop and to integrate education processes in strategies for sustainable development. It is focused on the creation of an enabling environment; capacity-building opportunities; inter-sectoral co-operation; and participation of education institutions, media, private sector, civil society and UNESCO National Commissions at the country level. A human rights-based approach to Education for All is a joint UNESCO/UNICEF framework for the realisation of children's right to education and rights within education. It presents key issues and challenges in rights-based approaches and provides a framework for policy and

programme development from the level of the school up to the national and international levels.

Delivering effective education aid in situations of fragility: A number of discussions are currently taking place to identify fit-for-purpose financing tools for restoring education where systems have wholly or largely broken down. Pragmatic tools involving constructive risk mitigation will need to be developed to address the needs of these countries. For instance, funding for the Primary Education Reform Plan in Liberia is being provided mainly through an innovative programme which seeks to help build capacity and restore accountability in the sector, while supporting plan implementation through pooled funding that involves a number of local donors.¹⁴

Implications for the future

Some key actions can be drawn from lessons learnt in the education sector. The various sources of external financing for education need to be better co-ordinated in order to effectively fill funding gaps. Instituting monitoring of Paris Declaration Indicators in countries, as part of their annual monitoring, could be discussed during joint annual reviews and communicated to the global level. Current global and regional mechanisms and initiatives should be redesigned to gear them more towards country needs. Developing interim strategies to support countries with weak systems and low capacities as they make the transition towards sector-wide support will be key in this effort. In addition, aligned delivery systems and financial mechanisms should embrace the whole sector and not be limited to a particular sub-sector. Having been developed at the global level, the frameworks on cross-cutting issues of inclusion, environmental sustainability and human rights should now guide the country-level work and be tested on the ground appropriately.

Donor co-ordination mechanisms at the sector level and national aid management systems must be linked. There is a need to provide capacity in strengthening a wide range of skills in sector line ministries for effective participation in policy dialogue. On the other hand, donor staff competence and resources will enhance national co-ordination and inter-ministerial co-operation, and understanding of the diversity of roles and power relations in a society. Partner countries and donors should also foster civil society's cutting edge in providing innovative policy analysis and holding government accountable. Finally, there is a case for recognising the roles of UN agencies and strengthening their integration in various processes to increase aid effectiveness.

Agriculture and aid effectiveness

The present food crisis has brought into sharp relief the fact that agriculture and rural development offer the greatest opportunity to overcome hunger and poverty, and to address cross-cutting issues, particularly gender equality and the environment. However, the diversity of agricultural production systems and livelihoods requiring heterogeneous and context-specific solutions and the absence of key stakeholders (e.g. private sector, CSOs) pose major challenges to the application of the Paris Declaration principles. While budget support, PBAs and SWAs are important instruments for alignment and mutual accountability, projects are also a valid modality, particularly in areas where the state plays a limited role.

With 75% of the world's 2.1 billion poor being rural and most depending on agriculture for their livelihoods (World Bank, 2007), providing jobs for 1.3 billion smallholder and landless workers, better and more investments in the sector are needed to overcome poverty and fight hunger. Aid effectiveness, and indeed development effectiveness, in the agricultural sector is critical to achieve the MDGs and beyond, especially in light of recent cuts to funding. Furthermore, agriculture offers vital opportunities for equitable growth and development.

Because of the special features of this sector – including the role of individuals in agricultural activities, the role of the private sector, the role of non-governmental actors and the context-specificity and diversity of agricultural production systems – the agriculture sector faces some unique challenges in applying the Paris Declaration principles.

Ownership.¹⁵ Ownership is difficult to define in a sector where private initiative is the main driver, the role of the state is contested and where there is a multiplicity of stakeholders. Further, weak rural institutions and limited rural participation in policy processes contribute to ownership “gaps” in policy formulation, planning and resource allocation. To date, there has been a low level of attention paid to agriculture in the first iterations of poverty reduction strategies (PRS) and Joint Assistance Strategies (JAS), which have tended to emphasise the public provision of social infrastructure and services, and paid less attention to productive sectors. Although agriculture features more prominently in the second generation of PRS papers, there remains a lack of clarity as to the most effective approaches for rural poverty reduction and the role of agriculture. Lessons so far highlight the need for governments to better co-ordinate sector processes, and manage the engagement of all stakeholders at all levels.

Alignment. The formulation of JASs in Ghana, Kenya, Uganda, Zambia and Tanzania, and agricultural SWAs in Nicaragua, Honduras, Mozambique and Tanzania has significantly improved the alignment of aid with government policies and management systems. In Africa, the Comprehensive Africa Agriculture Development Programme process, as part of NEPAD initiative, increasingly provides a policy and investment framework for further alignment at regional and country level. Agricultural SWAs and PBAs have focused on supporting the way public institutions mobilise and use resources in the agriculture sector. However, despite the importance of private operators in the sector, PBAs and SWAs have so far achieved little in terms of strengthening the public-private sector interface. In a number of cases, debates over the right mix of public and private sector investment and the appropriate forms of public involvement persist, with consequences for coherence and pace of SWA implementation. Experience shows that alignment is a two-sided process involving both internal alignment within the government system (around national, sector and decentralised policies and strategies) and external alignment by donors. The agro-ecological context, the complexity of rural and agricultural production systems and the multiplicity of stakeholder interests mean that progress towards a comprehensive SWA or sector strategy can be slow and faltering. A key challenge is how to make the SWA process, which is inevitably quite centralised, consistent with decentralisation measures and efforts to support local demand-driven development. Also, the lack of capacity within the government systems (partly due to brain drain to the private sector, donor agencies and NGOs) represents a major challenge to successfully implementing SWAs in the agricultural sector both at national and local levels.

Harmonisation. PBAs have provided an important contribution in terms of harmonisation of donor programmes in the agricultural sector.¹⁶ In Tanzania, for example, aid management is improving in the sector (including project aid flows), in part because of the integration of the Agriculture Sector Development Programme with the Poverty Reduction Strategy and Medium-Term Expenditure Framework. In countries where JASs and SWAs have been initiated by partner countries involving the agricultural sector, multilateral and bilateral donors have developed their support programmes in line with those national strategies and country systems. But despite progress, there is a general concern that the amount of time and resources being devoted to the process “architecture” is imposing additional burdens on all national stakeholders at the cost of ensuring the delivery of effective investments and services in rural areas. Furthermore, political statements on harmonisation are not adequately backed by changing internal processes and incentives of both donors and partners countries. There is no widely accepted donor code of conduct in the sector; however, the Global Donor Platform for Rural Development has developed guidelines for effective PBAs and SWAs in agriculture and rural development.

Managing for results. The definition of intended results remains weak both at donor and partner country level, compounded by poor statistical capacity and budgetary processes (*e.g.* results are still almost exclusively focused on volumes of production, rather than technology uptake, access to markets and other results related to performance). PRSs, JASs, PBAs and SWAs have allowed the identification and initial analysis of some of these issues. Consequently, outstanding tasks include the development of public expenditure analysis (and monitoring) and the establishment of frameworks for tracking progress at the input (budgets), output (service provision and investments) and outcome (productivity, production, income and nutrition) levels. The challenge will be to distinguish between agricultural governance performance (the provision of public goods and the creation of a sound policy framework) and agricultural sector performance, bearing in mind that the latter depends not only on policy interventions but also on private initiatives and exogenous factors (including weather and trends in international markets).

Mutual accountability. Considering the important role of the private sector and CSOs in agriculture, the application of mutual accountability has been a major difficulty, in conceptual terms and in practice. Only at the level of donors and partner countries have some of the salient issues (*e.g.* aid flows, and country mechanisms) begun to emerge. The systematic reinforcement of participatory approaches and inclusion of all key stakeholder and their institutions is the way ahead for the agricultural sector to improve donor and partner country accountability for development results.

Aid effectiveness in the infrastructure sector

A recently completed joint study¹⁷ of 12 country cases shows how the principles of the Paris Declaration apply to the infrastructure sector. The report, prepared as a contribution to HLF-3, and largely based on water and sanitation sector projects, suggests that the size and complexity of some infrastructure projects results in unique challenges, including partner country capacity constraints and donor difficulty in aligning with country systems. The following provides a sample of the challenges faced and progress made in implementing the Paris Declaration in the infrastructure sector:

Ownership: As in other sectors, ownership is key in infrastructure. It applies not only to the development of plans and strategies but to implementation as well. All infrastructure projects reviewed are based upon strategies and/or plans prepared by the government (though with donor support for consulting services in some cases), and most have clear links to sector strategies and/or the PRSP. However, it is important to note that the existence of a plan does not in itself demonstrate government leadership. Such leadership includes elaboration and adoption of a plan by government itself and pursuit of project materialisation by political leaders. Autonomous decision and implementation of the projects at the local government level is also an important element of ownership, as is sufficient partner government capacity. While progress has been made in some areas, some obstacles remain, including donor pressure to develop strategies and plans, a lack of systematic linkage between plans and donor funding outside the budget.

Alignment: Some partner countries have built robust procurement and PFM procedures for infrastructure (often assisted by their project implementation experience financed by external aid), and donors are beginning to align with them for both international and national tendering. While building reliable procurement systems is making progress in some countries, there are others in which country systems are unreliable and the use of donor systems are still warranted. Greater effort is needed to strengthen these systems. In some countries, project and programme aid are on budget regardless of the aid modality. There are also cases where donors use the government treasury system for disbursement. However, in others, projects directly disburse to the beneficiaries without passing through the government accounts (notably to avoid payment delay).

Weak government capacity and the complexity of infrastructure projects requires specialised capabilities and staff, so PIUs (especially if they can be built within the existing government structure) should not be too quickly dismissed: they can and should be used as far as possible to contribute to develop reliable country systems, critical for achieving maintenance and sustainability. Several partner countries in the infrastructure study linked weak capacities to what they see as a general under-funding of the sector in many countries, despite its being accorded prominent attention in second-generation growth-oriented PRSPs and similar national strategies.

Harmonisation: Common policy or strategic frameworks (sector-wide approaches) are generally commendable even without pooled financing or budget support mechanisms. Findings from the report suggest that progress on donor harmonisation is particularly marked in procurement, whether through alignment with country systems or through common donor arrangements. The Five Banks initiative in Viet Nam is a good practice of this kind. SWAs with pooled funding are present in the water and sanitation sector, and the use of common policy or strategic frameworks for individual intervention, joint operational manuals and sector working groups are also practised. The presence of a small number of donors, especially if they adopt similar approaches, further facilitates harmonisation.

Management for results. Only a few of the projects reviewed had effective results-focused monitoring systems in place at the time that the project began, although most projects are now taking steps to put such mechanisms in place; most projects also incorporate system design and capacity development components. The report finds that smaller-scale, rural-based projects tend to have the best monitoring and results systems in place as they are completed in a shorter time frame (thus producing results more quickly) and tend to be closer to their beneficiaries. The report also finds that linking users with

the providers of services tends to result in greater monitoring by the community. While sustainability is essential to assure services provision, more attention has been given to new investment or rehabilitation, by both partner country governments and donors, than to assuring sustainability of infrastructure assets. This should be addressed across sectors and should be included in programme-based approaches.

Mutual accountability. Long project implementation periods provide the opportunity for both parties to work together to achieve shared objectives, and create opportunities for strengthening mutual accountability. Infrastructure directly linked to people's lives (such as water supply) tends to introduce participatory mechanisms for planning, implementation and operation and maintenance and can be used to reinforce government accountability vis-à-vis the beneficiaries, often by means of a representative body.

Overall experience to date shows that the principles of the Paris Declaration are fully relevant to the infrastructure sector, which faces challenges similar to other sectors. Specific lessons are: country ownership and leadership linked to government capacity to plan and manage complex projects is critical, as are sound procurement systems, especially for international competitive bidding; and the length of infrastructure projects provides an opportunity to strengthen managing for results and mutual accountability.

Applying the Paris Declaration principles to aid for trade

Many developing countries (in particular the least developed) face supply-side constraints that limit their ability to benefit from trading opportunities under the multilateral trading system. In addition, further liberalisation at the multilateral level will erode the relative benefit of trade preferences these countries currently enjoy, despite increasing overall access to markets such as the EU and the United States.

In recognition of these challenges, the 2005 Hong Kong World Trade Organization (WTO) Ministerial Declaration called for the expansion and improvement of Aid for Trade, and set in motion a process to achieve this. A WTO Task Force came up with a set of recommendations and called for the demand side and the donor response to be strengthened, and for the gap between demand and response at the country, regional and global level to be closed. Aid for Trade provides a framework in which to connect the wide-ranging assistance activities (from training negotiators to constructing roads) within a coherent trade and development strategy. It comprises support for: trade policy and regulations; trade development; trade-related infrastructure; building productive capacity; trade-related adjustment, including support to put in place accompanying measures that help partner countries to benefit from trade liberalisation; and other trade-related needs. The Paris Declaration sets out the principles for delivery of aid for trade.

The aid for trade framework builds on a system of mutual accountability between partner countries and donors. This links accountability at country (or regional) level to foster local ownership and ensure that the country's trade needs are integrated into its national development strategies with accountability at global level. Strengthened in-country aid for trade structures are intended to improve local ownership and management for results and increase the transparency of financial flows. Aid for trade is monitored at three levels: global monitoring of aid for trade flows based on the OECD Creditor Reporting System; and donor and in-country monitoring, both in the form of self-assessments. The monitoring system seeks to create incentives, through enhanced transparency, scrutiny and dialogue (*i.e.* putting a "spotlight" on progress), to foster

synergies between trade policy and other economic instruments in developing countries; and to improve the coherence of aid for trade with overall aid strategies.

The global periodic review of aid for trade (the first global review took place in November 2007) undertaken by the WTO, as well as its corrective feedback, should ensure that the needs identified locally – whether financial or performance-related – are addressed. The prospects for success in the aid for trade agenda are enhanced by having a lead agency, the WTO, which has an interest in ensuring that multilateral trade liberalisation benefits all of its members, many of them developing countries.

Assessment of progress (OECD, 2007; 2006). Most significantly, the initiative has strengthened the dialogue around trade. The Monitoring Survey concluded that delivering aid for trade is in practice guided by the Paris Declaration principles, and donors are harmonising procedures and aligning their support. While managing for results and practising mutual accountability are challenging, donors and partner countries are increasingly engaged in joint monitoring and evaluation.

In the Survey, donors and partner countries noted that the challenges in delivering aid for trade effectively are not unique but are, in fact, part and parcel of the broader aid effectiveness agenda. It is arguably still too early to expect solid evidence on results in the form of policy improvements in the area of aid for trade. There is, however, every reason to believe these will be forthcoming in the future.

Notes

1. Ownership also varies amongst sectors. According to the Evaluations (para. 75), highly technical sectors tend to be more government-led while cross-sectoral areas of co-operation and development tend to have greater participation from civil society and marginalised groups.
2. Countries with SWAps include: Bangladesh, Bolivia, Burkina Faso, Cambodia, Egypt, Ethiopia, Ghana, Kenya, Malawi, Mali, Mozambique, Nepal, Nicaragua, Pakistan, Papua New Guinea, Rwanda, Senegal, Sierra Leone, Tajikistan, Tanzania, Uganda, Viet Nam, Yemen and Zambia. Source: “2006 Harmonisation, Alignment and Co-ordination of Aid Workshop in Livingstone, Zambia”, www.dfid.gov.uk/mdg/aid-effectiveness/newsletters/livingstone-report.pdf. However, as the Pacific regional workshop makes clear, SWAps are not equally common in all regions. http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1208199523477/Aid_Effectiveness_Outcomes_Fiji.PDF.
3. 1995 USD 3.5 billion; 2000 USD 5.9 billion; 2005 USD 9.7 billion (in constant USD 2004). From OECD/DAC Aggregated Aid Statistics and the Creditor Reporting System (CRS).
4. A new analysis from WHO of health ODA over the last 20 years informs these points (WHO, forthcoming).
5. The Task Team on Health as a Tracer Sector was formally established in early April 2008 to develop the contribution from the health sector to the Third High-Level Forum on Aid Effectiveness. Members include representatives from: Ghana, GAVI Alliance, Global Fund, Ethiopia, WHO, World Bank, UNAIDS, Zambia National AIDS Network, OECD, UNFPA, Cambodia, and UNICEF. See WHO (2008).
6. See for example Boesen and Dietvorst (2007).
7. Bill and Melinda Gates Foundation; GAVI Alliance; Global Fund to Fight AIDS, TB and Malaria; UNAIDS; UNFPA; UNICEF; WHO; and World Bank.
8. A pilot survey on the Paris Indicators for the education sector in ten countries and an independent evaluation of the FTI .
9. The development of the GMR over the past six years – discussed further in the education discussion on MfDR – can be seen as a major contributor towards harmonising monitoring and evaluation in the education sector; it is now used by almost all donors as the reference and policy document for the education sector.
10. One way in which countries are developing their education sector strategies is through the Fast Track Initiative framework. As of August 2007, 32 countries had developed – and received donor endorsement for – such plans (UNESCO, 2008).

11. According to UNESCO (2008), “For the education sector as a whole, across all developing countries, the share of aid through sector programmes increased between 1999–2000 and 2004–05 from 6% to 18%.”
12. Where the term “major donor” is defined as a donor contributing at least USD 3 million between 2003 and 2005 (UNESCO, 2008, Chapter 4).
13. Collaboration among UN Girls’ Education Initiative, the UNAIDS Inter-Agency Task Team on Education, the Global Task Force on Child Labour and EFA, the EFA Flagship on the Right to Education for Persons with Disabilities, and the FTI Secretariat.
14. This financing mechanism is being harmonised with the deliverables of the FTI Task Team on Fragile States.
15. “Global Donor Platform for Rural Development: Agricultural Sector Experiences in Implementing the Paris Declaration on Aid Effectiveness”, www.donorplatform.org/component/option,com_docman/task,doc_details/gid,734/.
16. Programme-based approaches are an extension of the concept of the SWAp which refers to a generic approach based on comprehensive and co-ordinated planning in a given sector, thematic area or under the aegis of a national poverty reduction strategy.
17. Urban Institute for the World Bank, “Study on Aid Effectiveness in the Infrastructure Sector, Phase One Report”. Note that a more detailed Phase Two report, based on in-country visits, will follow.

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Chapter 7

The Roles of Civil Society Organisations in Making Aid Effective

As well as providing services and funding development, this chapter highlights how civil society organisations (CSOs) are fundamental to good governance and accountability to citizens. CSOs were only included to a very limited degree in the preparatory processes for the first and second High-Level Forums in Rome and Paris, but the greater recognition now of the multiple linkages between CSOs and the aid effectiveness agenda led to the establishment of the Advisory Group on Civil Society and Aid Effectiveness, and to the participation of CSOs as central players in the 2008 HLF.

CSOs and aid effectiveness

CSOs include all non-market and non-state organisations in which people organise themselves to pursue shared objectives and ideals, and cover a wide range of organisations. Examples include community-based organisations, environmental groups, women's groups, farmers' associations, faith-based organisations, labour unions, co-operatives, professional associations, chambers of commerce, independent research institutes, universities and the not-for-profit media.

CSOs fill a role that is fundamental to the vibrancy of democratic rule and good governance. They provide a mechanism for citizens to organise and express themselves on political, social and economic issues of concern to them, complementing other avenues for democratic participation and discourse. In so doing, CSOs hold governments accountable and draw attention to issues that might otherwise be ignored by politicians and governments.

Many CSOs represent particular segments of the population whose rights might otherwise not be fully represented, or particular causes such as development and environmental sustainability. For many CSOs, social justice and human rights (including women's, children's and indigenous people's rights) are the starting points for their development work.

CSOs mobilise grassroots communities and poor or marginalised people; and they monitor the policies and practices of governments and donors and reinforce the accountability of government and donor bodies through the application of local knowledge, research and policy dialogue, and suggestions of alternative policies. They deliver services and programmes; build coalitions and networks for enhanced civil society co-ordination and impact; and mobilise and leverage developed country resources in partnerships with developing country CSOs.

While the importance of CSOs derives in the first instance from their place in a democratic society, CSOs are also very significant sources of aid. Accurate numbers do not exist on the amount raised by CSOs for development purposes, but estimates by the OECD-DAC Secretariat suggest that such funding from DAC countries amounts to approaching USD 20 billion per year compared to ODA of USD 100 billion. In addition, CSOs serve as channels for up to 10% of ODA.¹

The Advisory Group on Civil Society and Aid Effectiveness

CSOs were only included to a very limited degree in the preparatory processes for the first HLF in Rome and the second HLF in Paris. A few CSO representatives were present at both meetings, but they were not invited to play any significant role in the process. The Paris Declaration is restricted to guidelines and targets for development assistance from donor governments and multilateral institutions through official channels in partner countries, and provides only limited guidance on how the roles of CSOs can be enhanced as part of the international aid and development efforts.

In order to better address the multiple linkages between civil society and the aid effectiveness agenda in the run-up to the Third High-Level Forum in Accra, the Working Party on Aid Effectiveness (the international partnership hosted by the DAC) facilitated the creation, in January 2007, of an Advisory Group on Civil Society and Aid

Effectiveness (AG-CS). The AG-CS was founded on the belief that much could be gained from bringing civil society into the international aid effectiveness agenda, for several reasons:

- CSOs themselves need to be effective as aid donors, recipients and partners in the pursuit of CSO effectiveness.
- Civil society can help to promote accountability for results.
- Other stakeholders have much to learn from civil society.
- Bringing CSOs on board can help to enrich and deepen the aid effectiveness agenda, with increased attention to human rights and social justice.

The multi-stakeholder composition of the AG-CS is made up of balanced representation from donors, partner-country governments, developing and developed-country CSOs. It is considered to be an important innovation that has sparked constructive dialogue among the participants based on shared objectives. The initial conceptual and analytical work undertaken by the AG-CS yielded a *Concept Paper*, an *Issues Paper* and a set of *Consultation and Reporting Guidelines* to help orient its own work and guide an extensive multi-stakeholder consultation process on civil society and aid effectiveness.²

In October and November 2007, the AG-CS organised five regional consultations involving CSOs and other stakeholders, as well as two separate meetings for CSOs. A preliminary estimate shows that the regional consultation has engaged some 500 participants from at least 80 countries (including about 60 developing countries). The AG-CS also facilitated a series of national consultations and seminars in partner countries. This consultation process was capped by an International Forum in Canada in February 2008. Consultations are ongoing at the sub-regional, national and sub-national levels.

The consultation process has produced a number of important results, including: a significant increase in awareness about the Paris Declaration, the starting point of which was often quite low; improved understanding of the roles corresponding to CSOs in the development and aid effectiveness agenda; and development of considerable momentum to carry the discussions on civil society and aid effectiveness forward in future national and international processes.

The AG-CS process has also produced a rich set of case studies, experiences and intellectual capital that will help deepen discussions up to Accra and beyond.

Towards a consensus on CSOs, the Paris Declaration and the broader aid effectiveness agenda

Based on the broad consultations, the stakeholder groups that participate in the AG-CS have agreed on a draft set of conclusions and recommendations. Below is an outline of some of the key recommendations, structured under the three outcomes around which the AG has organised its work.

Outcome 1: Recognition and voice: better understanding and recognition of the roles of CSOs as development actors and as part of the international aid architecture, and engagement of CSOs in general discussions of aid effectiveness.

The Advisory Group calls upon all development actors to recognise the following:

- the importance and diversity of civil society and of CSOs as political and development actors in their own right;
- that CSOs as development actors have distinctive and legitimate contributions to make to development and aid effectiveness, and that their efforts complement the efforts of other development partners;
- that while development is in part a political process and CSOs are therefore “political” actors, there is an important distinction to be made between the work of CSOs in favour of their constituencies in the public realm, and partisan politics; and
- that a strong civil society is a strength in and of itself, part of a society’s efforts to transform itself and deepen democratic practice that includes accommodation and support for competing visions and dissent.

Following from the recognition of CSOs as legitimate development actors, AG-CS recommends that regular and systematic spaces should be provided for effective CSO participation in policy dialogue and discussions of aid effectiveness in all stages of the development process (planning, negotiation, implementation, monitoring and evaluation), and that this be recognised as standard practice that needs to be promoted at all levels from local to international.

More work also needs to be undertaken by stakeholders to define the conditions required for the voice of civil society to be as effective as it can be.

Outcome 2: Applying the Paris Declaration and enriching the international aid effectiveness agenda: improved understanding of the applicability and limitations of the Paris Declaration for addressing issues of aid effectiveness of importance to CSOs, including how CSOs can better contribute to aid effectiveness.

The Advisory Group proposes that all development actors work together to implement and enrich the international aid effectiveness agenda by:

- recognising the character of the Paris Declaration as an historic agreement between donors and partner countries at a particular point in time, to address a specific set of issues and mutual obligations; and
- deepening understanding of the Paris Declaration principles in ways that emphasise local and democratic ownership, social diversity, gender equality and accountability for achieving results of benefit to poor and marginalised populations as essential conditions of effectiveness.

More specifically, for each of the Paris Declaration principles, the AG recommends the following:

- As the expression “country **ownership**” suggests a narrow or centralised interpretation of ownership, AG-CS recommends a transition to the concept of “local and democratic ownership” emphasising ownership not just by central government agencies, but also by parliaments, local governments, citizens, communities and CSOs.

- That **alignment** be understood broadly to mean respect for local and democratic priorities and emphasis on the use and strengthening of country systems in general. Efforts to develop and use country systems should extend beyond the current emphasis on centralised government mechanisms, public financial management, procurement systems and results-based management, to also include parliaments, local governments and CSOs.
- A balanced approach to **co-ordination and harmonisation** that encourages collaboration and harmonisation of efforts and more comprehensive approaches to development programming, without undermining diversity, division of labour and innovation. This should include greater efforts to make space for the various roles that CSOs can play in programme-based approaches as independent development actors. Stakeholders should also explore how to co-ordinate and harmonise their efforts to promote the strengthening of civil society in more comprehensive ways, and put in place funding formulas for tapping into the energy and innovative ideas of citizens and CSOs as agents of change and development.
- The adoption of a more meaningful approach to **results** that includes greater attention to indicators of institutional and social changes of importance to CSOs operating as agents of change, including attention to sex-disaggregated data for gender equality targets and indicators.
- An approach to **accountability** that calls for a rebalancing of accountability for results in favour of beneficiaries, and the reinforcement of accountability systems in country for all development actors (donors, government and CSOs).
- Partners should promote a multi-stakeholder approach to **monitoring the Paris Declaration** and other aid effectiveness agreements that includes the effective and timely engagement of CSOs and beneficiary populations, including representation from women's rights organisations and other socially marginalised groups.
- All development partners should adopt the highest possible standards of **openness, transparency and access to information**:
 - Donors and international financial institutions should commit to delivering timely and meaningful information to other stakeholders on aid flows and policies.
 - Developing country governments should work with elected representatives and CSOs to set out open and transparent policies on the sources and expenditure of aid funds and how those are monitored and accounted for.
 - CSOs need to exercise transparency and primary accountability to their constituencies and stakeholders, while accounting to donors and governments for the use of public funds.

Outcome 3: Lessons of good practice: improved understanding of good practice relating to civil society and aid effectiveness by CSOs themselves, by donors and by developing country governments.

The core recommendation of AG-CS on the ability of CSOs to deliver development results ("CSO effectiveness") is that this should be promoted by all stakeholders as a joint responsibility. While CSOs are responsible and accountable to their constituencies for their own behaviour, their effectiveness depends on the environment in which they work. That includes the actions and policies of governments, or donors, and of other CSOs:

- AG-CS recommends that stakeholders take stock of the enabling environment for civil society in different countries, including the regulatory and legislative environment, the openness of government and donors to engaging with CSOs, the transparency and accountability with which information is shared, and the organisational structures of the CSO community itself. Programmes should be put in place to create an enhanced environment in which CSOs can operate.
- AG-CS notes that the current approach to the funding of CSO activities is heavily skewed towards project funding, most often channelled through northern-based CSOs and north-south partnerships. There is a need to carefully explore new approaches focused on how best to support and strengthen civil society in the south, in collaboration with northern CSO partners.
- AG-SC also notes that CSO effectiveness depends upon the quality of partnerships among CSOs themselves. The identification of principles and good practices for more effective CSO partnerships is an effort that CSOs from the north and south are engaging upon in an independent capacity, but which other stakeholders can support, either financially or through contributions to the dialogue.

A full synthesis report, with a focus on recommendations that provide a framework for more collaborative relationships among the AG's stakeholder groups, together with a good practice paper and casebook, will be presented to the Accra HLF.

Notes

1. This figure is based on official reporting by OECD-DAC countries of USD 14.8 billion grants by private voluntary agencies, with an addition to allow for under-reporting notably by some foundations. There are higher estimates around, notably the Index of Global Philanthropy published by the Hudson Institute (www.hudson.org/files/documents/2008%20Index%20-%20Low%20Res.pdf). But this index is not comparable to the basis for DAC reporting on ODA and private grants, as it includes notional amounts for staff time, corporate philanthropy which is not part of the CSO sector, pastoral activities that do not have development as their primary purpose, and private subsidies to students who are unlikely to return to their countries of origin, as well as some probable double-counting given the multiple sources used.
2. These documents, and all other relevant documentation of the AG-CS process, can be accessed via the AG-CS extranet site at <http://web.acdi-cida.gc.ca/cs> (English) or <http://web.acdi-cida.gc.ca/sc> (French).

Chapter 8

Situations of Fragility and Conflict

This chapter shows how situations of fragility and conflict pose specific challenges for development and effective use of aid. In these situations, the Paris Declaration principles need to be complemented by the DAC principles for “good international engagement in fragile states and situations” and adapted to the specific contexts. Whole-of-government approaches are crucial. At the policy level, there has been significant progress over the past three years. DAC members have adopted the principles for good international engagement in fragile states and situations, and the European Union, the World Bank and others have endorsed these principles. Many policy statements acknowledge the challenge of peace-building and state-building, the importance of political settlement, elite negotiations and broad-based reconciliation, and also that in some cases it may take generations to make meaningful progress. Recognising this, whole-of-government strategies and mechanisms have been established, along with tools such as shadow and partial alignment.

Fragile and conflict-affected countries are the furthest from achieving the MDGs (World Bank, 2008).¹ Some 60% of children who die before their fifth birthday live in these countries and 30% of maternal deaths occur there. Yet aiming to achieve the MDGs is only part of the answer. There are serious risks of underestimating the challenges posed by these countries—lack of security and political stability, social unrest and divided societies, and governments that are not held accountable or act against their citizens.

Evidence of progress and constraints in implementing the Paris Declaration

Ownership. The approach underlying the Paris Declaration carries the implicit assumption that government has effective control of its territory and that its legitimacy is not severely contested.² The approach also assumes government has sufficient administrative, planning and management capacity to articulate and implement development policies around which there is a consensus with development partners. This model of ownership and partnership is problematic for situations of fragility and conflict in some 30-40 countries, in that one or more of the assumptions about national government capacity, objectives, effective control and legitimacy do not hold. This has two consequences, particularly in terms of ownership: first, the Paris Declaration cannot be applied in a straightforward way in such situations, and requires adaptation; and second, concerns with aid effectiveness need to be supplemented with a more fundamental concern with the effectiveness, accountability, responsiveness and legitimacy of the institutions of the state. The international agenda (which extends well beyond aid) must therefore address issues of state building and peace building and must be concerned with the risks and consequences of state failure.

The OECD/DAC *Principles for Good International Engagement in Fragile States and Situations*, which are integral to the Paris Declaration (section 37), attempt to address these concerns and gaps in the main Paris framework (OECD, 2007a; 2007b).³ An assessment of progress against the Principles follows below.

Alignment. It is unsurprising that according to results from the 2008 Survey on Monitoring the Paris Declaration, countries in situations of fragility and conflict perform worse (compared with other developing countries) against the World Bank's Aid Effectiveness Report criteria concerning operational development strategies. Country reports submitted as part of the Survey suggest, however, that donor use of PFM country systems is roughly the same for countries in situations of fragility (where the fiduciary risks are greatest) as for all survey participants, around 30%. Although this is an imperfect measure of harmonisation and alignment, it does suggest that donors are in many cases prioritising strengthening state systems by using them.

Harmonisation. There have been important gains in terms of improved harmonisation and co-ordination of strategies and finances. Examples include the use of joint strategies and multi-donor trust funds in post-conflict situations (for example the Multi-Country Demobilization and Reintegration Programme in the Great Lakes⁴), the establishment of joint donor offices (South Sudan, Aceh) and a number of national mechanisms to pool human and/or financial resources (United Kingdom, Netherlands, United States and Canada). Progress has also been made with integrated planning and multi-actor/donor post-conflict needs assessments in several countries. Multi-actor, multi-sector, results-oriented transitional results frameworks have been used, for example the Haiti Interim Co-operation Framework⁵ and DR Congo.⁶

Managing for development results and mutual accountability. Results from the 2008 Survey on Monitoring the Paris Declaration suggest that countries in situations of fragility and conflict perform worse (compared with other developing countries) against the World Bank's Aid Effectiveness Report criteria concerning results frameworks. Formal mechanisms of mutual accountability are in most cases embryonic or do not exist.

Evidence of progress and constraints in implementing the principles

Evidence is building up on progress with implementing the ten Principles for Good International Engagement in Fragile States and Situations. In brief (with some examples for illustrative purposes):

Principle 1: Take context as the starting point. In donor capitals, a range of analytical tools for violent conflict and state fragility, and political economy and governance analysis, have been developed. Such tools can guard against blueprint approaches. Weaknesses nevertheless remain as existing analytical tools tend to simplify complex and fluid situations and more work is also required to refine ways of analysing state fragility. Donors need to conduct jointly and share at country level assessments of the causes and drivers of conflict, fragility, governance and capacity and use these as the basis for political dialogue, policy and strategy development and programming design.

Principle 2: Do no harm. Some progress has been made in mainstreaming conflict sensitivity in development co-operation, reducing the risks that external interventions can exacerbate societal tensions. However, a series of tradeoffs, for example between the urgent need to provide services and longer-term institutional factors, explain why donors often cause unintentional harm. Box 8.1 illustrates the possible harm caused to the objective of state building in the case of Afghanistan, despite the adherence to the Paris Declaration principles.

Box 8.1. Understanding how a Paris Declaration-consistent project can undermine state-building objectives in Afghanistan

The National Solidarity Programme (NSP) is a nationwide community-driven development programme. It is run by the Ministry of Rural Reconstruction and Development and funded by various bilateral and multilateral donors. NSP is supported by a number of NGO partners that facilitate the election of Community Development Councils and help these councils identify community development projects.

The projects are funded by block grants delivered in three instalments. In 2005-06, problems appeared in the disbursement of block grants. As communities waited for the funds to be disbursed, some saw partially built projects degrade, and their frustration and suspicion increased. Previous negative experiences with development organisations were frequently alluded to, as faith in government provision of services and international assistance was undermined.

A combination of factors contributed to these delays in grant disbursement. Most importantly, although donors can express a preference for their Afghanistan Reconstruction Trust Fund funds to go to NSP, the rules of the Fund require that it pay recurrent government costs first, an important dimension of state building. Thus, money intended for NSP was taken out to cover gaps in recurrent expenses. The result was a chain of frustration and discontent that affects government, donors, NGOs and communities.

Source: Nixon, H. (2008), "Aiding the State? International Assistance and the State Building Paradox in Afghanistan", Afghanistan Research and Evaluation Unit.

Principle 3: Focus on state building as the central objective. At the policy level, the emerging understanding among donors highlights that state building concerns political processes of negotiation and contestation between the state and societal groups. It recognises the importance of political settlement and broad-based reconciliation, and that it might take generations to make meaningful progress (OECD, 2007c). Yet much of our experience suggests actions to get services delivered or key government systems functioning are in tension with state building aims, ownership and, on occasion, sovereignty. In most cases, while the provision of external expertise will continue to be vital, efforts should be made to ensure that technical assistance focuses on building sustainable local capacity. Partner countries and donors need to launch an international dialogue on objectives for peace building and state building. Such objectives can serve as an international reference point to generate support at country level to address causes of fragility and conflict. This process can help bring together different policy communities in order to strengthen coherent responses beyond aid.

Principle 4: Prioritise prevention. Modest progress has also been made on conflict prevention. It is standard practice among donors to identify root causes of violent conflict when designing longer-term development strategies but there is much to be done to apply this analysis in country-level programming. Most peace agreements include specific language and modalities for ensuring reconciliation through national dialogues between different stakeholders to guard against the re-emergence of conflict. The impact of natural resources on conflict dynamics has also been recognised and is being addressed through the establishment of the Extractive Industries Transparency Initiative and the Kimberley Process (the latter has resulted in a reduction of the world trade currently coming from illicit diamonds, to only 0.2%). Evidence suggests that the right kinds of early warning systems are key to prevention.

Principle 5: Recognise the links between political, security and development objectives. At the international level, the aid, peace and security architecture has been strengthened through a number of mechanisms, including the establishment of the UN Peacebuilding Commission. In Africa, several African Union peacekeeping missions have been launched (Somalia, Central African Republic and Darfur). Whole-of-government strategies and mechanisms have been established at donor headquarters level (OECD, 2006), and some have been translated into country-specific strategies and instruments. These have been accompanied by important changes to what counts as official development assistance to capture some security-related expenditures.⁷ The OECD has led the way with policy and practice guidance on security system reform and has impacted on international policy development and the way in which OECD governments are supporting efforts in this area. Early results show that donor knowledge capacity co-ordination have in some cases improved (Guinea Bissau and Central African Republic), and the sequencing of different types of external support is a key factor, particularly in post conflict countries (*e.g.* Burundi).

Principle 6: Promote non-discrimination as a basis for inclusive and stable societies. Donors can take practical initiatives to address inequalities and discrimination, as illustrated in Nepal where the Ministry of Health and Population is piloting a system to collect disaggregated data from hospitals and other health facilities on the basis of sex, age, caste, ethnic and regional identities. The data will show which groups and regions are benefiting from the abolition of fees for basic health services and other health

policies, helping to ensure that resources are addressing underlying inequalities and being used effectively to improve overall health outcomes.

Principle 7: Align with local priorities in different ways in different contexts. Compact mechanisms (*e.g.* the Afghanistan Compact) offer realistic approaches to national ownership in poor governance, low-capacity environments where positive conditionalities are built-in. A “shadow alignment” approach based on civil society consultations has been attempted in Zimbabwe where a partnership with the state has not been possible. Similarly, governance concerns at the national level in Ethiopia prompted donors to continue significant support but aligned to regional and sectoral priorities.

Principle 8: Agree on practical co-ordination mechanisms between international actors. There is an increasing use of a range of strategic frameworks (for instance in Kosovo, Sudan, Burundi and Sierra Leone) that aim to co-ordinate interventions and align donor resources with national strategic priorities across inter-related security, governance and development goals. By placing the onus for success and failure on both national and international actors, these strategic frameworks help to promote a sense of genuine partnership. Although there is room for considerable improvement, these mechanisms merit the continued support of the international community. There is also a need for deeper engagement with particular development assistance providers outside the DAC that play an important role, politically as well as financially, in situations of conflict and fragility.

Principle 9: Act fast... but stay engaged long enough to give success a chance. Overall, OECD governments have all too often been risk-averse, and they have responded too slowly, too inefficiently, and in an uncoordinated manner to many situations of conflict and fragility. Humanitarian, peacekeeping and development interventions have often not been appropriately sequenced. The World Bank and the EC have designed rapid response instruments, aligned to partner government requests, but more often than not recovery efforts have lagged seriously behind security interventions. Early financing packages have either not been sustained, leaving core development costs exposed (*e.g.* civil service salaries in Afghanistan) or critical financial arrears have only been cleared years after peace has been established (*e.g.* in Liberia). Aid still tends to drop off in post-crisis situations just at the point when countries can use it.

Principle 10: Avoid pockets of exclusion and address “aid orphans”. Aid volumes have increased in the past five years to fragile and conflict-affected countries although these have significantly benefited only five post-conflict countries, and six countries have access to only three or fewer key bilateral donors (OECD, 2007d). Beyond aid volumes, what matters is that countries can access timely and appropriate types of aid and advice, particularly to adequately address peace and state-building needs, accompanied by other forms of help such as “over the horizon” security guarantees or the prompt clearance of arrears. It is encouraging that governance, peace and security-related ODA to fragile and conflict-affected countries has increased almost four-fold between 2000 and 2006.

Overall assessment of progress

The evidence base for assessing progress at the country level is weak, but it is clear that results are at best mixed. By contrast with the important gains made at the policy level, implementation remains a serious problem, and progress on internal and external co-ordination among development partners has not yet resulted in notable development impact. Several factors external to the international development agenda explain the

current international spotlight on the problems of fragile and conflict-affected countries and the rapid policy gains of recent years. The economic costs of violent conflict and the spill-over effects (including migration, the trafficking of drugs, organised crime and terrorism) resonate widely in the international community, and have added urgency to policy debates.

Many of the problems at the implementation level can be explained by a series of tensions, dilemmas and trade-offs: there are trade-offs between the Paris Declaration principles of ownership, alignment and harmonisation and the urgent need for bilateral donors to demonstrate “quick wins” in supporting peace and recovery needs; national authorities may be fragmented and the presence of “spoilers” can result in a complex and divisive relationship between international actors and governments. There are trade-offs between high risk interventions (*e.g.* budget support) which, in certain circumstances, could yield significant impact, and lower-risk interventions, which satisfy fiduciary concerns, but which may bypass the state or damage local institution building (parallel delivery structures, some PIUs and excessively technical assistance-driven approaches); and there are often limited incentives in donor agencies to work horizontally across policy communities and to invest time and energy to common whole-of-government objectives.

Implications for future policy priorities and ways of working

There is an urgent need to translate important gains that have been made at the policy level into improved practice on the ground. Experience suggests greater adaptation to the Paris Declaration principles is required in situations of fragility and conflict.⁸ International support should be guided by the Principles for Good International Engagement in Fragile States and Situations. Critical areas for improvement remain: donors need to step up efforts to jointly conduct and share assessments on conflict, fragility and governance; at country level, donors and partners need to agree to and support a set of limited and realistic peace- and state-building objectives and a strategic framework to foster improved co-ordination and alignment of external support; country-level objectives need to be informed by an international consensus among different policy communities on objectives for the restoration of security, stability and peace, and the establishment of capable and legitimate state institutions; and further progress needs to be made in providing rapid and flexible funding to bridge humanitarian, recovery and longer-term development phases, and support stabilisation, peace building and state building. In terms of practicalities, donors can do more to mobilise staff more rapidly and deploy experienced and specifically skilled staff in conflict and fragile situations; and more coherent and decisive strategies are required to address development needs in extreme situations of authoritarian governance.

Notes

1. On some goals (extreme poverty, maternal mortality) progress towards the MDGs is even negative.
2. This section draws on the Oxford Policy Management/IDL interim findings of a thematic study, “The Paris Declaration on Aid Effectiveness: Its Applicability in Fragile Situations and Conflict Affected Countries”.
3. The Principles and other commitments to take concerted action in fragile and conflict situations have had backing from OECD Development Ministers from 2007.
4. *www.mdrp.org*.
5. *haiticci.undg.org/*.
6. *www.undg.org/docs/7689/UNDAF%20Final%20(9%20%20August).doc*.
7. The extensions of 2004 and 2005 covered the management of security expenditure through civilian oversight and democratic control; security system reform (including all civilian aspects as well as civilian oversight and management); the enhanced role of civil society in the security system; support to legislation for preventing the recruitment of child soldiers; the control, prevention and reduction of small arms and light weapons proliferation; as well as civilian peace-building, conflict prevention and conflict resolution.
8. Paris Declaration principles have informed the goals, principles and approaches that underpin the October 2007 commitment of the heads of the multilateral development banks to closer collaboration in fragile situations. The goals are to strengthen national ownership of recovery and reform, build capacity and accountability in national institutions, and contribute to peace-building through economic and social programmes that minimise the risk of conflict and help consolidate stability. See http://siteresources.worldbank.org/INTLICUS/Resources/Development_Banks_Commit_to_Closer_Collaboration.pdf.

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Chapter 9

Implications of the Changing Aid Architecture

This chapter reviews how providers of development assistance beyond the DAC are increasingly recognised for bringing innovative partnerships including south-south and triangular co-operation and experiences that could enrich the global reflection on how to improve the effectiveness of development co-operation. It also highlights how global programmes and funds can effectively complement multilateral and bilateral country programmes to achieve specific development objectives, and efforts are currently under way to better integrate their assistance at the country level. However, as new global challenges emerge, partners and donors should think carefully before creating separate channels; priority should be given to channelling these new funds through existing mechanisms rather than creating new ones that would risk increasing fragmentation at the country level. A balance should also be maintained between funding for targeted mechanisms, and for those with a broader remit to build the capacity of systems as a whole.

Introduction

Over the past few years, the landscape of the international aid system has changed rapidly and become more complex. Beyond the “traditional” bilateral and multilateral donors, there is an increased diversity of actors involved in development co-operation, including emerging economies, private foundations, global thematic funds, civil society organisations and the private sector. These not only bring additional funding, but also experience, expertise and approaches that enrich the development process. Noteworthy examples include assistance provided through south-south co-operation and global thematic funds. At the same time, this diversity has also led to an increase in aid channels, which can complicate the management of aid at the country level.

Against the backdrop of the increasingly complex international aid architecture, this chapter focuses on two rapidly growing sets of actors: countries providing development assistance outside the DAC, hereafter referred to as “non-DAC donors”,¹ and the global programme funds. This chapter reflects upon their respective roles in the changing aid architecture and their implications for aid effectiveness, and proposes ways to maximise their development impact.

Non-DAC donors (south-south co-operation)

While DAC donors provide an estimated 90% of ODA,² the significance of non-DAC donors is increasing. Although information on their aid volumes and modalities is still partial, it is expected that funding from these sources compared with that from DAC donors will continue to rise in the coming years.³

The term “non-DAC donors” encompasses a diverse group of countries with different history, geographic location, strategic interests and cultural links.⁴ For example, Brazil’s development assistance is largely focused on technical co-operation provided in a South-South context, while Thailand primarily provides funding for infrastructure projects. Indian and South African aid is largely geared to neighbouring countries, while an increasing proportion of China’s aid is going to Africa. Algeria and Indonesia are fairly new and modestly sized donors, while China, India, Venezuela and Saudi Arabia are all large contributors.⁵

With the promise of scaling up aid in the coming years, partner countries are likely to have a wider range of choices of how to finance and support their development programmes. Non-DAC donors are in a strong position to contribute effectively to the development process, given their experience as former recipients of aid – which allows them to share know-how on development success in their own countries. They also have comparative advantage in establishing strong partnerships based on their regional and cultural ties. Innovative aid modalities, such as South-South co-operation and/or triangular development co-operation, practised by non-DAC donors are increasingly recognised as effective because they are largely demand-driven, promote ownership, and make use of technology and technical assistance that are sustainable and adaptable to local systems (see Box 9.1).⁶

Box 9.1. Triangular development co-operation

“Triangular” (or trilateral) development co-operation is the term used for development assistance from traditional donors executed by southern donors (often in the form of technical co-operation). It is increasingly appreciated as an effective aid modality as southern contributors, still themselves developing, may be better placed to respond to the needs of aid-receiving countries, often at a lower cost. Though presently small in scale, triangular co-operation is significant in volume for a number of southern donors, including Argentina, Brazil, Chile, China, Egypt, India, Malaysia, Republic of Korea, Singapore, South Africa, Thailand, Tunisia and Turkey. The main northern funders include: Canada, Finland, France, Germany, Japan, Norway, Spain, Sweden and the UN. Japan’s 2003 ODA Charter specifically identified triangulation as an effective aid modality.

Triangular development co-operation is used to fund a range of development programmes and projects. For example, Brazil (with financial support from partners) is involved in projects in vaccinations, school feeding, reforestation and malaria eradication. Similarly, Tunisia has received support to deliver technical assistance and capacity-building expertise in areas ranging from public administration to reproductive health services.

In addition to North-South-South co-operation, triangular co-operation between developing countries is also advancing. One of the most prominent examples is the India-Brazil-South Africa Trilateral initiative, designed to promote South-South co-operation and exchange in agriculture, education and science and technology, with a focus on capacity development.

Source: ECOSOC (2008) “Trends in South-South and Triangular Development Co-operation”, Background Study for the Development Co-operation Forum.

While many non-DAC donors were present at the Second High-Level Forum on Aid Effectiveness in 2005, when the Paris Declaration was endorsed,⁷ most were not engaged in the political dialogue around the Declaration. Consequently, some non-DAC donors view the Paris Declaration as a prescriptive blueprint that does not necessarily reflect their interests or experiences. Some see practical challenges in implementing the Declaration principles, as they are still in the process of developing mechanisms to appropriately account for their ODA, and establishing monitoring and evaluation systems. Others are currently elaborating on their aid policies, establishing development agencies or formulating legal frameworks on international co-operation.

At the same time, it is important to note that many non-DAC donors *de facto* adhere to several aspects of the aid effectiveness principles. For example, donors from the Middle East have practised harmonisation and co-ordination for decades by routinely consulting with one another on projects and making use of each others’ documentation systems (Manning, 2006 and OECD, 2008, pp. 104-106). Kuwait and Korea report over 75% of their total aid on the recipient governments’ budgets, China and Venezuela provide multi-year commitments, and India and Arab donors provide budget support.⁸

In addition, an increasing number of non-DAC donors are taking strides to implement and operationalise aid effectiveness principles. For example, the Czech Republic and Korea volunteered to undergo a special peer review to identify ways in which their aid could become more effective (OECD, 2007a). Six non-DAC donors participated in the 2006 Survey on Monitoring the Paris Declaration⁹ and more are participating in the 2008 survey. And, in 2008, Hungary and Slovakia have taken part in a self-assessment exercise on the degree to which the Paris Declaration is becoming mainstreamed into their development work (see Box 9.2 for further examples). At the same time, DAC donors are working with non-DAC donors to raise transparency and awareness about their aid flows.

In particular, in addition to providing direct technical assistance to improve statistical capacities of non-DAC donors (for example in Thailand and Hungary), the DAC is working to provide a comprehensive overview of worldwide ODA, and all non-member countries with significant development co-operation activities are being encouraged to provide information about their aid flows on a comparable basis (OECD, 2008, p. 104).

Given that all donors face challenges in implementing the Paris agenda, there is considerable scope for mutual learning, dialogue and co-operation between non-DAC and DAC donors at both the international and country levels. International efforts have intensified over the past few years, including through a series of outreach efforts by the DAC and the United Nations.¹⁰

From the perspective of partner countries, non-DAC donors bring welcome sources of funding and expertise. Partner countries view South-South co-operation as particularly attractive: it is flexible, speedy and fills important gaps (for instance scaling-up financing for infrastructure in African countries). At the same time, partner countries recognise that this type of development co-operation is typically “tied” (an issue also for traditional donors). In addition, some co-operation agreements are conducted at the highest political level and outside existing aid management systems, and sometimes it is not clear whether grants or loans (such as export credits) are involved, which could have adverse implications on the debt sustainability of the recipient country.

A consensus is emerging amongst partner countries – confirmed by the regional consultations in the Pacific, Asia and in Africa – that countries need to take stronger ownership over their development processes and provide a common platform for all providers of development assistance, whether DAC or non-DAC. Partner countries also need to build country systems and develop clear aid management frameworks in order to ensure the quality of all forms of aid.

Box 9.2. Non-DAC donor approaches: Korea

Since establishing Korea’s Comprehensive ODA Improvement Plan in 2005, Korea has striven to build a platform of policies and institutional mechanisms that enhances the effectiveness its aid. Building around the key principles of greater strategic focus (based on Korea’s comparative advantage and respect for partner country priorities), Korea is building its capacity to provide aid along the Paris principles. For example, the formulation of Korea’s mid-term country assistance strategies helped sharpen Korea’s focus to provide assistance around seven sectors in a smaller group of countries. Further, more discretionary power to overseas offices is ensuring aid is provided in line with local priorities.

Source: Presentation given by KOICA at the “Dialogue on Expanding Partnership for Development” conference on 23 April 2008.

Key messages

Going forward, it is important that the donor community at large – DAC and non-DAC alike – works together to ensure strong partner country ownership, share information on aid volumes and modalities, continue the dialogue on aid effectiveness and recognise the important contribution non-DAC donors can make to the development process. The donor community can greatly benefit from exploring how aid effectiveness

principles are understood and applied in different contexts. Finding practical ways to strengthen partnerships between DAC and non-DAC donors will foster coherence and complementarity of different forms of development assistance in partner countries.

A more systematic dialogue between DAC and non-DAC donors to share lessons from experience would be beneficial to all parties involved. In this dialogue, the principles underlying the Paris Declaration should be seen as a reference point, recognising that all donors face challenges in improving aid effectiveness and that their ability to aim for the Declaration's targets may vary depending on their own circumstances.

Global programme funds and the Paris Declaration¹¹

Global programme funds that support specific sectors and sub-sectors – *e.g.* health, HIV/AIDS, primary education, environment – have become major channels for donor funding, particularly in low-income countries. There are strong incentives for the donor community to create new funds to mobilise public support for visible and widely shared priorities, and to respond to emerging new issues. Global funds have also attracted funding and strategic involvement from private foundations, alongside official donors (see Box 9.3).

While global funds have diverse governance and operational frameworks, many are committed to engaging in good aid effectiveness practices, promoting behaviour change and working as flexibly as possible. Donors, partner countries, local civil societies and the global funds themselves need to work together (globally and in countries), if they are to make the most of what these global funds have to offer.

The Paris Declaration calls for better integration of global funds at the country level as a priority area (PD § 4.iv). To assess progress, this report draws primarily from two streams of work. First, a range of country-level consultations undertaken by the World Bank (World Bank, 2008) and the Strategic Partnership with Africa (SPA) to understand how global funds are working on the ground. Second, feedback from the Global Programs Learning Group (Isenman, 2007)¹² on their experiences in implementing the Paris Declaration. The analysis looks at programmes that transfer significant amounts of funding at the country level using a range of funding modalities, including the Global Fund to Fight AIDS, TB & Malaria; the GAVI Alliance; PEPFAR; EFA/FTI; and the GEF (see Box 9.4).

Box 9.3. Private foundations and the Paris Declaration

Private foundations, some of which have decades of distinguished contributions to development, are also growing in significance. While the role of foundations as donors has often been considered to be beyond the scope of the Paris Declaration commitments, a number of the larger foundations are recognising that the ways in which they operate and the funding decisions that they make influence the effectiveness of aid as a whole. Official donors are stepping up their work with foundations to help them maximise the effect of their development contributions. For example, a conference was organised in Lisbon in March 2007 to foster dialogue between DAC donors and foundations. For more information about foundations see OECD (2003).

Box 9.4. Global funds and the Paris Declaration: Progress and challenges

The Global Programs Learning Group has studied progress in implementing the Paris Declaration principles. There is a good deal of learning, as global funds share how they tackle challenges to increase their development impact. Experience has shown that global funds can make better use of existing flexibility in their governance and processes. It has also shown the importance of improving communications at country level, so that partner countries and donors understand this flexibility and the commitment of global funds to implement the Paris Declaration.

Ownership – An innovative feature is stronger support from and inclusion of civil society and the private sector, particularly in middle-income countries. Global funds tend to get strong support from concerned sectoral ministries. However, increasing ownership from overall co-ordinating mechanisms and ministries of central governments, including finance ministries, remains a challenge. They also need to strengthen links between their local priority-setting or other institutional co-ordination mechanisms, and corresponding government sectoral and co-ordinating ministries.

Alignment – Global funds are set up to carry out specific, generally sub-sectoral, mandates. Hence the process of setting priorities aligned with country objectives needs to be done within a broader perspective, taking into account other sources of funds as well as the balance with other priorities within the sector and across sectors. As alignment with country systems also remains a challenge, global funds are making efforts to adapt their funding rounds to country budget cycles. The use of SWAps can help global funds to fund country priorities in a balanced way.

Harmonisation – Due to the specific mandates and processes of global funds, as well as their general lack of direct field presence, harmonisation at the country level is hard to achieve. Given their global focus, global funds have tended to follow international best practice. But they are open to balancing this with the need to act jointly with other donors to reduce transaction costs (particularly for partner governments). Global funds are exploring how to participate in country donor groups, or in joint missions and analyses.

Managing for results – Some global funds have been innovators, thanks to their focus on building results and performance into their funding processes, and on monitoring and evaluation. All the programmes have embraced results frameworks – as a vital element of monitoring, evaluation, and auditing systems – with an increasing focus on outputs as well as on sound management of programme inputs. Indicative country allocations can help link results to predictability and cross-country impact. Global funds differ substantially in the extent to which they make use of government and joint donor systems of monitoring, results and auditing. Some have made less use of these in the past: they need to find a way to align and harmonise in a way that improves overall government and donor monitoring and evaluation systems and methods to track development outcomes.

Mutual accountability – Global funds tend to have strong accountability to their international constituencies, and some have set standards of good practice among donors on transparency. However, mutual accountability is more difficult at the country level, partly because of the global mandates of global funds and their lack of direct presence on the ground. Global funds are studying how to participate more in country-level mutual accountability mechanisms (within limits set by staff constraints), or to have others represent them.

Some global funds were designed with the Paris Declaration principles in mind. Where there are gaps between principles and implementation, global funds are adapting their approaches to improve aid effectiveness. In an effort to work within the principles of the Paris Declaration, global funds are finding ways to align their assistance with country priorities and systems. For the most part, their funding is reflected in country budgets (except for those channelling their funding through NGOs or the private sector). Also, some global funds are now participating in sector budget support and SWAps and are becoming more integrated into sector dialogue. For example, the Global Fund to Fight AIDS, TB and Malaria has joined sector-wide approaches in Malawi, Mozambique and

Rwanda. The EFA-FTI programme business model is well integrated; it is based on sector programmatic approaches and promotes budget support. The GEF's use of implementing agencies helps to integrate its funding through UN agency and MDB channels already present in country.

Global funds have recently undertaken major evaluations notably, during 2007, the FTI; the Global Fund to Fight AIDS, TB and Malaria; and GAVI. Boards and management have pledged to take action based on the recommendations that emerge; for example, interim evaluations of some programmes have ushered significant operational changes in harmonisation and alignment. This ability, both to evaluate newly established programmes quickly and to respond to these evaluations by bringing about appropriate changes, is an example of good practice for aid in general; it is followed by many other institutions.

There are good practices of global funds that could enrich implementation of the Paris Declaration principles in general and provide positive lessons for putting them into practice; but there are also challenges that need to be managed in applying the Paris Declaration. The most difficult exist where global funds account for a substantial share of sectoral expenditures in low-income, aid-dependent countries, with limited implementation and absorptive capacity. Country consultations revealed that governments appreciate scaled-up funding through global funds, with their focus on results and their expanding partnerships with civil society and the private sector. At the same time, partner countries expressed a number of concerns: there are imbalances within and among sectors when large amounts are focused on specific purposes, funds are not always reported to the budget or sector plan and use parallel implementation systems, scarce human resources can be diverted and there is competition with other sector priorities, and there are issues of sustainability due to the creation of contingent liabilities in the long term.¹³

Key messages

Global funds can effectively complement multilateral and bilateral development assistance to achieve development objectives, and the efforts to better integrate their assistance at the country level are welcome. All global funds are encouraged to deepen measures to support country ownership, to align and harmonise their assistance proactively, and to make good use of mutual accountability frameworks, while continuing their emphasis on achieving results. In particular, it would be important for global funds to provide timely reporting on their funding for inclusion in country budgets and plans, to avoid imbalances within and across sectors, and to provide a multi-year financing framework to help predictability and fiscal sustainability.

As new global challenges emerge, donors should think carefully before creating separate new channels to assist partner countries. While the mobilisation of new funding mechanisms may be warranted in the area of global public goods, priority should be given to channelling these new funds through existing implementing agencies rather than creating separate aid channels that would increase fragmentation at the country level.

A balance should be maintained between funding for targeted mechanisms and for those with a broader remit. The achievement of global funds' long-term objectives depends on complementary policies and institutions within and across sectors, which can be best addressed by institutions with a multi-sectoral mandate and expertise. Therefore, it is important that funding for these institutions be commensurate with the need to address systemic issues at the country level.

Notes

1. The inelegant term “non-DAC” is used here since it has the virtue of being more precise than “new” or “emergent”. For convenience, the term “donor” will be used as shorthand to include emerging economies for the remainder of this section.
2. ODA from DAC member countries totalled USD 104.4 billion in 2006, representing an estimated 90% of ODA (OECD, 2008).
3. The amount of development assistance from non-DAC donors is likely greater than is currently estimated as data from countries outside the OECD and EU are limited. For a more complete picture of aid flows from non-DAC donors see ECOSOC (2008).
4. These countries include several sub-groups: 1) OECD members that are not members of the DAC (countries such as Turkey and Mexico); 2) new EU members that are not members of the OECD (countries such as Bulgaria and Estonia); 3) regional donors (including Middle East and OPEC countries and funds, as well as Russia); 4) emerging and transition economies (for example, Brazil, China, India, South Africa and Venezuela); and 5) countries which are (or until recently have been) both recipients and providers of development assistance (for example Thailand and Malaysia).
5. For a recent account of various donor programmes, see OECD (2008), pp. 104-106; and “Trends in South-South and Triangular Development Co-operation”.
6. The importance of South-South co-operation was highlighted at a number of regional consultations, including the Regional Preparatory Meeting for Latin America and the Caribbean for the Third-High Level Forum on Aid Effectiveness, Accra, Ghana, which took place in Colombia, 5-6 June 2008, <http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1205870632880/SantaMarta-FinalReport.pdf>.
7. For a list of countries and organisations adhering to the Paris Declaration, see OECD “Countries and Organisations Adhering to the Paris Declaration”, www.oecd.org/document/22/0,3343,en_2649_15577209_36074966_1_1_1_1,00.html.
8. “Trends in South-South and Triangular Development Co-operation”.
9. Czech Republic, Hungary, Iceland, India, Korea and Turkey. See OECD (2007b).
10. Relations were formally re-launched with the 2005 Forum on Partnership for More Effective Development Co-operation. The first formal discussion on aid effectiveness with non-DAC donors took place in November 2007 during the Special Session on WP-EFF. The event was an important opportunity to reach a general agreement that all donors, be they DAC or non-DAC, share a common vision that the Paris Declaration’s principles are about improving the quality and effectiveness of aid. Further, a High-Level Symposium of the UN Development Co-operation Forum held in January 2008, which discussed South-South co-operation and aid effectiveness, is an example of the prominence of this topic in the international debate. A special

workshop was held in Bangkok in February 2007 with support from UNDP and the European Commission to discuss Thailand's role as an emerging donor.

11. Global funds are defined as partnerships and related initiatives whose benefits are intended to cut across more than one region of the world and in which the partners: *(i)* Reach explicit agreements on objectives; *(ii)* Agree to establish a new (formal or informal) organisation; *(iii)* Generate new products or services; and *(iv)* Contribute dedicated resources to the program (World Bank, 2004).
12. The Global Programs Learning Group promotes good aid effectiveness practices among participating global funds working in a variety of sectors. Founded in 2006, it includes the Global Fund to Fight AIDS, TB and Malaria; GAVI Alliance; Global Environment Facility; the Fast Track Initiative for Education; and the CGIAR for agriculture.
13. "The Learning Group of Global Programs on Aid Effectiveness".

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Annex A: Paris Declaration on Aid Effectiveness

**Joint Progress
Toward Enhanced
Aid Effectiveness**



*Harmonisation,
Alignment,
Results*

High Level Forum
Paris ■ February 28 – March 2, 2005

PARIS DECLARATION ON AID EFFECTIVENESS

**Ownership, Harmonisation, Alignment, Results
and Mutual Accountability**

I. Statement of Resolve

1. We, Ministers of developed and developing countries responsible for promoting development and Heads of multilateral and bilateral development institutions, meeting in Paris on 2 March 2005, resolve to take far-reaching and monitorable actions to reform the ways we deliver and manage aid as we look ahead to the UN five-year review of the Millennium Declaration and the Millennium Development Goals (MDGs) later this year. As in Monterrey, we recognise that while the volumes of aid and other development resources must increase to achieve these goals, aid effectiveness must increase significantly as well to support partner country efforts to strengthen governance and improve development performance. This will be all the more important if existing and new bilateral and multilateral initiatives lead to significant further increases in aid.

2. At this High-Level Forum on Aid Effectiveness, we followed up on the Declaration adopted at the High-Level Forum on Harmonisation in Rome (February 2003) and the core principles put forward at the Marrakech Roundtable on Managing for Development Results (February 2004) because we believe they will increase the impact aid has in reducing poverty and inequality, increasing growth, building capacity and accelerating achievement of the MDGs.

Scale up for more effective aid

3. We reaffirm the commitments made at Rome to harmonise and align aid delivery. We are encouraged that many donors and partner countries are making aid effectiveness a high priority, and we reaffirm our commitment to accelerate progress in implementation, especially in the following areas:

- i. Strengthening partner countries' national development strategies and associated operational frameworks (e.g., planning, budget, and performance assessment frameworks).
- ii. Increasing alignment of aid with partner countries' priorities, systems and procedures and helping to strengthen their capacities.

- iii. Enhancing donors' and partner countries' respective accountability to their citizens and parliaments for their development policies, strategies and performance.
 - iv. Eliminating duplication of efforts and rationalising donor activities to make them as cost-effective as possible.
 - v. Reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner countries' priorities, systems and procedures.
 - vi. Defining measures and standards of performance and accountability of partner country systems in public financial management, procurement, fiduciary safeguards and environmental assessments, in line with broadly accepted good practices and their quick and widespread application.
4. We commit ourselves to taking concrete and effective action to address the remaining challenges, including:
- i. Weaknesses in partner countries' institutional capacities to develop and implement results-driven national development strategies.
 - ii. Failure to provide more predictable and multi-year commitments on aid flows to committed partner countries.
 - iii. Insufficient delegation of authority to donors' field staff, and inadequate attention to incentives for effective development partnerships between donors and partner countries.
 - iv. Insufficient integration of global programmes and initiatives into partner countries' broader development agendas, including in critical areas such as HIV/AIDS.
 - v. Corruption and lack of transparency, which erode public support, impede effective resource mobilisation and allocation and divert resources away from activities that are vital for poverty reduction and sustainable economic development. Where corruption exists, it inhibits donors from relying on partner country systems.
5. We acknowledge that enhancing the effectiveness of aid is feasible and necessary across all aid modalities. In determining the most effective modalities of aid delivery, we will be guided by development strategies and priorities established by partner countries. Individually and collectively, we will choose and design appropriate and complementary modalities so as to maximise their combined effectiveness.
6. In following up the Declaration, we will intensify our efforts to provide and use development assistance, including the increased flows as promised at Monterrey, in ways that rationalise the often excessive fragmentation of donor activities at the country and sector levels.

Adapt and apply to differing country situations

7. Enhancing the effectiveness of aid is also necessary in challenging and complex situations, such as the tsunami disaster that struck countries of the Indian Ocean rim on 26 December 2004. In such situations, worldwide humanitarian and development assistance must be harmonised within the growth and poverty reduction agendas of partner countries. In fragile states, as we support state-building and delivery of basic services, we will ensure that the principles of harmonisation, alignment and managing for results are adapted to environments of weak governance and capacity. Overall, we will give increased attention to such complex situations as we work toward greater aid effectiveness.

Specify indicators, timetable and targets

8. We accept that the reforms suggested in this Declaration will require continued high-level political support, peer pressure and coordinated actions at the global, regional and country levels. We commit to accelerate the pace of change by implementing, in a spirit of mutual accountability, the Partnership Commitments presented in Section II and to measure progress against 12 specific indicators that we have agreed today and that are set out in Section III of this Declaration.

9. As a further spur to progress, we will set targets for the year 2010. These targets, which will involve action by both donors and partner countries, are designed to track and encourage progress at the global level among the countries and agencies that have agreed to this Declaration. They are not intended to prejudge or substitute for any targets that individual partner countries may wish to set. We have agreed today to set five preliminary targets against indicators as shown in Section III. We agree to review these preliminary targets and to adopt targets against the remaining indicators as shown in Section III before the UNGA Summit in September 2005; and we ask the partnership of donors and partner countries hosted by the DAC to prepare for this urgently¹. Meanwhile, we welcome initiatives by partner countries and donors to establish their own targets for improved aid effectiveness within the framework of the agreed Partnership Commitments and Indicators of Progress. For example, a number of partner countries have presented action plans, and a large number of donors have announced important new commitments. We invite all participants who wish to provide information on such initiatives to submit it by 4 April 2005 for subsequent publication.

Monitor and evaluate implementation

10. Because demonstrating real progress at country level is critical, under the leadership of the partner country we will periodically assess, qualitatively as well as quantitatively, our mutual progress at country level in implementing agreed commitments on aid effectiveness. In doing so, we will make use of appropriate country level mechanisms.

11. At the international level, we call on the partnership of donors and partner countries hosted by the DAC to broaden partner country participation and, by the end of 2005, to propose arrangements for the medium term monitoring of the commitments in this Declaration. In the meantime, we ask the partnership to co-ordinate the international monitoring of the Indicators of Progress included in Section III; to refine targets as necessary; to provide appropriate guidance to establish baselines; and to enable consistent aggregation of information across a range of countries to be summed up in a periodic report. We will also use existing peer review mechanisms and regional reviews to support progress in

1. In accordance with paragraph 9 of the Declaration, the partnership of donors and partner countries hosted by the DAC (Working Party on Aid Effectiveness) comprising OECD/DAC members, partner countries and multilateral institutions, met twice, on 30-31 May 2005 and on 7-8 July 2005 to adopt, and review where appropriate, the targets for the twelve Indicators of Progress. At these meetings an agreement was reached on the targets presented under Section III of the present Declaration. This agreement is subject to reservations by one donor on (a) the methodology for assessing the quality of locally-managed procurement systems (relating to targets 2b and 5b) and (b) the acceptable quality of public financial management reform programmes (relating to target 5a.ii). Further discussions are underway to address these issues. The targets, including the reservation, have been notified to the Chairs of the High-level Plenary Meeting of the 59th General Assembly of the United Nations in a letter of 9 September 2005 by Mr. Richard Manning, Chair of the OECD Development Assistance Committee (DAC).

this agenda. We will, in addition, explore independent cross-country monitoring and evaluation processes – which should be applied without imposing additional burdens on partners – to provide a more comprehensive understanding of how increased aid effectiveness contributes to meeting development objectives.

12. Consistent with the focus on implementation, we plan to meet again in 2008 in a developing country and conduct two rounds of monitoring before then to review progress in implementing this Declaration.

II. Partnership Commitments

13. Developed in a spirit of mutual accountability, these Partnership Commitments are based on the lessons of experience. We recognise that commitments need to be interpreted in the light of the specific situation of each partner country.

OWNERSHIP

Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions

14. **Partner countries** commit to:

- Exercise leadership in developing and implementing their national development strategies² through broad consultative processes.
- Translate these national development strategies into prioritised results-oriented operational programmes as expressed in medium-term expenditure frameworks and annual budgets (**Indicator 1**).
- Take the lead in co-ordinating aid at all levels in conjunction with other development resources in dialogue with donors and encouraging the participation of civil society and the private sector.

15. **Donors** commit to:

- Respect partner country leadership and help strengthen their capacity to exercise it.

ALIGNMENT

Donors base their overall support on partner countries' national development strategies, institutions and procedures

Donors align with partners' strategies

16. **Donors** commit to:

2. The term 'national development strategies' includes poverty reduction and similar overarching strategies as well as sector and thematic strategies.

- Base their overall support — country strategies, policy dialogues and development co-operation programmes — on partners' national development strategies and periodic reviews of progress in implementing these strategies³ (**Indicator 3**).
- Draw conditions, whenever possible, from a partner's national development strategy or its annual review of progress in implementing this strategy. Other conditions would be included only when a sound justification exists and would be undertaken transparently and in close consultation with other donors and stakeholders.
- Link funding to a single framework of conditions and/or a manageable set of indicators derived from the national development strategy. This does not mean that all donors have identical conditions, but that each donor's conditions should be derived from a common streamlined framework aimed at achieving lasting results.

Donors use strengthened country systems

17. Using a country's own institutions and systems, where these provide assurance that aid will be used for agreed purposes, increases aid effectiveness by strengthening the partner country's sustainable capacity to develop, implement and account for its policies to its citizens and parliament. Country systems and procedures typically include, but are not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring.

18. Diagnostic reviews are an important — and growing — source of information to governments and donors on the state of country systems in partner countries. Partner countries and donors have a shared interest in being able to monitor progress over time in improving country systems. They are assisted by performance assessment frameworks, and an associated set of reform measures, that build on the information set out in diagnostic reviews and related analytical work.

19. **Partner countries** and **donors** jointly commit to:

- Work together to establish mutually agreed frameworks that provide reliable assessments of performance, transparency and accountability of country systems (**Indicator 2**).
- Integrate diagnostic reviews and performance assessment frameworks within country-led strategies for capacity development.

20. **Partner countries** commit to:

- Carry out diagnostic reviews that provide reliable assessments of country systems and procedures.
- On the basis of such diagnostic reviews, undertake reforms that may be necessary to ensure that national systems, institutions and procedures for managing aid and other development resources are effective, accountable and transparent.
- Undertake reforms, such as public management reform, that may be necessary to launch and fuel sustainable capacity development processes.

21. **Donors** commit to:

- Use country systems and procedures to the maximum extent possible. Where use of country systems is not feasible, establish additional safeguards and measures in ways

3. This includes for example the Annual Progress Review of the Poverty Reduction Strategies (APR).

that strengthen rather than undermine country systems and procedures (**Indicator 5**).

- Avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes (**Indicator 6**).
- Adopt harmonised performance assessment frameworks for country systems so as to avoid presenting partner countries with an excessive number of potentially conflicting targets.

Partner countries strengthen development capacity with support from donors

22. The capacity to plan, manage, implement, and account for results of policies and programmes, is critical for achieving development objectives — from analysis and dialogue through implementation, monitoring and evaluation. Capacity development is the responsibility of partner countries with donors playing a support role. It needs not only to be based on sound technical analysis, but also to be responsive to the broader social, political and economic environment, including the need to strengthen human resources.

23. **Partner countries** commit to:

- Integrate specific capacity strengthening objectives in national development strategies and pursue their implementation through country-led capacity development strategies where needed.

24. **Donors** commit to:

- Align their analytic and financial support with partners' capacity development objectives and strategies, make effective use of existing capacities and harmonise support for capacity development accordingly (**Indicator 4**).

Strengthen public financial management capacity

25. **Partner countries** commit to:

- Intensify efforts to mobilise domestic resources, strengthen fiscal sustainability, and create an enabling environment for public and private investments.
- Publish timely, transparent and reliable reporting on budget execution.
- Take leadership of the public financial management reform process.

26. **Donors** commit to:

- Provide reliable indicative commitments of aid over a multi-year framework and disburse aid in a timely and predictable fashion according to agreed schedules (**Indicator 7**).
- Rely to the maximum extent possible on transparent partner government budget and accounting mechanisms (**Indicator 5**).

27. **Partner countries** and **donors** jointly commit to:

- Implement harmonised diagnostic reviews and performance assessment frameworks in public financial management.

Strengthen national procurement systems

28. **Partner countries** and **donors** jointly commit to:
- Use mutually agreed standards and processes⁴ to carry out diagnostics, develop sustainable reforms and monitor implementation.
 - Commit sufficient resources to support and sustain medium and long-term procurement reforms and capacity development.
 - Share feedback at the country level on recommended approaches so they can be improved over time.
29. **Partner countries** commit to take leadership and implement the procurement reform process.
30. **Donors** commit to:
- Progressively rely on partner country systems for procurement when the country has implemented mutually agreed standards and processes (**Indicator 5**).
 - Adopt harmonised approaches when national systems do not meet mutually agreed levels of performance or donors do not use them.

Untie aid: getting better value for money

31. Untying aid generally increases aid effectiveness by reducing transaction costs for partner countries and improving country ownership and alignment. **DAC Donors** will continue to make progress on untying as encouraged by the 2001 DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries (**Indicator 8**).

HARMONISATION

Donors' actions are more harmonised, transparent and collectively effective

Donors implement common arrangements and simplify procedures

32. **Donors** commit to:
- Implement the donor action plans that they have developed as part of the follow-up to the Rome High-Level Forum.
 - Implement, where feasible, common arrangements at country level for planning, funding (e.g. joint financial arrangements), disbursement, monitoring, evaluating and reporting to government on donor activities and aid flows. Increased use of programme-based aid modalities can contribute to this effort (**Indicator 9**).
 - Work together to reduce the number of separate, duplicative, missions to the field and diagnostic reviews (**Indicator 10**); and promote joint training to share lessons learnt and build a community of practice.

4. Such as the processes developed by the joint OECD-DAC – World Bank Round Table on Strengthening Procurement Capacities in Developing Countries.

Complementarity: more effective division of labour

33. Excessive fragmentation of aid at global, country or sector level impairs aid effectiveness. A pragmatic approach to the division of labour and burden sharing increases complementarity and can reduce transaction costs.
34. **Partner countries** commit to:
- Provide clear views on donors' comparative advantage and on how to achieve donor complementarity at country or sector level.
35. **Donors** commit to:
- Make full use of their respective comparative advantage at sector or country level by delegating, where appropriate, authority to lead donors for the execution of programmes, activities and tasks.
 - Work together to harmonise separate procedures.

Incentives for collaborative behaviour

36. **Donors** and **partner countries** jointly commit to:
- Reform procedures and strengthen incentives—including for recruitment, appraisal and training—for management and staff to work towards harmonisation, alignment and results.

Delivering effective aid in fragile states⁵

37. The long-term vision for international engagement in fragile states is to build legitimate, effective and resilient state and other country institutions. While the guiding principles of effective aid apply equally to fragile states, they need to be adapted to environments of weak ownership and capacity and to immediate needs for basic service delivery.
38. **Partner countries** commit to:
- Make progress towards building institutions and establishing governance structures that deliver effective governance, public safety, security, and equitable access to basic social services for their citizens.
 - Engage in dialogue with donors on developing simple planning tools, such as the transitional results matrix, where national development strategies are not yet in place.
 - Encourage broad participation of a range of national actors in setting development priorities.
39. **Donors** commit to:
- Harmonise their activities. Harmonisation is all the more crucial in the absence of strong government leadership. It should focus on upstream analysis, joint assessments, joint strategies, co-ordination of political engagement; and practical initiatives such as the establishment of joint donor offices.

5. The following section draws on the draft Principles for Good International Engagement in Fragile States, which emerged from the Senior Level Forum on Development Effectiveness in Fragile States (London, January 2005).

- Align to the maximum extent possible behind central government-led strategies or, if that is not possible, donors should make maximum use of country, regional, sector or non-government systems.
- Avoid activities that undermine national institution building, such as bypassing national budget processes or setting high salaries for local staff.
- Use an appropriate mix of aid instruments, including support for recurrent financing, particularly for countries in promising but high-risk transitions.

Promoting a harmonised approach to environmental assessments

40. Donors have achieved considerable progress in harmonisation around environmental impact assessment (EIA) including relevant health and social issues at the project level. This progress needs to be deepened, including on addressing implications of global environmental issues such as climate change, desertification and loss of biodiversity.

41. **Donors** and **partner countries** jointly commit to:

- Strengthen the application of EIAs and deepen common procedures for projects, including consultations with stakeholders; and develop and apply common approaches for “strategic environmental assessment” at the sector and national levels.
- Continue to develop the specialised technical and policy capacity necessary for environmental analysis and for enforcement of legislation.

42. Similar harmonisation efforts are also needed on other cross-cutting issues, such as gender equality and other thematic issues including those financed by dedicated funds.

MANAGING FOR RESULTS

Managing resources and improving decision-making for results

43. Managing for results means managing and implementing aid in a way that focuses on the desired results and uses information to improve decision-making.

44. **Partner countries** commit to:

- Strengthen the linkages between national development strategies and annual and multi-annual budget processes.
- Endeavour to establish results-oriented reporting and assessment frameworks that monitor progress against key dimensions of the national and sector development strategies; and that these frameworks should track a manageable number of indicators for which data are cost-effectively available (**Indicator 11**).

45. **Donors** commit to:

- Link country programming and resources to results and align them with effective partner country performance assessment frameworks, refraining from requesting the introduction of performance indicators that are not consistent with partners’ national development strategies.
- Work with partner countries to rely, as far as possible, on partner countries’ results-oriented reporting and monitoring frameworks.

- Harmonise their monitoring and reporting requirements, and, until they can rely more extensively on partner countries' statistical, monitoring and evaluation systems, with partner countries to the maximum extent possible on joint formats for periodic reporting.
46. **Partner countries** and **donors** jointly commit to:
- Work together in a participatory approach to strengthen country capacities and demand for results based management.

MUTUAL ACCOUNTABILITY

Donors and partners are accountable for development results

47. A major priority for partner countries and donors is to enhance mutual accountability and transparency in the use of development resources. This also helps strengthen public support for national policies and development assistance.
48. **Partner countries** commit to:
- Strengthen as appropriate the parliamentary role in national development strategies and/or budgets.
 - Reinforce participatory approaches by systematically involving a broad range of development partners when formulating and assessing progress in implementing national development strategies.
49. **Donors** commit to:
- Provide timely, transparent and comprehensive information on aid flows so as to enable partner authorities to present comprehensive budget reports to their legislatures and citizens.
50. **Partner countries** and **donors** commit to:
- Jointly assess through existing and increasingly objective country level mechanisms mutual progress in implementing agreed commitments on aid effectiveness, including the Partnership Commitments. (**Indicator 12**).

III. Indicators of Progress

To be measured nationally and monitored internationally

OWNERSHIP		TARGET FOR 2010	
1	<i>Partners have operational development strategies</i> — Number of countries with national development strategies (including PRSs) that have clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets.	At least 75% of partner countries have operational development strategies.	
ALIGNMENT		TARGETS FOR 2010	
2	<i>Reliable country systems</i> — Number of partner countries that have procurement and public financial management systems that either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	(a) Public financial management – Half of partner countries move up at least one measure (i.e., 0.5 points) on the PFM/ CPIA (Country Policy and Institutional Assessment) scale of performance. (b) Procurement – One-third of partner countries move up at least one measure (i.e., from D to C, C to B or B to A) on the four-point scale used to assess performance for this indicator.	
3	<i>Aid flows are aligned on national priorities</i> — Percent of aid flows to the government sector that is reported on partners’ national budgets.	Halve the gap — halve the proportion of aid flows to government sector not reported on government’s budget(s) (with at least 85% reported on budget).	
4	<i>Strengthen capacity by co-ordinated support</i> — Percent of donor capacity-development support provided through co-ordinated programmes consistent with partners’ national development strategies.	50% of technical co-operation flows are implemented through co-ordinated programmes consistent with national development strategies.	
5a	<i>Use of country public financial management systems</i> —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.	PERCENT OF DONORS	
		Score*	Target
		5+	All donors use partner countries’ PFM systems.
		3.5 to 4.5	90% of donors use partner countries’ PFM systems.
		PERCENT OF AID FLOWS	
		Score*	Target
5+	A two-thirds reduction in the % of aid to the public sector not using partner countries’ PFM systems.		
3.5 to 4.5	A one-third reduction in the % of aid to the public sector not using partner countries’ PFM systems.		

5b	Use of country procurement systems — Percent of donors and of aid flows that use partner country procurement systems which either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	PERCENT OF DONORS	
		Score*	Target
		A	All donors use partner countries' procurement systems.
		B	90% of donors use partner countries' procurement systems.
		PERCENT OF AID FLOWS	
		Score*	Target
A	A two-thirds reduction in the % of aid to the public sector not using partner countries' procurement systems.		
B	A one-third reduction in the % of aid to the public sector not using partner countries' procurement systems.		
6	Strengthen capacity by avoiding parallel implementation structures — Number of parallel project implementation units (PIUs) per country.	Reduce by two-thirds the stock of parallel project implementation units (PIUs).	
7	Aid is more predictable — Percent of aid disbursements released according to agreed schedules in annual or multi-year frameworks.	Halve the gap — halve the proportion of aid not disbursed within the fiscal year for which it was scheduled.	
8	Aid is untied — Percent of bilateral aid that is untied.	Continued progress over time.	
HARMONISATION		TARGETS FOR 2010	
9	Use of common arrangements or procedures — Percent of aid provided as programme-based approaches.	66% of aid flows are provided in the context of programme-based approaches.	
10	Encourage shared analysis — Percent of (a) field missions and/or (b) country analytic work, including diagnostic reviews that are joint.	(a) 40% of donor missions to the field are joint.	
		(b) 66% of country analytic work is joint.	
MANAGING FOR RESULTS		TARGET FOR 2010	
11	Results-oriented frameworks — Number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategies and (b) sector programmes.	Reduce the gap by one-third — Reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third.	
MUTUAL ACCOUNTABILITY		TARGET FOR 2010	
12	Mutual accountability — Number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in this Declaration.	All partner countries have mutual assessment reviews in place.	

Important Note: In accordance with paragraph 9 of the Declaration, the partnership of donors and partner countries hosted by the DAC (Working Party on Aid Effectiveness) comprising OECD/DAC members, partner countries and multilateral institutions, met twice, on 30-31 May 2005 and on 7-8 July 2005 to adopt, and review where appropriate, the targets for the twelve Indicators of Progress. At these meetings an agreement was reached on the targets presented under Section III of the present Declaration. This agreement is subject to reservations by one donor on (a) the methodology for assessing the quality of locally-managed procurement systems (relating to targets 2b and 5b) and (b) the acceptable quality of public financial management reform programmes (relating to target 5a.ii). Further discussions are underway to address these issues. The targets, including the reservation, have been notified to the Chairs of the High-level Plenary Meeting of the 59th General Assembly of the United Nations in a letter of 9 September 2005 by Mr. Richard Manning, Chair of the OECD Development Assistance Committee (DAC).

***Note on Indicator 5:** Scores for Indicator 5 are determined by the methodology used to measure quality of procurement and public financial management systems under Indicator 2 above.

Appendix A:

Methodological Notes on the Indicators of Progress

The Indicators of Progress provides a framework in which to make operational the responsibilities and accountabilities that are framed in the Paris Declaration on Aid Effectiveness. This framework draws selectively from the Partnership Commitments presented in Section II of this Declaration.

Purpose — The Indicators of Progress provide a framework in which to make operational the responsibilities and accountabilities that are framed in the Paris Declaration on Aid Effectiveness. They measure principally **collective behaviour at the country level**.

Country level vs. global level — The indicators are to be **measured at the country level** in close collaboration between partner countries and donors. Values of country level indicators can then be statistically aggregated at the **regional or global level**. This global aggregation would be done both for the country panel mentioned below, for purposes of statistical comparability, and more broadly for all partner countries for which relevant data are available.

Donor / Partner country performance — The indicators of progress also provide a **benchmark against which individual donor agencies or partner countries can measure their performance** at the country, regional, or global level. In measuring individual donor performance, the indicators should be applied with flexibility in the recognition that donors have different institutional mandates.

Targets — The targets are set at the global level. Progress against these targets is to be measured by aggregating data measured at the country level. In addition to global targets, partner countries and donors in a given country might agree on country-level targets.

Baseline — A baseline will be established for 2005 in a panel of self-selected countries. The partnership of donors and partner countries hosted by the DAC (Working Party on Aid Effectiveness) is asked to establish this panel.

Definitions and criteria — The partnership of donors and partner countries hosted by the DAC (Working Party on Aid Effectiveness) is asked to provide specific guidance on definitions, scope of application, criteria and methodologies to assure that results can be aggregated across countries and across time.

Note on Indicator 9 — Programme based approaches are defined in Volume 2 of Harmonising Donor Practices for Effective Aid Delivery (OECD, 2005) in Box 3.1 as a way of engaging in development cooperation based on the principles of co-ordinated support for a locally owned programme of development, such as a national development strategy, a sector programme, a thematic programme or a programme of a specific organisation. Programme based approaches share the following features: (a) leadership by the host country or organisation; (b) a single comprehensive programme and budget framework; (c) a formalised process for donor co-ordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement; (d) Efforts to increase the use of local systems for programme design and implementation, financial management, monitoring and evaluation. For the purpose of indicator 9 performance will be measured separately across the aid modalities that contribute to programme-based approaches.

APPENDIX B:

List of Participating Countries and Organisations

Participating Countries

Albania	Australia	Austria
Bangladesh	Belgium	Benin
Bolivia	Botswana	[Brazil]*
Burkina Faso	Burundi	Cambodia
Cameroon	Canada	China
Congo D.R.	Czech Republic	Denmark
Dominican Republic	Egypt	Ethiopia
European Commission	Fiji	Finland
France	Gambia, The	Germany
Ghana	Greece	Guatemala
Guinea	Honduras	Iceland
Indonesia	Ireland	Italy
Jamaica	Japan	Jordan
Kenya	Korea	Kuwait
Kyrgyz Republic	Lao PDR	Luxembourg
Madagascar	Malawi	Malaysia
Mali	Mauritania	Mexico
Mongolia	Morocco	Mozambique
Nepal	Netherlands	New Zealand
Nicaragua	Niger	Norway
Pakistan	Papua New Guinea	Philippines
Poland	Portugal	Romania
Russian Federation	Rwanda	Saudi Arabia
Senegal	Serbia and Montenegro	Slovak Republic
Solomon Islands	South Africa	Spain
Sri Lanka	Sweden	Switzerland
Tajikistan	Tanzania	Thailand
Timor-Leste	Tunisia	Turkey
Uganda	United Kingdom	United States of America
Vanuatu	Vietnam	Yemen
Zambia		

* **To be confirmed.**

More countries than listed here have endorsed the Paris Declaration. For a full and up to date list please consult www.oecd.org/dac/effectiveness/parisdeclaration/members.

Participating Organisations

African Development Bank	Arab Bank for Economic Development in Africa
Asian Development Bank	Commonwealth Secretariat
Consultative Group to Assist the Poorest (CGAP)	Council of Europe Development Bank (CEB)
Economic Commission for Africa (ECA)	Education for All Fast Track Initiative (EFA-FTI)
European Bank for Reconstruction and Development (EBRD)	European Investment Bank (EIB)
Global Fund to Fight Aids, Tuberculosis and Malaria	G24
Inter-American Development Bank	International Fund for Agricultural Development (IFAD)
International Monetary Fund (IMF)	International Organisation of the Francophonie
Islamic Development Bank	Millennium Campaign
New Partnership for Africa's Development (NEPAD)	Nordic Development Fund
Organisation for Economic Co-operation and Development (OECD)	Organisation of Eastern Caribbean States (OECS)
OPEC Fund for International Development	Pacific Islands Forum Secretariat
United Nations Development Group (UNDG)	World Bank

Civil Society Organisations

Africa Humanitarian Action

Bill and Melinda Gates Foundations

Comité Catholique contre la Faim et pour le Développement (CCFD)

Comisión Económica (Nicaragua)

EURODAD

Japan NGO Center for International Cooperation (JANIC)

Tanzania Social and Economic Trust (TASOET)

AFRODAD

Canadian Council for International Cooperation (CCIC)

Coopération Internationale pour le Développement et la Solidarité (CIDSE)

ENDA Tiers Monde

International Union for Conservation of Nature and Natural Resources (IUCN)

Reality of Aid Network

UK Aid Network

AID EFFECTIVENESS

A PROGRESS REPORT ON IMPLEMENTING THE PARIS DECLARATION

The 2005 Paris Declaration on Aid Effectiveness defines the principles and commitments by which donors and developing countries intend to ensure that aid is as effective as possible in contributing to the Millennium Development Goals and other internationally agreed development objectives. This report is a mid-term review of progress towards these commitments, drawing on the *2008 Paris Declaration Monitoring Survey* and the *Evaluation Synthesis Report* among many other sources. Part I highlights the main actionable lessons and messages emerging from the analysis of progress to date. Part II covers the commitments under the five Partnership Principles related to ownership, alignment, harmonisation, development results and mutual accountability, together with four subjects of critical relevance: sector perspectives, the role of civil society organisations, situations of fragility and conflict, and the changing aid architecture. This report was prepared by the International Partnership of donors and partner countries hosted by the Development Assistance Committee (DAC) known as the Working Party on Aid Effectiveness.