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Working Party on Aid Effectiveness and Donor Practices

DRAFT REPORT ON AID EFFECTIVENESS FOR THE SECOND HIGH-LEVEL FORUM

Review of Progress, Challenges and Opportunities

**DAC Senior Level Meeting
8-9 December 2004**

This draft Report is submitted by the Working Party on Aid Effectiveness (WP-EFF) as BACKGROUND for discussion at the DAC Senior Level meeting on 8-9 December 2004 under item 2 a).

It is also circulated to WP-EFF members and associated partner countries for written COMMENTS by 15 December.

The Report should be reviewed in connection with the "Menu of Options" [DCD/DAC(2004)44] for priority actions, targets and indicators to be selected for inclusion in the Declaration of the 2nd High-Level Forum on Aid Effectiveness (28 February-2 March 2005).

The intention is to add a concluding chapter 6 which would reflect the outcome of the SLM discussion on the "Menu of Options" and the way forward. The next version of the Report will be discussed at the WP-EFF meeting on 24-25 January 2005.

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ACRONYMS

DAC	Development Assistance Committee (OECD)
EU	European Union
GFATM	Global Fund to fight Aids, Tuberculosis and Malaria
IMF	International Monetary Fund
JSA	Joint Staff Assessment
JSAN	Joint Staff Assessment Note
LDC	Least Developed Countries
MDG	Millennium Development Goal
MOU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
UN	United Nations

**DRAFT REPORT ON AID EFFECTIVENESS
FOR THE SECOND HIGH-LEVEL FORUM
REVIEW OF PROGRESS, CHALLENGES AND OPPORTUNITIES**

EXECUTIVE SUMMARY

1. **Background.** As part of the follow-up to Monterrey, the international development community committed in Rome (February 2003) to align development assistance with partners' strategies, harmonise donors' policies and procedures, and implement good practice principles in delivering development assistance. A year later in Marrakech (February 2004), the Heads of the multilateral development banks and the DAC Chair affirmed their commitment to fostering a global partnership on managing for results by aligning cooperation programs with desired development results, and relying on—and strengthening—countries' monitoring and evaluation systems to track progress and assess outcomes.

2. **Purpose of the Report.** Against this background, this report reviews progress in implementing the commitments of Rome and Marrakech. It discusses lessons of experience and identifies problems that need to be addressed, and actions that need to be taken at the Second High-Level Forum on Aid Effectiveness (HLF-2), to be held in Paris on February 28-March 2, 2005. The broad context for this report is that compared to a decade ago, partner countries have more effective strategies for poverty reduction and growth; donors' development assistance is better targeted to poor countries and good performers, supported by poverty reduction strategies and equivalent national processes; and programmatic support for good performers has made it easier to align development assistance with country priorities. Still, given the continuing needs for poverty reduction and growth, increasing the effectiveness of development assistance remains as important as ever. There is a broad consensus that harmonization, alignment, and a focus on results will need to drive and facilitate greater aid effectiveness.

A. Key Findings

3. The report draws on a range of sources to gauge progress on the above commitments. Key findings include the following:

4. **Broadening Interest.** Almost all 18 partners that volunteered in Rome to be frontier candidates for implementation are working to translate the commitments made in Rome into concrete actions that have the potential to improve aid effectiveness. This group of countries has been joined by an even larger and diverse group of middle- and low-income countries that have adopted various aspects of the harmonization, alignment, and managing for results agendas. Altogether, there are now over 60 partner countries and 40 bilateral and multilateral agencies engaged in harmonisation and alignment activities. In these countries, donors are beginning to use simplified procedures and practices, joint analytical work, enhanced focus on delivery of development results, delegated cooperation, common procurement and financial management procedures, common arrangements for sector wide approaches and budget support in their country operations.

5. **Countries' Priorities Given Greater Attention.** As of October 2004 43 countries had prepared poverty reduction strategies, and a large number of other low- and middle-income countries had nationally owned development strategies. Information from the 14-country survey and other sources suggests that there is a promising trend toward increased alignment with the country priorities articulated in these strategies, including a small but growing list of examples of joint strategy exercises among donors around agreed country priorities. The data further suggest that a growing number of donors are using budget

support to fund country priorities at the national and sectoral levels. There has been a surge in interest in sectorwide approaches (SWAps) among borrowers from multilateral institutions as a means for aligning around sectoral priorities, and a growing number of SWAps are using countries' existing frameworks for channelling and accounting for funds. But further progress is hampered by insufficient clarity about policy and investment priorities, the absence of a robust medium-term framework that links these priorities to the country's budget and spending decisions and timetables, donor preferences for project funding, the difficulty of agreeing on indicators that can serve as triggers for assistance, and milestones toward accomplishing the intended development results. Also, two additional areas need attention: the special needs of fragile states, where harmonisation and alignment are proving to be even more critical than in more "normal" contexts; and the circumstances of global programmes—partnerships and related initiatives whose benefits are intended to cut across more than one region of the world.

6. ***Limited Use of Country Systems.*** Few donors report using country systems (for financial reporting, disbursement, procurement, audit, monitoring and evaluation). Additional technical work has been done since Rome and Marrakech to develop criteria for assessing and strengthening country systems and for harmonising donor requirements around them. In several country programs, these criteria are guiding efforts among groups of donors to simplify and harmonise fiduciary, monitoring, and reporting arrangements. Further impetus to this work came in 2004 when a group of donors began to explore more systematically the scope for using such systems that meet accepted standards for the operations they fund. There is also evidence that more intensive use of arrangements such as delegated cooperation would help streamline and harmonize donor involvement in direct provision of assistance.

7. ***Mixed Picture of Progress.*** The picture that is emerging of progress in implementing the commitments made in Rome and Marrakech shows that while the scope of activities undertaken and their geographical coverage is impressive, good practice has not yet become general practice. When measured against the commitments to make significant changes to the ways donors manage and deliver aid in partner countries, the progress made does not yet have sufficient momentum in applying good practice deeply and systematically. There is still considerable effort needed by donors – bilateral and multilateral – working with country partners, to scale up aid effectiveness collectively.

8. ***Significant Constraints Remain.*** As recognised at the Rome and Marrakech meetings, senior-level attention to these matters remains essential to ensure that the momentum for these ambitious global change agendas does not stall. Such attention must continue because experience so far indicates that (a) achieving harmonisation, alignment, and managing for results is requiring intensive work among participants—from the donor communities and partner countries—that typically is costly and unfunded in the short run, with potential benefits and rewards only in the medium to long term; (b) very few institutions have put in place effective mechanisms (including training programs), resources, and incentives to support and encourage staff to pursue such activities; (c) many aid agencies still have in place arrangements that discourage, often unintentionally, the approaches and behaviours necessary for implementing the agenda, including codified requirements that have not been updated to provide the needed operational flexibility and delegated authority, especially to field based staff, to deliver services in a more harmonised and aligned manner; and (d) generally there are still no consequences in the short run—for individual aid agencies or individuals—for not initiating and sustaining meaningful action. These factors might help to explain why in the 14 country survey, only 8 percent of donor missions in 2003 were conducted jointly and only 35 percent said that donors were streamlining conditionality.

B. Toward More Selective, “Higher-Value” Goals

9. While the overall picture on progress is mixed, it is also promising, with upside potential and immediate opportunities. It is also risky, with significant remaining obstacles in donor and partner institutions, and longer-term consequences for public confidence in development cooperation. A particular risk is that the “clutter” of multiple processes on harmonisation, alignment, and results may generate a growing number of discussion groups, consuming more and more time, and generating “noise” rather than positive impact. The challenge going forward is to find ways to direct the building momentum for change to a few select “high-value” operational goals that affect aid effectiveness and development outcomes more broadly, appeal to development institutions and partner countries, respect the need for ownership and mutual accountability, motivate development staff, and lend themselves to measurement and monitoring. This progress report suggests that operational commitments be made under the four general headings of ownership, alignment, harmonisation, and results, and that quantitative targets be set and monitorable indicators be developed to measure further progress.

PREFACE

1. In the Monterrey Consensus (2002), the global community affirmed the importance of development to the world's well-being, calling on developing countries to strengthen their commitment to policies and institutions that can stimulate growth, reduce poverty, and achieve the MDGs, and on developed countries to provide more and better aid linked to improved trade and debt policies. As part of the follow-up to Monterrey, at the High-Level Forum on Harmonization in Rome (February 2003), the international development community further committed to align development assistance with partners' strategies, harmonise donors' policies and procedures, and implement good practice principles in delivering development assistance. A year later in Marrakech (February 2004), the Heads of the MDBs and the Chairman of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC) affirmed their commitment to fostering a global partnership on managing for results by aligning cooperation programmes with desired development results, defining how support is expected to contribute to country outcomes, and relying on—and strengthening—countries' monitoring and evaluation systems to track progress and assess outcomes.

2. Attention to harmonisation, alignment, and managing for results had begun before these agreements—as reflected, for example, in the work of technical groups involving multilateral development banks and bilateral aid agencies¹. The Monterrey, Rome, and Marrakech agreements focused heightened attention on these areas, and spurred a vast expansion in activities in these areas. This report looks at this body of activity to assess progress in implementing these international commitments; it draws some lessons of experience; and it identifies areas and opportunities for further action. It is important to note, too, that even as the development community worked on implementing those commitments, the ground continued to shift: for example, new donors have emerged, and fragile states have gained importance as a specific challenge in efforts to increase aid effectiveness. This report also attempts to take these kinds of movements into account. The report is intended as an input to the deliberations at the Second High-Level Forum on Aid Effectiveness to be held in Paris on 28 February – 2 March, 2005; and beyond that, it will feed into the preparations for the UN five-year review of the Millennium Declaration taking place later in the year.

3. This report has been prepared by the DAC Working Party on Aid Effectiveness and Donor Practices,² a joint group of bilateral and multilateral donors that also includes representatives of 14 partner countries. The report looks at the issue of aid effectiveness as it is affected by harmonisation, alignment, and managing for results. It recognises, however, that aid effectiveness, important as it is, is not the only factor that affects growth and poverty reduction. Other factors are essential such as (1) the quality of governance in partner countries, their institutions and strategic choices and (2) policy coherence in donor countries in areas such as trade, migration, debt reduction, investment promotion, environment, and security (areas that usually lie outside the policy remit of aid agencies and that are not addressed in this report). The current draft is organised into five chapters. Chapter 1 describes a framework for assessing progress on three levels—country ownership, alignment, and harmonisation, all embodying a focus on results. Chapters 2, 3, 4, and 5 assess progress in each of these areas in turn. A concluding chapter will set out recommendations for action based on discussions at the DAC Senior-Level meeting on 8 December 2004 and further guidance provided by donors and partners associated with the Working Party on Aid Effectiveness.

¹ See for example work of the DAC Task Force on Donor Practices (TFDP)

² The DAC Working Party on Aid Effectiveness and Donor Practices comprises the Task Team on Harmonisation and Alignment; Joint Venture on Public Financial Management; Joint Venture on Managing for Development Results; Joint Venture on Procurement; and Special Session on Aid Untying. The MDB group comprises the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, and World Bank. Fourteen partner countries are associated with the Task Team: Bangladesh, Bolivia, Cambodia, Ethiopia, Fiji, Kyrgyz Republic, Morocco, Mozambique, Nicaragua, Niger, Senegal, Tanzania, Vietnam, and Zambia. In addition, South Africa participates in the Joint Venture on Public Financial Management.

CHAPTER 1

FRAMEWORK FOR ASSESSING IMPROVEMENTS IN AID PRACTICES

Summary. The effective use of aid, the case for more aid, and demonstrable results on the ground are intertwined, with both partner and donor countries having roles to play. At Monterrey in 2002, partner countries were called upon to stimulate growth and poverty reduction by strengthening policies and institutions. As confirmed at Rome in 2003, a comprehensive solution also needs partners to set out a clear results-based development agenda that frames the specific contributions they seek from donors. Donor alignment within this framework also includes greatly increased reliance on partners' own administrative systems. Common approaches, simpler procedures, and shared information are also essential to relieve the very large unproductive costs and misalignment of aid that have resulted in missed opportunities to improve people's lives by using all resources better.

1. Donors and partner countries have always been concerned with the effectiveness of aid; and indeed the consensus of research results is that over time aid in general has contributed significantly to growth and poverty reduction. However, as the world has become more aware of the serious—and growing—dimensions of the development challenge, it has realised that aid flows can have a much greater development impact. Thus the need to provide and use aid as effectively as possible has risen to the top of the development agenda. One expression of this concern occurred when the world's leaders issued the Millennium Declaration, setting out the MDGs, a set of eight priorities for guiding partner countries' development programmes and donor assistance to make a real difference in the extent of world poverty. Another expression has been the growing efforts of all parties, donors and partner countries alike, to find ways to use aid resources better—both existing aid flows and the increased flows that are expected to result from the Monterrey commitments—by harmonising and aligning their policies and procedures, and by building into their work a focus on the results to be achieved.

A. Background

2. Over the years, aid has brought many benefits to partner countries—but it has also brought unintended burdens. Donors' policies and requirements are often different from each other and from those of the partner country—a situation that has often led to inconsistency of systems and programmes, and duplication and misdirection of efforts. In addition, the sheer numbers of procedures, reports, and visiting missions that partner countries have to handle every year entail severe costs: not only direct staff costs, but also the opportunity costs of tying up scarce national managerial and political talent. All of this represents resources that could have been used to reduce poverty, educate children, save lives, and promote growth.

3. ***Work on Harmonising Donor Practices.*** In the late 1990s, awareness of these costs of aid impelled the development community to give much greater attention to finding ways to work more effectively together. In particular, representatives of the bilateral donors, the MDBs, and partner countries worked in technical groups to begin to define sets of policies and procedures that all could agree on as good practice standards or principles. This work covered a range of areas: donor cooperation, country analysis, financial management, procurement, and environmental assessment.³ The idea was that donors and partner countries alike could use these good practices as a basis for harmonising their own policies and procedures.

³ See the OECD/DAC Good Practice Papers on *Harmonising Donor Practices for Effective Aid Delivery*.

4. ***Work on Managing for Development Results.*** During the same period, as the development community took on the challenges of working toward the MDGs, global attention focused increasingly on performance and the need for management strategies to enhance the achievement of outputs, outcomes, and impacts—that is, managing for development results. Accordingly the MDBs, OECD/DAC, the United Nations, and partner countries began focusing more on ways to build countries' demand for and capacity to adopt results-based approaches; on the need for donors to offer coordinated support for capacity building and to harmonise approaches to results measurement, monitoring, and management; and on ways for aid agencies to develop results-focused corporate cultures and incentives, as well as corporate reporting systems. This results agenda generates broader expectations that development actors can be accountable for the effectiveness of their work; at the same time, however, it forces all parties to think in terms of their *collective* impact on lasting poverty reduction, not just their separate responsibilities as temporary trustees of a limited slice of funding. It implies a cultural change in the aid system, long used to emphasising efficient input delivery and compliance with individual institutional mandates.

5. ***High-Level International Fora.*** In February 2003, representatives of 74 donor and partner countries, bilateral and multilateral development institutions, and regional organizations met in Rome at the High-Level Forum on Harmonization (HLF) to take stock of progress in harmonisation and make plans for applying good practice principles at the country level. In February 2004, delegates representing over 50 countries and 20 international organisations met in Marrakech, Morocco, for the second International Roundtable on Managing for Development Results, to forge a shared understanding of the principles of managing for development results and to discuss ways to build on that progress going forward. In March 2005, a Second High-Level Forum on Aid Effectiveness will be convened in Paris to assess progress on the commitments made in Rome and Marrakech. Participants—who will include ministers and senior officials from partner and donor countries, Heads of multilateral organisations, and representatives of civil society—not only will examine progress in harmonisation and alignment and in managing for results, but will also identify factors that contribute to and hinder progress. They are expected to commit to specific high-impact actions to accelerate implementation. This report is intended as a critical input to the deliberations in Paris and, beyond that, to the United Nations (UN) five-year review of the Millennium Declaration to be convened in late 2005.

B. Commitments

6. In the Rome Declaration, the international development community committed to an ambitious programme of actions in five broad areas: (a) aligning development assistance on partner countries' national development strategies, priorities, and systems; (b) streamlining and harmonising donor policies, practices, and procedures; (c) implementing good practice principles in development assistance delivery, including through delegated cooperation; (d) increasing the flexibility of country-based staff to manage country programmes; and (e) developing incentives within donor agencies to foster management and staff recognition of the benefits of harmonisation. The Marrakech Memorandum complemented the Rome commitments by putting the focus on results at the centre of the development community's work, including in the areas of harmonisation and alignment.

7. Together, the Rome and Marrakech commitments can be summarised in three broad areas:

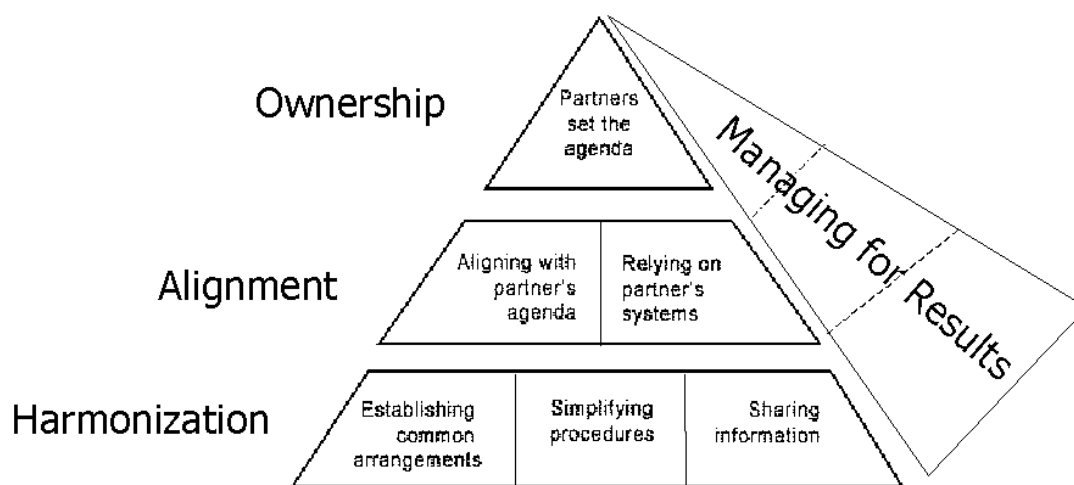
- ***Ownership.*** The development community would respect the right—and responsibility—of the partner country itself to establish its development agenda, setting out its own strategies for poverty reduction and growth. Partner countries would embrace the principles of managing for results, starting with their own results-oriented strategies and continuing to focus on results at all stages of the development cycle—from planning through implementation to evaluation.

- **Alignment.** Donors would align their development assistance with the development priorities and results-oriented strategies set out by the partner country. In delivering this assistance, donors would progressively depend on partner countries' own systems, providing capacity-building support to improve these systems, rather than establishing parallel systems of their own. Partner countries would undertake the necessary reforms to enable donors to rely on their country systems.
- **Harmonisation.** Donors would implement good practice principles in development assistance delivery. They would streamline and harmonise their policies, procedures, and practices; intensify delegated cooperation; increase the flexibility of country-based staff to manage country programmes; and develop incentives within their agencies to foster management's and staff's recognition of the benefits of harmonisation.

C. Framework

8. The three broad areas of the Rome and Marrakech commitments, schematically depicted in a pyramid (see Figure 1), are the organising principle of this report.

Figure 1. Aid Effectiveness Pyramid



9. The pyramid can be read from top to bottom: partners begin by setting the agenda for achieving development results (such as the MDGs); donors respond to this lead by aligning their support with the countries' results-oriented strategies and relying on partners' systems; and donors initiate the complementary actions of establishing common arrangements, simplifying procedures, and sharing information. In all of these areas, a focus on results is essential: the country's development agenda must be oriented toward the poverty reduction and growth results it expects to achieve.

10. The pyramid can also be read from bottom to top, in terms of stages of maturity in the aid relationship and the separable, but reinforcing, gains expected at each stage. In almost any circumstances, including in the most fragile country environments, the bottom tier actions—adopting common approaches (e.g., for disbursement, procurement, and accounting), simplifying procedures (e.g., reporting requirements), and sharing analysis—can improve the impact of aid, or at least reduce its costs. The ultimate objective is to move up the pyramid: in the most evolved country situations, partner governments not only establish clear priorities and results-based strategies, but also communicate how they want donors to collaborate and in what forms. If a donor remains unwilling to come into line, the partner nation may decide to forgo that source of aid.

D. Information Sources and Assessment Instruments

11. This report draws on multiple sources of information:

- Technical material prepared by the groups under the Working Party on Aid Effectiveness.⁴
- Self-reporting by members of the DAC Task Team on Harmonisation and Alignment.
- In-depth survey of the Working Party's 14 partner countries, conducted in 2004 (referred to in this report as the 14-country survey).
- Survey on incentive systems in aid agencies, conducted in 2004 in six donor members of the Task Team.
- Database on country implementation activities, covering 60 countries as of November 2004, assembled and maintained for the Task Team by the World Bank.
- Discussions at several preparatory events, especially regional workshops, along with the background documentation and case studies prepared for those events. Regional workshops on harmonisation, alignment, and results were held in October and November 2004 in Asia (Bangkok, Thailand), Latin America (Tegucigalpa, Honduras), Central Asia (Bishkek, Kyrgyz Republic), and Africa (Dar es Salaam, Tanzania). An NGO Forum on Aid Effectiveness and Harmonisation [will be] held in Paris, France, in February 2005.

⁴ See Annex 8: Overview of Work in Progress

CHAPTER 2

PARTNERS' PROGRESS IN SETTING AND LEADING THEIR DEVELOPMENT AGENDAS

***Summary.** Aid effectiveness requires partner countries to take leadership in framing their development priorities in terms of specific results, then orchestrating inputs from donors toward those priorities. The good news is that an increasing number of countries are showing such leadership in setting their agendas. However, evaluations of this agenda-setting process, which is still evolving, point to the need to invest more in partner country capacity to build feasible strategies; embed these strategies more firmly in national processes such as the budget; and draw the legislature, other institutions and stakeholders, further into the consultative process.*

12. It is now broadly understood that donors cannot develop a country; a country can only develop itself. To do so, it must envision the results it wants to achieve, choose the path it will follow to achieve those results, and coordinate donors' efforts and resources to help attain its goals. This chapter focuses on the progress partner countries have made in exercising this kind of ownership and leadership.

A. Aid Management and Strategies for Growth and Poverty Reduction

13. Countries often set out their development priorities and strategies in a planning document that serves both as a formal declaration of their commitment to these priorities and a yardstick for measuring results. For low-income partner countries, since 2000 the Bretton Woods institutions⁵ have required them to have in place a poverty reduction strategy (PRS) or equivalent national development framework as a prerequisite for access to debt relief and concessional funds. Increasingly, bilateral donors have also made such strategies central to their development cooperation,⁶ including their harmonisation and alignment efforts. A PRS is expected to specify clear priorities and to set out the time-bound policy actions and other actions, including mobilizing domestic and external resources that are needed to achieve those priorities. Ideally, in developing such a document a country clarifies its development goals, secures broad-based domestic support for them, explains how it expects to achieve them, and sets out its plans for monitoring and evaluating progress.

14. **Progress.** Partner countries have made appreciable progress in providing an overarching framework for aid management by setting and leading their development agenda.⁷ As of September 30, 2004, 43 countries had prepared and presented Poverty Reduction Strategy Papers (PRSPs) to the Boards of the IMF and World Bank, and three were preparing their second PRSP. All low-income countries that volunteered in Rome for frontier implementation of harmonisation and alignment⁸ have prepared at least

⁵ The Bretton Woods institutions are the World Bank and the International Monetary Fund (IMF).

⁶ National strategies, and explicit efforts by donors to build partnership around them, existed long before PRSPs in both low-income and other developing countries; see, e.g., *DAC Shaping the 21st Century Strategy*, *DAC Poverty Reduction Guidelines*, and the World Bank's Comprehensive Development Framework (www.worldbank.org/cdf/).

⁷ See, for example, *The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank's Support Through 2003*, IEO/OED, July 2004.

⁸ At the time of the Rome Declaration, 18 countries volunteered to be part of early work to expand country-led harmonisation efforts: Bangladesh, Bolivia, Cambodia, Ethiopia, Honduras, Kenya, Jamaica, Kyrgyz Republic,

one PRSP. Because these PRS processes involve widespread consultation, they have fostered often unprecedented engagement with civil society and thus expanded the ownership base from the government to the country as a whole. However, they vary greatly in their treatment of aid management issues. A few countries have identified the problems caused by uncoordinated donor activities (Malawi, Niger, and Tajikistan), described planned steps toward donor harmonisation that are consistent with the Rome Declaration (Honduras and Kenya), or discussed donor harmonisation in the context of managing the external debt (Djibouti and Madagascar). In some cases (Ethiopia and Rwanda, for example), the discussion is extremely detailed, describing the harmonisation and alignment process and its objectives, its impact on the availability and forms of donor financing, and planned time-bound action going forward. The annual PRS progress reports of Burkina Faso, Mozambique, and Tanzania refer to the Memoranda of Understanding between the government and donor groups; and Mozambique's annual PRS progress report presents the reduced indicator set by which donors will monitor performance.

15. **Resource Allocation.** The PRS and similar processes have helped in setting out policy priorities for growth and poverty reduction and have paved the way to strengthen the strategic process of budgeting. However, ensuring that resources are allocated to key policy priorities remains a challenge. The use of a medium-term perspective to guide the allocation of resources to priorities (the medium-term expenditure framework, or MTEF) has been widely recommended. Institutional reforms to achieve this goal are being implemented in at least 41 partner countries, including most of those using a PRSP.

16. Experience has shown that the main challenge in implementing the MTEF is to design and sustain a process of gradual and pragmatic improvements in light of country capacity and political economy constraints. Initial public expenditure management conditions matter: progress on the MTEF is easier in a country that has a modern functional budget classification, laws that establish a disciplined budget preparation calendar, and budget controls that provide some assurance of plans being executed. Coordinated donor support to governments, including diagnostic reviews of expenditure policy and budget management, can provide important support to budget reform. As donors move toward better coordinated support for country-owned reform of public expenditure management combined with a performance assessment framework to guide reform efforts, the prospects for pragmatic MTEF reforms are good.

17. **Results Focus.** The results focus of many PRSs and other development plans is inadequate: they often lack prioritization, sufficient assessment of trade-offs among development options, and cost-benefit analysis to enable strategic decisions on investments. They frequently need a stronger analytic base, including links between the statement of a desired goal, the capacity for implementation, and alignment to resource availability and allocation. Drawing the line of results from planning through to budget and expenditure management is critical in implementing a results approach; however, when development plans have specified priorities for expenditure, they have not always been translated into budget priorities or the MTEF. Without clarity on results and the means to achieve them, partners' ability to strategically align donor funds is weak, and their efforts tend to focus too much on process rather than on identifying comparative advantages and a division of labour in helping the country identify and manage for priority results.

Morocco, Niger, Nicaragua, Pacific Islands (Fiji and Tonga), Philippines, Senegal, Tanzania, Vietnam, and Zambia. Of these, the World Bank classifies Jamaica, Morocco, and Philippines as middle-income countries and the other 15 as low-income countries. Many of these countries are also members of the DAC Task Team on Harmonisation and Alignment and participated in the DAC 14-country survey.

B. Other Ownership and Leadership Processes

18. Beyond PRSs and similar development strategies, there are other indications that partner countries have made progress in laying out specific proposals for addressing aid management issues.

19. **Harmonisation Action Plans.** Some partner countries have developed clear agendas for alignment and harmonisation in the form of harmonisation action plans⁹ (Table 1). These plans are set out in time-bound format, with responsibilities assigned to specific government agencies and donors or clusters of donors. In some countries, these plans are addressing harmonisation concerns at the sector and project levels. In some of the action plans, governments have stated their intent to move in given areas toward fewer donors, especially fewer donors interacting with government, and greater pooling of both funding and other activities.

Table 1. Harmonisation Action Plans since 2003

ACTION PLAN	DRAFT PLAN	UNDER PREPARATION
Cambodia (November 2004)	Dominican Republic	Bolivia
Nepal (May 2004)	Ethiopia	Kenya
Nicaragua (October 2004)	Serbia	Kyrgyz Republic
Niger (June 2003)		Mongolia
Rwanda (December 2003)		
Tanzania (January 2003)		
Vietnam (May 2004)		
Zambia (April 2004)		

20. **Other Approaches.** Some countries have continued and built on broad-based harmonisation and alignment activities that began before the Rome Declaration. In Mozambique, for example, donor coordination around direct budget and other forms of programme support started in the mid-1990s has continued to evolve (see Box 1). This evolution has included a greater focus on the results to which donors are aligning their results-based assistance strategies. Other partners, especially middle-income countries,¹⁰ have not elaborated an approach labeled “harmonisation and alignment” but, as part of their efforts to modernize their relationship with key development agencies, have simply pursued relevant aspects of the agenda. For example, Jamaica has identified explicit harmonisation and alignment objectives and activities, linked to work started before Rome to upgrade public sector management and streamline donor support for capacity building. In Brazil, India and Morocco, activities have centered around sectorwide approaches (SWAs) and approaches to the delivery of development assistance that rely increasingly on the use of country systems for financial management, disbursements, and procurement. In the Philippines, where the focus is on streamlining financial management and procurement arrangements with donors, joint portfolio reviews are managed and overseen by a group of senior officials who have cross-sectoral responsibilities. In Nicaragua, the Joint Country Learning and Assessment (JCLA) aims at facilitating a country-led harmonisation and alignment process which is described more fully in Annex 5.

⁹ The Rome Declaration (see Annex 2) encouraged the development of such action plans: “Partner countries are encouraged to design country-based action plans for harmonisation, agreed with the donor community that will set out clear and monitorable proposals to harmonise development assistance using the proposals of the DAC-OECD Task Force and the MDB technical working groups as reference points.”

¹⁰ Middle-income countries (MICs) constitute 90 percent of the GDP of developing countries. They are home to over 80 percent of the developing world’s population and 70 percent of its poor people (those who live on USD 1/day or less). Although these countries typically do not follow the PRS process, they are all seeking to reduce poverty by achieving sustainable and equitable growth, and they have potential to accelerate progress in meeting development needs of the kind incorporated in the MDGs.

Box 1. Mozambique Performance Assessment Framework

In 2000 the Joint Donor Programme for macrofinancial support formalised donor programme support for Mozambique's development, expanding rapidly from 6 donors to 15. By 2004, a Memorandum of Understanding set out in detail the procedural arrangements for budgetary and balance of payments support, including a common performance assessment framework (PAF), covering three years, for implementation of the PRS. The PAF focuses on the highest-priority policies and actions, as well as output/outcome indicators to monitor them, and it serves as the basis for the annual economic and social plans and budgets approved by Parliament.

Under the PAF, donors commit to align their support with the Government's priorities, to harmonise their procedures to reduce the transaction costs of aid, and to enhance capacity. The PAF matrix both monitors these commitments and records the prior actions and disbursement triggers used by the participating donors. There is an annual joint review of the PAF, with agreed interim dialogue and monitoring processes that provide for frequent exchange and early signaling of concerns. Donors have committed to a graduated response to problems with program implementation. Total suspension of aid disbursement could take place only where there was violation of the underlying principles.

21. ***Exercising Stronger Aid Management Leadership.*** If the partner country is to set the development agenda, it must be willing and able to lead the aid coordination process forcefully. This task involves process skills, management capacity, mature political judgement, and sometimes, political courage. A partner country's leadership of aid management is about style or tone, as well as substance and capacity. Countries that are relatively less dependent on aid tend to be more willing to set firm ground rules for donors to follow. Aid-dependent countries may have good reason to hesitate. However, aid-dependent countries have if anything a greater stake in more efficient use of aid, and they can provide strong leadership even under difficult circumstances (see Box 2 on Afghanistan). As more countries adopt results-based approaches, they will also be better able to engage in strategic decisions about how donors can best assist them in achieving their development priorities.

Box 2. Afghanistan: Ownership, Donorship, and the New Administration

After President Karzai set out the Government's vision for national development during a donors' pledging conference in January 2002, the Government developed a national strategy, the National Development Framework (NDF), on which donors based their own aid strategies and sector policies. Donor management was guided by a Government-led Consultative Group, which replaced all previous donor fora. The Consultative Group established two pooled-financing trust funds and adopted simple management principles designed by the Government to most effectively harness the aid to rebuild national systems:

- The government must lead in formulating strategy and policy.
- No more than three donors are allowed per programme.
- There must be one lead donor or focal point per programme.
- Information must be submitted and donor conferences held around the timing of the Afghan budget cycle.
- A minimum and target amount of donor financing should be pooled through budget support or trust fund mechanisms.

In 2004 the Afghan government and donors agreed on a set of reform goals against which donors pledged USD 8.2 billion.

While development activities and aid commitments to date have been promising, there have also been challenges. The Government's attempts to provide sensible systems and priorities for donors to align to have not always been welcomed—for example, some donors have adopted parallel financing mechanisms and programs that duplicate rather than support the NDF and draw valuable capacity away from government.

22. **Conclusions.** Almost all participants in harmonisation and alignment efforts report that developing country ownership is a process that takes time, patience, perseverance, and resources. They also report that the ultimate gains make the process worthwhile. Tanzania, for example, reported at the Dar es Salaam workshop that the investment in harmonisation and alignment was now delivering lower transaction costs to the Government, including a sharp reduction in the number of missions and a high level of compliance with the Government's stated "quiet times," which cover the busiest budget months of April-July. The example of Uganda reflects many of the lessons of experience to date (Box 3), and helps to point the way forward for other countries.

Box 3. Uganda: Long-standing Ownership and Leadership

Since the mid-1980s, Uganda has taken active control of its own development agenda. The Poverty Eradication Action Plan, the country's primary development planning framework, provides the structure around which donors base their aid. A donor Consultative Group, established in 1986, coordinates actions among donors, the Government; and sector working groups. Several important lessons on ownership and leadership can be drawn from Uganda's experience:

- *Have an overall planning framework.*
- *The process of building trust in and buy-in to a new system can take years.* In the early 1990s the Ugandan education sector had a fragmented, project-based aid system; results did not begin to show until late in the decade.
- *Limit complexity—begin with a few donors and gradually spread to others.*
- *Be as specific as possible in the strategy,* so that donors, the government, and other stakeholders can monitor progress and develop a clear understanding of roles and responsibilities
- *Encourage donor collaboration.* Donors formed a joint Education Funding Agencies Group that reviewed education sector plans, and they pooled technical assistance funding through an earmarked fund managed by the Ministry.
- *Be firm.* The Government of Uganda has rejected funding proposals that do not fit with its development strategy.

C. Challenges and the Way Forward

23. Countries' progress in exercising ownership and leadership of their development process has been encouraging. Even so, there are many ways this ownership can be broadened, deepened, or facilitated.

24. **Improving Development Strategies.** Some PRSs and equivalent processes could be significantly strengthened. For example, many are too general—they may not be sufficiently clear about priorities or well integrated into budgetary processes. Incorporating medium-term expenditure frameworks (MTEFs) into PRSs would do much to address these weaknesses.¹¹ Another issue is that ownership of many PRSs is limited to a small circle of political or technical staff, and the parliament, for example, may not be involved.

25. **Streamlining Conditionality.** Donors often impose conditions to ensure that the funds they provide are being used for the intended purposes. In providing programme support, the Bretton Woods institutions often include macroeconomic and structural reform requirements, while bilateral donors in addition may include political conditionality. Over time, as the number of donors has increased, the layering of conditions, their complexity, and in many cases, the inconsistency among them, have become

¹¹ An effective MTEF requires both political endorsement of strategic spending priorities and linkage to a budget process capable of executing those decisions; thus it is a valuable element of the effort to ensure allocation of resources to key policy priorities.

problematic. There is a tension between country ownership and donor accountability: partner countries frequently feel that conditionality imposed by donors is not consistent with real country ownership of the development process. To address this issue donors need to be more disciplined (i) in limiting the number of conditions to those that are essential; (ii) focusing the conditions on the priorities the government has set out in the PRS and (iii) developing the conditions in close dialogue and collaboration with the government.

26. **Ensuring Mutual Accountability.** Donors and partners are accountable to each other for the effectiveness of their work, but it is also important to tighten the link between aid and the downward accountability of both partner governments and donors to citizens. Donors should strengthen mutual accountability by providing comprehensive, timely, and transparent information on aid flows. *Partners* should improve the quality and coverage of public financial reports on the use of both domestic and foreign resources. They should strengthen domestic accountability for development policies and systematically involve their parliaments and civil society organisations in all key stages of the development strategy, budget process, and MTEF. In areas such as timely disbursement, *donors* should agree on an assessment framework covering their own performance, in parallel with the performance framework used to judge partner performance in the PRS; on a process for conducting this assessment; and on accountability for assessment results.

27. **Supporting Capacity Development.** Effective leadership of a broad donor pool can tax scarce government capacity in partner countries, especially in low-income countries that have overstretched administrations or a large number of donors. For partners to feel encouraged to make the necessary commitments, donors need to support national capacity to frame development strategies and develop harmonisation action plans (see Box 4).

Box 4. Aid Effectiveness and Capacity Development

The international donor community spends approximately USD 7 billion each year for technical assistance to partner countries—and yet capacities remain low. Improving aid effectiveness also means using technical assistance funds more effectively.

Measures to improve aid effectiveness—harmonisation, alignment, public financial management, procurement, and management for development results—cannot be fully effective if the partner country lacks capacity to carry them out. Therefore, donors and partners need to have concrete discussions what capacity development is needed and how it can be supported.

In sector approaches, for example, partner countries may not have the capacity to assess the sector and develop a strategy for it, ensure coherence among the development strategies and goals, develop and implement concrete policy measures, lead donors in addressing key priorities, establish an effective monitoring system, or develop the MTEF needed to implement the strategy. Therefore, each partner needs to discuss the issue of capacity development with donors so that together they can reach a common understanding of what each party needs to do, and prioritise these needed actions individually and collectively.

28. **Improving Aid Predictability.** Aid unpredictability can lead to missed opportunities and stop-and-go policies that hinder growth and poverty reduction and make it harder for governments to exercise effective leadership in countries' development processes.¹² This means that it is important for donors to

¹² Alex Bulir and A. Javier Hamann, "Aid Volatility: An Empirical Assessment," *IMF Staff Papers*, 50 (1), April 2003. The authors found that development aid tends to be more volatile than the developing country's fiscal revenues, particularly in very aid-dependent countries. Development aid levels also tend to be procyclical—that is, they fall as the country's economy shrinks. At the same time, donors often provide countries little information about future aid commitments, and actual aid amounts tend to be lower than their original projections. Explaining that volatility and unpredictability of aid can be very difficult for poor countries, they recommended that donors make more cautious budget predictions and develop systems to make aid less procyclical.

communicate as candidly as possible with partner countries about the likely size of the budget envelope they will provide, and to ensure that their financial resources will be transferred to the country on a predictable schedule. *Donors* should programme aid over a multiyear framework, aligned with partners' financial horizon. They should fully disclose expected flows (all aid, without exception, should be captured on the partner budget, but not necessarily channelled through its treasury) and any triggers for their reduction or suspension. They should adapt conditions to make aid more predictable, and commit to disburse funds on schedule, once conditions are met. *Partners* should build up effective, accountable management systems for raising and using public resources. They also need to reinforce tax systems, improve fiscal planning, and link it firmly to development results.

CHAPTER 3

**PROGRESS IN ALIGNING DEVELOPMENT ASSISTANCE
WITH COUNTRY PRIORITIES, PROCESSES, AND SYSTEMS**

Summary. Most donors now reference national strategies (where they exist) to guide their programming, at least in part, though there are still instances when aid provided does not accord with stated priorities of partner countries. Special challenges are alignment in countries where ownership is contested or absent, particularly in fragile states, and reconciling alignment to partner choices with donor preferences for global vertical programmes.

Despite recent efforts in developing common standards and benchmarking systems against them, donor reliance on partner administrative systems, including those for procurement, still lags well behind alignment with development policies. Moving forward will require agreement on satisfactory common standards, responsibilities for benchmarking, and transitional arrangements linked to capacity building.

29. This chapter examines donors' progress on their commitments to base their development assistance on partner country strategies and to rely on national systems and procedures. It finds that donors increasingly do endorse the country's national strategic framework—except in the most fragile countries—but that they may not use this framework to guide their country assistance allocations. It also finds that progress in reliance on country systems has been slow.

A. Alignment with Country Priorities

30. Do donors use partner strategies—national development plans, PRSs, or equivalent frameworks—as the main springboard for their programs? As recently as five years ago this practice was the exception rather than the rule, but it has now become widespread. In the 14-country survey, donors and governments agreed that donors rely on the national framework for programming their own assistance; only 21 percent of donors expressed some qualifications about this reliance. Similarly, a joint IMF/World Bank paper reported that over 90 percent of partner countries surveyed feel that in their discussions and programmes, the World Bank and the IMF focus on the country's own priority areas.¹³

31. *Evolving Pattern.* The general pattern that emerges is that in countries where the government actively drives the development agenda and articulates its harmonisation and alignment issues (in the PRS or elsewhere, as in national development plans or harmonisation action plans), donors respond by intensifying their efforts to harmonise and align their activities on the ground. Often a joint group of local development players is formed under government leadership, through which like-minded donors align their support programs with the country's policy priorities and coordinate these programs with each other. Together with the government, these groups also often establish a formal common performance assessment framework (PAF) based on a limited set of indicators derived directly from the PRS, as in the Mozambique example cited in Box 1. Such frameworks can facilitate early commitments of aid, the integration of these commitments into the budget formulation process, and the frontloading of aid disbursements within the fiscal year to enhance the predictability of aid flows. The process and evolution of alignment to

¹³ *Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality: Progress Report*, February 24, 2004.

government-owned results is aided when donors' results-based country programming explicitly links donor assistance to intended results. In fragile states, the range of actors—humanitarian, diplomatic, military—with divergent objectives and approaches means the challenge of common strategy development is even greater.

32. ***Approaches to the Provision of Aid.*** One aspect of aligning around the partner country's priorities is how the aid is provided. Project support remains the dominant aid instrument in most partner countries and will continue to be important. The challenge will be to ensure that such support is provided applying good practice principles and integrated into countries' sector programmes. In addition, some donors in several countries are increasingly shifting from project aid to budget support or participation in sector-wide programs.

- ***Budget support.*** For an increasing number of donors, budget support is emerging as an important modality for greater alignment and harmonisation, because it provides direct support, at the economy-wide or sectoral level, to the government's own budget and priorities. This fosters institutional development and increases accountability by underscoring the budget's role as the statement and tool of government policy. Budget support is often structured around a matrix of performance measures developed by a group of donors (as in Mozambique and Tanzania) or as part of a financing package involving the Bretton Woods institutions. In several fragile states, particularly ones emerging from conflict (e.g., West Bank/Gaza, Bosnia-Herzegovina, Timor Leste, Afghanistan), multidonor trust funds are being successfully used to prepare the grounds for budget support.
- ***Sector-wide approaches.*** A SWAp is an approach to providing support that has a clear sector policy, with targets defined in qualitative and quantitative terms; a formalised *process of donor coordination*, with agreed roles and rules; a medium-term *expenditure programme*, matching sources and uses of funds; a *results-based monitoring* system for all major inputs, outputs, and outcomes; and, to the extent possible, *common implementation systems* (e.g., for reporting and financial management). SWAps can be financed with a combination of programme/budget and project support that covers capital and recurrent costs, including the costs of capacity development. Both countries and donors view SWAps as a manageable intermediate point between uncoordinated project-level activities requiring greater levels of harmonisation across all donors and sectors, and greatly expanded use of general budget support (although SWAps are probably used more in countries with general budget support than without). SWAps are becoming one of the most important vehicles for crystallizing and facilitating harmonisation and alignment on the ground across a wide range of different participants. They may be used in both low- and middle-income countries, in a range of sectors—for example, health, education, infrastructure, roads, and water, and as a way to support the streamlining and strengthening of government systems. Reports from donors suggest a significant increase in the number of SWAps approved or under preparation. For instance, of the 60 countries monitored on the aid harmonisation website, 26 report ongoing SWAps or preparation of SWAps, with support from bilateral agencies. Over the last decade the World Bank has participated in about 30 SWAps in some 20 mainly low-income African and Asian countries, and it has more under preparation. The UN also reports increasing involvement in SWAps to provide both policy advice and capacity development support. Box 5 briefly describes some recent SWAps.

33. Although these approaches have advantages, they also present challenges. For example, budget support may potentially entail significant volatility in aid flows in the case of suspension, the risk of more intrusive and extensive conditionality, and the likelihood of heavy reporting requirements, especially in the fiduciary area¹⁴. For SWAps, the start-up costs of establishing joint monitoring frameworks have been considerable, and the process has been very time-consuming—for example, in Ethiopia and Mozambique, the process of agreeing on a common set of indicators and monitoring modalities took well over a year. And in addition to the intensive up-front work, they tend to require continuous dialogue and monitoring during implementation. For results-based country programming, the challenge is balancing the country focus with the need to integrate global priorities into donor support, and ensuring that systems to enable monitoring of progress toward expected results are in place.

Box 5. Examples of SWAps

Albania. In April 2004, Albania agreed with the Infrastructure Steering Group (EC, EIB, EBRD, the Council of Europe Development Bank, and the World Bank) to pilot SWAps in the transport sector.

Bangladesh. Led by the Asian Development Bank, several bilateral agencies and the World Bank are providing support for primary education through a SWAp (2003), using Bangladesh's newly upgraded procurement system for 85 percent of this work. The SWAp replaces the previous primary education operation, under which 13 donors supported over 27 different projects through approximately 30 different accounts, with separate donor arrangements for procurement, financial arrangements.

Bolivia. Under an education SWAp, development partners are helping to strengthen government leadership through an interagency committee, chaired by the Ministry of Education and embedded in the structures of the Ministry, that coordinates all external assistance for the education sector.

Brazil. Under the Bolsa Familia SWAp (2004), the Government is integrating several federal programs to support the poor into one comprehensive program identifying synergies in health, education and nutrition. Program implementation has been streamlined into a single administrative and management mechanism integrated into government structures and coordinated by the newly-established Ministry of Social Development.

Kenya. In 2004 the Government began preparing a possible SWAp in governance, justice, and law and order with about 17 donors, some with basket funds and others with direct project/program input.

Tunisia. In May 2004, the EC, EIB, and World Bank agreed to pilot joint country approaches involving SWAps in secondary and higher education and vocational training.

34. **Reservations.** While overall the trend in aligning donor assistance with partner country priorities is positive, some donors give only “qualified” endorsement of country priorities. Their reasons run the gamut from minor quibbles on details to fundamental reservations about key parts of the strategy or even a basic objection to some of the elements of a partnership approach. In some cases, a donor may approve of the broad direction of the strategy, but disagree substantially over the pace and methods of its implementation, and hence of the extent of the external financial effort required. Several donors report that PRSs often do not clearly prioritise among sectors or reforms in need of support, and thus may offer little guidance for programming purposes.¹⁵ This has major consequences: it keeps the door open for donors to continue to decide “unilaterally” on what parts of the strategy (sectors, institutions) they prefer to focus their support, and in what timeframe, and it reinforces donors’ tendency to adapt country problems to fit their own mandates or preferences for specific policies or sectors. In other cases, donors’ reluctance has less to do with the letter of the national strategy or their enthusiasm for ownership in general than with

¹⁴ See *Draft Good Practice Note on the Provision of Budgetary Support* prepared by the DAC Joint Venture on Public Financial Management [DCD/DACEFF(2004)21], November 2004

¹⁵ In turn, the failure of many PRSs to prioritise has a variety of causes, including to avoid offending donors who champion favourite areas.

their scepticism over the nature of national leadership and the depth of ownership. For example, Bolivia submitted a detailed harmonisation and alignment plan for consideration at its Consultative Group meeting in October 2003, shortly before the fall of its government; however, donors who were concerned about the unstable political situation and Bolivia's overall poverty reduction strategy considered that harmonisation and alignment may not have been the top priority at that juncture.¹⁶

35. ***Fragile States.*** One challenge that has been emerging in recent years is how to foster alignment with national choices in fragile states—countries with particularly weak policies and institutions, including political and post-conflict transition countries and countries in prolonged political crisis, where there is a history of friction and extremely weak channels for popular participation. In transition countries, widespread needs, extremely weak capacity, and the presence of a large number of donors argue for a strong and innovative approach to moving forward on harmonisation. In countries in prolonged crisis, there are obvious challenges to alignment: donors have insufficient trust in the quality and legitimacy of the national priority-setting mechanism, even if one exists at all, to align their aid with any kind of national priorities. Countries in both groups also often acutely lack capacity and functioning systems to align to.

36. Donors have been considering the special needs of these countries, reviewing alignment and harmonisation practices in such cases with a view to identifying alternative practices that address their circumstances.¹⁷ One of the central findings is that harmonisation and alignment are proving to be even more critical in difficult partnerships than in more “normal” contexts. In these countries numerous parallel approaches undermine capacity and legitimacy, and a range of actors—donors, humanitarian agencies, and the military—means increased complexity and fragmentation. Thus harmonisation and coherence are particularly pertinent in these environments, both where the partner government has extremely low capacity but is willing to work with donors and where governments are unwilling to engage at all. The flip side of this coin is that these countries present excellent windows of opportunity: they must work together with donors to rebuild their systems, so from the beginning they can incorporate the principles of harmonisation, alignment, and managing for results. The Senior-Level Forum on Development Effectiveness in Fragile States, to be held in London in January 2005, is expected to advance thinking in this area.

37. Aligning with country priorities can be particularly problematic in fragile states, which may not have set out their development strategy in a formal document. However, there are often national or sector strategies and policies that can provide the foundation for policy alignment by donors. If there are several competing or overlapping policy frameworks, donors may need to judiciously assist national authorities in drawing together and prioritising the strategies. If there are no policy frameworks—for example, when the country administration or authority is new—it is important to provide space, time, and support for such strategies to be developed. In the absence of even the most minimal commitment to poverty reduction or extreme partner isolationism, “shadow systems alignment” approaches may be a way to address policy and priority issues in the longer term. Such approaches start with joint donor assessments of the current formal and informal policies and systems. Shadow systems alignment avoids the state; it does not give an authority or government control over resources, but does use structure, institutions, or systems that are compatible with existing or potential organisations of the state.

¹⁶ Overall, there is no simple on-off dichotomy between states where ownership is fully respected and those where it does not exist; there is a continuum, with most countries lying in the middle. On strictly technical issues, many bilateral donors look to the Joint Staff Assessment (JSA) of the PRSP carried out by the World Bank and IMF as both a “seal of approval” and detailed critical analysis. The JSA has been succeeded by the Joint Staff Assessment Note (JSAN). Some of its features, such as drawing upon the joint evaluations done by organised donor groups respond to the need for a mechanism that could serve both for discussing the PRSP among donors and for engaging the donor community in policy dialogue with partner countries, without undermining ownership.

¹⁷ Two donor initiatives are the DAC Learning and Advisory Process on Difficult Partnerships (LAP) and the World Bank Low-Income Countries Under Stress (LICUS) Initiative.

38. **Global Vertical Programmes.** Global programmes—partnerships and related initiatives whose benefits are intended to cut across more than one region of the world—now channel about USD 5 billion in development assistance. Often such programmes are created to further a limited vertical objective across many countries—for example, control of a few diseases within the broader health sector, or support to specific target groups within the wider population. Others exist to remedy perceived deficiencies of “traditional” bilateral and multilateral donors at the country level. The urgency of global programmes’ mission and its specific outcomes can interfere with, and often takes precedence over, the desire to build country ownership or to align with country priorities and processes. Evidence from independent evaluations also suggests that developing countries have generally had little voice in the design, governance, and management of global programmes. However, some global programmes are aware of this issue and are acting to address it (see Box 6).

Box 6. Global Programmes and Country Priorities

UNAIDS “Three Ones” Approach. UNAIDS, a global program to implement programmes in HIV/AIDS, is using “Three Ones” to reconcile global principles for addressing HIV/AIDS with core national strategies, programmes, and systems:

- **One** HIV/AIDS action framework that provides the basis for coordinating the work of all partners.
- **One** national AIDS coordinating body at the country level with a broad-based multisectoral mandate.
- **One** agreed country-level monitoring and evaluation system.

These principles help align all HIV/AIDS work in the country, ensuring that the core national system is linked to the national-level HIV/AIDS framework, and encouraging investment in strategies that ensure data quality and national-level capacity. (It has also been suggested that “one common financial framework” be added to the list, making it “Four Ones.”)

Global Fund to Fight AIDS, Tuberculosis, and Malaria. With USD 3 billion committed to 128 countries over two years, the Global Fund can make a major contribution to the achievement of the MDGs. At the same time, because of the financial weight it carries at the country level, its programme funding needs to be supportive of the government’s macroeconomic program, be well aligned and integrated with sector strategies, and be sensitive to implications for recurrent cost funding. The Global Fund is now adopting harmonisation and alignment as key operating principles and subscribes to the “three-Ones principles. It is also reinforcing its efforts to work within existing common fund mechanisms. In Mozambique, for example, Global Fund grants are being integrated into a SWAp for health care activities. All external health funding is pooled into either a fund for the health sector or a fund for HIV/AIDS-related activities. The Global Fund’s reporting and other requirements have been aligned with SWAp arrangements, including receiving assessment reports completed by other donors. Global Fund processes are supported by bilateral and technical partners such as the Clinton Foundation, DFID, the French Cooperation, GTZ, international NGOs, USAID, and ESTHER, and by private sector partners such as Johnson and Johnson, the Global Business Coalition, and Merck Support Group.

The Education For All-Fast Track Initiative (EFA-FTI). EFA-FTI is a partnership among countries and donors to focus global commitments and local implementation around a set of reciprocal obligations to achieve the MDGs on education. The partnership’s major work is undertaken at the country level. Countries such as Mozambique, Niger, and Nicaragua develop sound education programs, and donors support these programs with coordinated, harmonized efforts to accelerate progress. To address the issue of donor accountability, EFA-FTI recently developed a set of indicators that aim at supporting increased country ownership and leadership of external support for education and monitoring donor behaviour toward this goal.

B. Use of Country Systems

39. Even when donor financing is fully aligned with broadly owned country priorities, it accounts for only a small share of the annual cost of partner countries' development programmes (except in the most highly aid-dependent countries). Thus domestic resources are generally much more important than external aid in the development process. Thus rather than seeking to improve only the institutions needed to manage aid flows, it follows that donors can produce much greater development results by helping to improve the national systems to manage all resources—domestic as well as external. This is most obvious in the case of general budget support, where by definition the impact of aid depends on the quality of public expenditure management and procurement; however, it is also true for other aid modalities, including project aid.

40. **Reliance on National Systems.** One of the best ways for donors to improve the effectiveness of their aid is not to insist on tailor-made systems for their funds but rather to rely on the country's own systems (see Box 7). The creation of specific project units for donor projects or programs, separate from line management in the rest of the department concerned, has been found to be particularly disruptive, bleeding highly qualified staff from government departments and undercutting development. By contrast, the use of country systems is one approach that involves most of the drivers of aid effectiveness: ownership, capacity building, mutual accountability, alignment, harmonisation, and results. Partner country ownership is higher when donors use the systems already in place in the country. Using country systems also aligns the incentives of donors and partners to strengthen these systems and close the gap between policy and practice. Thus, for example, subject to reasonable safeguards, donors should not insist on the use of specific procurement procedures that differ from those required by the national regulations, nor require multiple "ring-fenced" bank accounts for transactions they support but not others. Furthermore, they should disburse budget support in line with the domestic budget schedule, and should accept financial and other progress reports in the format normally used by the administration. Donors should also rely on the country's monitoring and evaluation systems, strengthening them as necessary. Several countries (e.g. Tanzania, Uganda)—have developed systems for aid management, which donors should support and encourage.

Box 7. Country Systems

"Country systems" means the range of frameworks and arrangements that together form the basic fiduciary standards of any modern government—its core "soft" infrastructure. Country systems usually include the following:

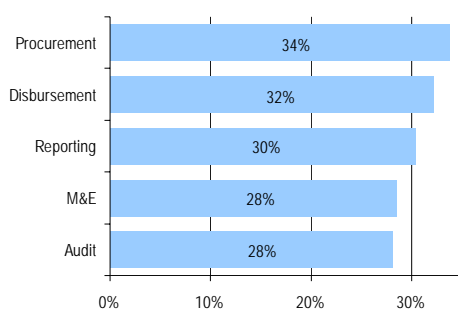
- National budget processes and planning cycles; medium-term expenditure frameworks and related management and monitoring systems.
- Accounting, financial reporting, and auditing arrangements.
- Public procurement rules.
- Project and programme monitoring and evaluation systems.
- Environmental and social impact assessments.

41. In the area of statistics, donors have worked with the UNDP and through other groupings such as PARIS21 and the Trust Fund for Statistical Development toward more coordinated support for strengthening country statistical systems. A number of countries have created statistical systems master plans and put in place national strategies for improving statistics. In some of those countries, donors are aligning their support and reducing the number of ad hoc surveys and activities that are not part of the master plan. However, there has been less progress on looking beyond statistical capacity to the monitoring and evaluation systems it supports.

42. **Slow Progress.** Progress in this area since the Rome Forum has been slow, lagging behind most other components of the harmonisation and alignment agenda even in the 14 countries surveyed by the

Working Party, which are among the more active test cases for alignment. For example, in Nicaragua, which received about USD 600 million in aid from nearly 40 donors in 2003, 80 percent was in the form of projects overseen by more than 1000 project implementation units. Of the major categories surveyed—procurement, disbursement, reporting, evaluation, audit, and environmental impact—no single donor reported using national systems in all six, and most said they use national systems in less than 50 percent of their projects (see Table 2). Donors in most countries said they do not use these systems for *any* of their projects, nor do they have a roadmap for moving forward in this direction. However, there are some good practice examples (see Box 8). The use of sector-wide approaches (SWAPs) provides a natural vehicle for the increased use of country financial management systems. With the substantial number of SWAPs now under preparation involving a large number of donors and partners, the use of country systems can be expected to increase.

Table 2. Percentage of donor-financed projects using partner country systems



Box 8. Lao PDR Roads Sector: New Approach to Implementation

For many years, major donors—the Asian Development Bank, Japan International Cooperation Agency, Swedish International Development Agency (SIDA), and the World Bank—had been financing projects in the Laotian roads sector. Multiple project implementation units (PIUs) outside the responsible ministry were established, bypassing ministry bureaucracy and reporting directly to the vice-minister. Each donor required that project implementation follow its own procurement, financial management and reporting systems. The salaries of PIU staff were much higher than those of regular ministry staff, who had little to do.

- **Leadership for paradigm change.** In 2000, the new task manager recognized that the Lao roads sector would require donor assistance for many years and needed a sound maintenance programme to protect road assets. He gathered donors to produce a long-term strategy for the sector, including donor partnership and institution building in the ministry to put the Government in the driver's seat.
- **In spite of stiff initial resistance by donor agencies and staff,** donors eventually agreed to harmonise bidding documents for the roads sector, adopt a single financial management system (SIDA's, by common consent), and disband PIUs and shift responsibility for implementation—including procurement, disbursement, financial management, and reporting—to the ministry.
- **Implementation responsibility was integrated into Government departments:** the ministry had responsibility for maintenance, construction, monitoring, and financial management; and the personnel department had responsibility for human resource development financed under the project. At subnational levels devolution to the ministry was also put in place. Consultancy assistance was financed by the projects.
- **Self-evaluation** of consultants and ministry staff was built in, along with a technical audit on the whole project paid for with credit funds.

Source: Good Practice Guidance Note for Project Management — Building Country Institutional Capacity during Project Implementation

43. Performance with budget support is relatively better (against different criteria), with only about a quarter of donors who use this modality still not making commitments in line with national budget timing. In addition, when respondents to the 14-country survey were asked whether budget support commitments and disbursements were predictable and synchronized with the budget cycle, most said yes or a qualified yes (Table 3).

Table 3. DAC Survey responses: extent to which budget support is predictable

	Multiannual commitments	Timely commitments	Timely disbursements	DBS programmed / disbursed in accordance with budget cycle
Bangladesh	x	✓	✓✓	✓✓
Bolivia	x	✓	✓✓	✓✓
Cambodia	x	x	x	✓
Ethiopia	✓	✓	✓✓	✓✓
Fiji	✓✓	✓✓	✓✓	✓✓
Kyrgyz Republic	✓	✓✓	✓	✓✓
Morocco	✓	x	✓✓	✓✓
Mozambique	✓	✓	✓	x
Nicaragua	✓	✓	✓	✓
Niger	✓✓	✓	x	xx
Senegal	x	x	x	✓✓
Tanzania	✓✓	✓✓	xx	✓✓
Vietnam	✓	✓	✓	✓
Zambia	x	✓	✓	✓

Key: ✓✓ Yes, ✓ Yes, but (qualified yes) x No, but (qualified no) xx No.

DBS = Direct Budget Support
 Source: DAC Survey on Harmonisation and Alignment, 2004

44. **Reasons for Slow Progress.** One of the principal reasons for slow progress in the area of using country systems is that there is no robust overall regulatory framework, either at the institutional or country level that is acceptable to all or even most donors and partners. Without such a framework, it is difficult to define acceptable standards and indicators to assess compliance with them. There is, for instance, a tendency to “harmonise upwards” to include the most stringent or specialised norms required by any donor around the table, even if they are not widely applied in the donor world. The best way forward would be for donors, in close consultation with partner countries (perhaps those now participating in the DAC Working Party on Aid Effectiveness or other interested countries) to agree on standards and on changes in policies and legislation needed on both sides. This would then be accompanied by a combination of specialised institutional development and training support, benchmarking of countries against agreed standards, and positive recognition—even certification—of the countries that comply with the standards. Such actions would focus attention on those—both donors and partners—that were lagging behind, and would make any donor’s reluctance to use national systems more transparent. Ideally, these standard-setting and rating functions should be in large part independent of donors. This would pose practical problems of skills and credibility or of knowledge of legislative constraints on donor governments, but there should be a major effort to associate impartial international expertise in this effort. Clearly, there is a need for donors and partners to intensify their work to determine more specifically what the issues are and to work out ways to address them.

45. **Standards in Financial Management and Procurement.** Wider use of country systems would require agreement on criteria against which systems should be assessed. For both development and fiduciary purposes, donors have recognised the need to work with partner countries to develop a performance measurement framework for public financial management (PFM). The PEFA secretariat and the Joint Venture on Public Financial Management have been working to develop a set of performance

indicators (drawing on indicators the World Bank and IMF had previously developed) that would be generally accepted by donors and partner countries. These indicators are being refined and tested in a range of countries, and are expected to be finalised in the first half of 2005. They cover the following areas:

- Public financial management out-turns: e.g., aggregate fiscal deficit compared to the original approved budget, and composition of budget expenditure out-turn compared to the original approved budget.
- Key cross-cutting features: comprehensiveness and transparency: e.g., comprehensiveness of aggregate fiscal risk oversight and inclusion in budget reports of all significant expenditures whether funded by government or donors.
- Budget cycle: e.g., multiyear perspective in fiscal planning; the budget formulation process.
- Budget execution: the effectiveness of cash flow management from planning to monitoring, including consistency with original/revised budgets.
- Accounting and reporting: e.g., timeliness and regularity of data reconciliation, in-year budget execution reports, external accountability, audit, and scrutiny, including follow-up.

46. *The Joint Venture on Procurement*, which involves partner countries, has developed an integrated set of strategies and tools for strengthening partner country procurement systems:

- Baseline indicators and monitoring and evaluation systems based on generally accepted international standards to assess partner country procurement systems and monitor their ongoing performance using appropriate performance indicators¹⁸.
- A more strategic approach to capacity development that views procurement as a complex system with a wide range of stakeholders imposing various constraints. This approach emphasizes the importance of country leadership, is linked to the initial baseline indicator assessment, and involves close and flexible monitoring and evaluation.
- A strategic framework for “mainstreaming” procurement that provides some recommended approaches in order to: move this issue more into the centre of the development debate and broaden the procurement system assessment; and reform design processes, looking at the linkages between procurement operations and the government’s public financial management and other activities.

47. These strategies and tools are now ready to be moved into implementation. To this end participants have agreed to a number of commitments, which are documented in the draft Johannesburg Declaration which is to be considered at the Third Roundtable meeting in December 2005¹⁹. These commitments generally track the series of questions raised in the assessment framework suggested below.

¹⁸ The assessment mechanism looks at four areas: the legislative and regulatory framework, the institutions established to ensure enforcement of this framework and their capacity, the functioning of procurement operations and market practices, and the integrity of the system.

¹⁹ Third Roundtable of the World Bank/DAC Joint Venture initiative on strengthening procurement capacities in developing countries, Johannesburg, December 2005.

48. **Framework for Assessing Country Systems.** Initially it would be important for donors and partners to assess national systems using a common template for tracking progress. This would mean, for instance, addressing the following questions and taking any remedial steps necessary:

1. Does the country claim to have a viable system, which it proposes that donors rely on instead of their stand-alone procedures?
2. Are international standards already agreed for that system, and are they generally accepted as appropriate and relevant?
3. If yes, has there been satisfactory assessment of compliance with the standards, fully involving both the partner and donors?
4. If yes, did it certify the national system as fully, or only partially, meeting the standard?
5. If fully, how many donors are now relying on it, or propose to rely on it?
6. If only partially, are harmonised interim systems in place to address major fiduciary risks?
7. Are there in place capacity development programs addressing these weaknesses, which provide for a shift to use of the national system when improvements occur? Do donors support these programs?

49. The point of the exercise would ultimately be to enable reliance on more countries' systems. Donors should keep in mind that the main argument for using national systems is not, in most cases, that they are already quite clearly good enough, but that if no one takes the risk of using them, they will never improve to that point. Thus, subject to reasonable precautions, the risk appears worth taking. The costs of inaction also have to be weighed alongside the costs and benefits of action. For example, by working to develop national accountability systems, donors and partners are building national constituencies in favour of an accountable state, which, it is to be hoped, will outlive and extend the technical improvements achieved.

50. **Capacity Development.** Clearly, many countries, including fragile states, have systems whose quality is inadequate for donors to rely on them. In these cases, donors will need to bolster collective action to help partner countries strengthen their national systems by stepping up capacity development efforts. Practical issues like how to transition from current practices to more broadly accepted standards, including necessary capacity building, would have to be worked out between governments and donors. One good example showing how the government and donors are addressing this issue can be found in the Public Sector Capacity Building Project in Ethiopia (see Box 9). More generally, capacity development merits great attention. Specific modalities to make progress on some of these issues at the country level and at the policy level in aid agencies (e.g., creation of cross-cutting or thematic groups to focus on one or several priority areas at the country level) would need to be considered.²⁰

²⁰ To be highlighted in the next version of the report.

Box 9. Coordinated Donor Support to Ethiopia's Strategic National Capacity Building Programme

With the rapidly expanding scope and scale of its reform program, the Government soon recognized that public sector capacity building efforts through 2003 were still largely supported by fragmented donor projects and financed in an ad hoc manner. As well, there were concerns related to the degree of transparency in the implementation of capacity building, problems in effectively leveraging global knowledge, and the bias towards intensive off-site training activities.

In May 2003, the Government announced its intention to rapidly scale up support for the six core public sector reform programs as subprograms under a consolidated five-year federal program called the Public Sector Capacity Building Program or PSCAP. This objective will be achieved by scaling up Ethiopia's ongoing capacity building and institutional transformation efforts in six priority areas—(i) Civil Service and Expenditure Management Reform; (ii) District-Level Decentralization; (iii) Urban Management; (iv) Tax Systems Reform; (v) Justice Systems Reform; and (vi) Information and Communications Technology.

In the months that followed, CIDA, DFID, SIDA, EU, and Ireland, in close collaboration with IDA, have agreed to support the government's USD 400 million programme with a SWAp approach and the pooling of funds around a single design solution. GTZ, USAID, and Italy are also supporting this program but without pooling. Salient features of the program include:

- Incorporation of donor commitments under PSCAP within the Government's overall macroeconomic fiscal framework and the overall vertical division of revenues between federal and regional levels.
- Alignment of donor procedures with Government's rolling medium-term planning, annual budgeting, and monthly Statement of Expenditure-based disbursement procedures.
- Pooling of donor resources around a single design under the SWAp, and alignment of non-pooled support with the Governments' planning, budgeting, and M&E system.
- Explicit identification of rules of the game governing access, allocation, and execution including an established vertical division of resources between federal and regional levels, and a simple formula to horizontal division of time-bound drawing rights to PSCAP resources across regional states, followed by performance-based disbursements.
- Regular bottom-up regional, and eventually woreda (district) and municipal planning of capacity building activities within assigned medium-term and annualized resource envelopes.

C. Challenges and the Way Forward

51. ***Aligning Financing with Partner Priorities.*** The aim is for partners to assert ownership through a clear, results-based medium-term agenda, and for donors to align aid to this agenda at the country level. For this to happen, *partners* need to set out their priorities in national strategies such as PRS²¹ that include clear outcome-based targets; a sound, growth-oriented macroeconomic framework; clear costing of programmes over the medium term; and active engagement of national stakeholders, especially the legislature, in casting the strategy. *Donors* should base the content of their country-level aid programmes on such strategies; they should draw major program conditionality from the strategies; and they should use partners' performance assessment frameworks to monitor progress against the strategies, and adjust their aid accordingly.

²¹ PRS is used in this chapter as a generic term designating poverty reduction strategies or equivalent national development frameworks.

52. ***Relying on Country Systems.*** The agreed aim is for donors to commit to use country's national systems, as soon as they are jointly assessed as being robust enough, in at least four key areas: public financial management; procurement; monitoring and evaluation; and environmental and social safeguards. *Donors* should work with partner countries to conduct joint assessments and bring performance up to agreed standards. *Partners* have the ultimate responsibility to instigate such assessments and take action to remedy deficiencies they reveal. Until donors can rely on country systems, they should simplify their own procedures to reduce the burdens on partners; in particular, they should avoid establishing or requesting new project implementation units.

53. ***Strengthening Systemic Capacity.*** The aim is to increase both demand and support for partner country institutions critical to sustained development results. *Donors* should provide reliable medium-term resources for nationally led programs for capacity development. Some of this funding should be pooled, with the partner freely selecting among sources of expertise. Donors should prioritise funding of joint diagnostic work, carried out transparently. They should build capacity needs explicitly into dialogue on monitoring and fiduciary frameworks. In responding to immediate priorities in fragile states, they should take care to avoid undermining national ownership in the longer term. Donors should also build up their country offices' capacity to engage constructively with partners and other donors, and therefore promote joint training at country level. They should increase recourse to third-party managers of technical support, including local and international civil society, where breaking the link between funding and control of external staff in sensitive positions is advisable.

54. ***Managing Headquarters-Driven Priorities.*** When a country demonstrates ownership, *donors* should manage the inconsistent top-down signals by headquarters stressing global or national preferences for priority topical themes or sectors, which may prevent their local representatives from aligning closer to the country's expressed priorities.

CHAPTER 4

PROGRESS IN HARMONISATION

***Summary.** Over the last two years, donors have been involved in many and varied activities with potential for harmonising aid delivery and scaling up development: joint analytic work that can save staff time and curtail policy debates triggered by different analyses; joint agreements to streamline conditionality; and delegated cooperation arrangements among donors. These activities are evidence of the attention that many donors are bringing to fulfilling commitments under the Rome Declaration. The challenge is to ensure that this broad range of scattered activities, and the energy and creativity driving it, contribute to achieving measurable progress for donors and partner countries.*

55. This chapter reviews donors' progress in adopting harmonised approaches in the three broad areas at the base of the aid effectiveness pyramid: (a) common arrangements, (b) simplifying procedures, and (c) sharing information.

A. Common Arrangements

56. Donors have entered into a wide variety of common arrangements, ranging from the preparation of joint analytic work and strategies to joint operations and common environmental impact assessment procedures.

57. **Joint Analysis.** The need to rationalise diagnostic instruments and reduce the number of separate diagnostic reviews is now well established. Clearly, carrying out joint analytic and diagnostic work is one good approach; in addition, such joint work can be an effective platform for donor harmonisation, including in difficult partnership environments²². Partner countries report a substantial and growing number of common diagnostic reviews in certain areas. In the 14-country survey, nine of the countries reported more than one donor involved in assessing both financial reporting and procurement systems.²³ Less common are (wider) joint diagnostic reviews of public expenditure and debt sustainability, which have typically involved only the World Bank and/or the IMF.

58. **Collaboration and Joint Strategies.** Donors and partner countries are increasingly collaborating in defining assistance strategies and programming to support the partner country's development priorities. Results-based country programming is one of the ways that donors are specifying their support for country outcomes while recognizing the comparative advantage of other donors in delivering aid and the benefits

²² The 2003 DAC Good Practice Paper on Measuring Performance in Public Financial Management provides guidance on diagnostic work stressing the importance of full involvement of development partners. This is seen as reducing transaction costs, particularly to partner countries and improving the overall quality and acceptance of the analysis. While different donors will have different criteria or thresholds which they will use in decision-making on the amount and nature of financial assistance, the principle is that they draw from a common body of information concerning the PFM system.

²³ Joint financial management assessment mirrors the intent of PEFA (Public Expenditure and Financial Accountability), a joint effort of the EU, World Bank, IMF, and several bilateral donors, to reach common approaches to strengthening public financial management. Joint procurement systems reviews show the effect of the joint work on national procurement systems by the MDBs with bilateral donor support at the country level, along with related work by the Joint Venture on Procurement.

of working in partnership to achieve more results. In addition, there has been an increase in joint assistance strategies, which focus on the roles and responsibilities of donors in the country (see Table 3). Within the UN System, joint assessments and assistance strategies are becoming common practice; by 2008, all countries where the UN has significant presence (over 100) will be using these common procedures. Central to these procedures is the linkage between UN areas of intervention as they relate to national strategies and the MDGs. The EU Council of Ministers established an ad hoc working party on harmonisation to promote greater EU co-ordination and harmonisation at country level (see Box 10).

Table 4. Examples of Joint Assistance Strategies in preparation

Countries	Type of Joint Assistance Strategy/Programming	Donor Agency
Cambodia	<ul style="list-style-type: none"> Joint country assistance strategy with Government of Cambodia Collaboration in preparation of assistance strategies 	AsDB, DFID, WB AsDB, DFID, WB
Dominican Republic	<ul style="list-style-type: none"> Joint assistance strategy (JAS) 	IADB, WB
Jamaica	<ul style="list-style-type: none"> Joint assistance strategy (delayed pending completion of government prioritization process) 	DFID, WB
Kenya	<ul style="list-style-type: none"> Donors considering a joint country assistance strategy 	DFID, WB
Nepal	<ul style="list-style-type: none"> Donors have agreed on common outcomes for their country assistance programs 	DFID, WB
Nigeria	<ul style="list-style-type: none"> Joint country assistance strategy 	DFID, WB
Papua New Guinea	<ul style="list-style-type: none"> Joint country assistance strategy 	AsDB, AusAid, WB
Rwanda	<ul style="list-style-type: none"> Donors preparing assistance strategies in consultation with other donors 	DFID, EC, SIDA, UN system
Samoa	<ul style="list-style-type: none"> Donors discussing development strategy for Samoa 	AusAID, NZAID
Tajikistan	<ul style="list-style-type: none"> Existence of linkages among donors working on poverty reduction programs 	EC, WB
Tanzania	<ul style="list-style-type: none"> Donors finalising concept paper on joint assistance strategy 	CIDA, Denmark, DFID, EU, Finland, Ireland, Netherlands, Norway, Sweden, WB,
Uganda	<ul style="list-style-type: none"> On-going process to develop a joint country assistance strategy 	DFID, Germany, Netherlands, Norway, SIDA, WB

59. **Joint Operations.** Considerable progress is being made toward the use of harmonised approaches to budget support, although this has not necessarily resulted (yet) in reducing transactions costs for donors, and/or more importantly, for government.²⁴ While partner governments appreciate that with harmonisation donors speak with “one voice,” they are also concerned that if donors herd around a common position, disbursements could be totally suspended when things go wrong. At the same time, a recent study conducted by the Strategic Partnership with Africa (SPA)²⁵ concluded that sector programs on procurement arrangements, disbursement mechanisms, financial management, technical assistance, and capacity building had very low levels of harmonisation.

²⁴ Progress In Harmonisation and Alignment at the country level, Note by the SPA Working Group, DAC Meeting 2-3 July, 2004.

²⁵ SPA Secretariat, *SPA-2003 Sector Program Tracking Report Based on SPA Partners' Inputs*, January 2004.

60. **Joint Financing Arrangements**²⁶. The JFAs establish a framework for co-ordinating donor support and cooperation with a partner government. These arrangements are the expression of the desire of the signatories to undertake support jointly, to work within one set of procedures applicable to all signatories, to monitor and measure results at the outcome end and to have a dialogue fed by the results of the monitoring. JFAs are usually complemented by bilateral arrangements/agreements concluded by each participating donor with the partner government. The JFA could apply to budget support, sector-wide approaches, and related basket funding, or jointly financed programmes and projects. The EU Council of Ministers recently approved increased use of JFAs²⁷ which will support harmonisation of aid modalities and the convergence of procedural requirements of EU donors as well as facilitate harmonisation with non-EU donors.

Box 10. Road Map of the EU Ad Hoc Working Party on Harmonisation

As a follow-up to the Monterrey Consensus and the Barcelona Commitments, the EU Council of Ministers established an Ad Hoc Working Party on Harmonisation in April 2004. The Working Party focuses on enhancing EU co-ordination and harmonization at country level. It is working on a the principle of a Road Map indicating the steps that Member States and the Commission can take to implement the Rome Declaration and support partner country action plans when available. The Road Map will be country-specific and consist of a menu of possible options. These would include joint multi-annual programming fostering complementarity; a common framework for aid procedures such as joint financial arrangements, common procedures, tighter coordination around budget/sector support and greater use of delegated cooperation; and a move towards the elaboration of common development policies in specific sectors or circumstances. Given the strong implementation focus, the Working Party encourages Headquarters in Member States and the Commission to further decentralise competencies, responsibilities and decision making in order to facilitate a country-led approach to harmonisation. In the multi-annual strategic plan of the Presidencies, aid effectiveness is one of the priorities on the 2004-2006 agenda.

61. **Bilateral/Multilateral Harmonisation**. In a number of Asian countries, where Japan, through JBIC, the Asian Development Bank, and the World Bank provide a dominant share of the external development assistance, the three “banks” have actively worked to harmonise their operational procedures. For example, they have undertaken joint portfolio reviews, used common standard bidding documents for procurement, discussed common thresholds for pre- and post-reviews, used common formats for financial reporting and audits, and developed common procedures in the environment area. These types of arrangements have started or are being discussed in Cambodia, Indonesia, Kyrgyz Republic, the Philippines, and Vietnam; indeed, in Vietnam two other bilateral agencies—Germany’s Kreditanstalt für Wiederaufbau (KfW) and France’s Agence française de développement (AFD)—have joined the effort. It needs also to be stressed that developing such common documentation and procedures is one thing; but using them is another. Governments for their part need to remove bureaucratic impediments to using these documents and procedures (provided of course that they have been closely consulted and have agreed that the changes being proposed are in their interest and will contribute to improved aid delivery and management); otherwise the time and effort invested in harmonisation will not yield the expected results.

²⁶ See Guide for negotiating Joint Financing Arrangements in support of the SWAp prepared by the Netherlands Ministry of Foreign Affairs, in close consultation with CIDA, the Ministry of Foreign Affairs of Denmark, the Ministry of Foreign Affairs of Finland, Development Cooperation Ireland, NORAD, SIDA and DFID.

²⁷ These JFAs could cover: goals of the program supported; responsibilities and representation; financial contributions; consultation; decision making; organizational structure; disbursements; procurement; reporting, review and evaluation(missions);audit; non compliance and force-majeure; corruption; modifications; withdrawal; dispute settlements and technical assistance.

62. **Common Procedures for Project Environmental Assessment.** All countries—donors as well as partner countries—have laws and regulations requiring the assessment of the potential adverse environmental and health impacts of infrastructure projects. Clearly, aid is used less effectively if the various actors involved in supporting a project have very different procedures and requirements related to environmental assessment.²⁸ In recent years aid agencies have successfully put in place environmental assessment procedures that are based on good practice principles and approaches. In Vietnam, for example, the procedures of the donors involved are not only remarkably similar, but they also mirror those of the partner country (see Box 11). It will be important to continue developing common procedures for infrastructure projects; in addition, as donors shift from project-based support to SWAs and budget support, it will be necessary to develop appropriate environmental assessment approaches—so-called “strategic environmental assessment.”

Box 11. Harmonisation of Environmental Safeguards in Vietnam

In Vietnam, a rapidly growing economy with aid flows increasing in infrastructure financing, five major donors—the Asian Development Bank (ADB), France’s Agence française de développement (Afd), the Japanese Bank for International Cooperation (JBIC), Germany’s Kreditanstalt für Wiederaufbau (KfW), and the World Bank—reviewed their environmental safeguard practices and those of the Government of Vietnam with a view to identifying potential problems and ways to address them. The review focused on environmental safeguards relevant to infrastructure projects that require detailed environmental assessment. The review found the environmental safeguard procedures and practices of all five donors and of the Government of Vietnam to be harmonised to a striking extent, notably with respect to such critical issues as the choice of activities to which environmental safeguards are applied; the scope of coverage of environmental safeguards, and general responsibilities for carrying out environmental safeguard activities.

The review also identified differences among these sets of procedures that will need to be addressed—particularly in the requirements for public consultation (how the views of people affected by the project are to be sought and taken into account) and information disclosure (what information should be disclosed to the public, in what way, and how resulting comments should be taken into account in decision making). In these issues the donors generally had more rigorous standards than the Government of Vietnam. All the parties will engage in dialogue to address their differences.

63. **Untied Aid.** It is now widely acknowledged that “tied” aid—that is, aid that must be used to purchase goods or services from a particular donor country—is one of the key practices that undermine aid effectiveness. In general, it is not cost-effective, it is associated with high transaction costs for partner countries, and it is not compatible with the objectives of country ownership and alignment. Over time, many donors have increased the relative share of untied aid in their bilateral programmes. A review of DAC’s 2001 Recommendation to untie aid to the least developed countries has concluded that implementation is progressing well, but because the focus and coverage of the recommendation were constrained its actual impact is limited. A number of DAC members are individually untying their aid beyond the requirements of the Recommendation.²⁹

²⁸ In 1992, to address these risks, the DAC endorsed *Guidelines on Environment and Aid: Good Practices for Environmental Impact Assessment of Development Projects*. See also *Framework Terms of Reference for Environmental Impact Assessment* and *Comprehensive Guidelines for managing the EIA process* produced by the Multilateral Financial Institutions Working Group on Environment (MFI –WGE).

²⁹ The issue of aid untying is treated more fully in Annex 6.

B. Harmonising and Simplifying Procedures

64. In 2004 the members of the United Nations Development Group completed the approval and initial application of a fully harmonised and simplified programming and implementation process. Over 90 percent of the DAC members who responded to the self-assessment indicated progress in simplifying procedures, although they did not specify the extent of that progress. Among bilateral agencies, the most progress was reported among Nordic Plus members³⁰. Two examples follow:

- **Procedures.** Sweden analysed whether SIDA has the necessary flexibility and mandate to participate fully in harmonisation and coordination efforts at the country level, concluding that SIDA is already able to fully align with partner countries' systems if they meet an acceptable standard. SIDA's external and internal regulations are compatible with the DAC good practice papers. In accordance with the SIDA Action Plan for 2004, templates for agreements and the manual on audit have been revised to include DAC good practices, and the guidelines for cooperation strategies with main partner countries are being similarly revised to take effect by January 2005.
- **Programming.** Norway no longer develops country strategies and similar overall country assistance plans; instead, it uses the partner country's poverty reduction strategy. Its Memoranda of Understanding on development cooperation with main partner countries normally contain an agreement that the responsibility for planning, implementation, monitoring and reporting rests with the partner country. The same applies to procurement (including consultants), accounting, auditing, and reporting, provided they are of an internationally accepted standard.

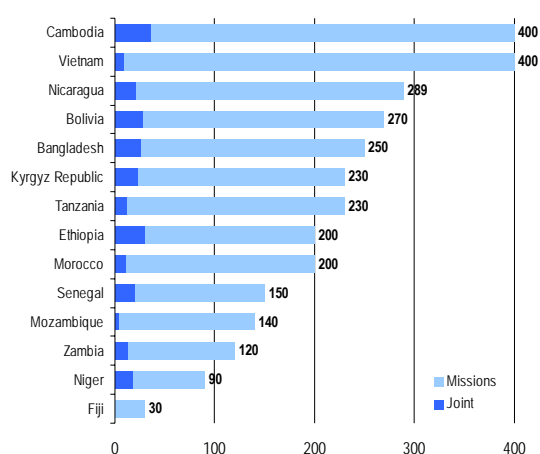
65. **Financial Management and Procurement.** Donors most frequently report harmonising activities in the areas of financial management and procurement; they also report some simplification efforts in monitoring and reporting. The UNDG, for example, has agreed with cost-sharing donors to use a common reporting format, and has agreed on common approaches to financial risk assessment, expenditure reporting, and audit. Government procurement, which in many countries accounts for up to 20 percent of the GDP, is a key aspect of harmonisation and alignment. Some procurement harmonization activities have included efforts by the MDBs to create harmonized standard bidding documents for goods, works, and services contracts on projects they finance, simplification of advertisement procedures and publication of contract awards, and the development by some groups of bilateral donors of harmonised procurement policies and procedures. For example, in 2004 the Nordic Plus Group jointly developed a set of procurement policies and guidelines on harmonisation. The guidelines explicitly encourage use of the strategies and tools developed by the Procurement Joint Venture and are aimed at maximizing use of partner country procurement systems. Where full use of these systems is not possible because of the risks involved, it provides for harmonised alternative arrangements. Another procurement harmonisation activity has been in the area of e-procurement: several donors have been working on a harmonised electronic platform that would enhance transparency and accountability, increase efficiency, and contribute to development of IT capacity; results to date include a shared online facility www.mdb-egp.org to promote understanding by practitioners and provide practical toolkits, and shared development of analytical tools that partner countries have used successfully.

66. **Visits and Reports.** In many ways, the simple finding that several partner countries received far more aid teams from abroad than there were days in the year, and had to produce hundreds or even thousands of quarterly reports primarily for donors' benefit, was the badge of shame that triggered the whole harmonisation movement. Reducing these burdens remains a litmus test of progress. The 14-country

³⁰ The Nordic Plus Group includes Denmark, Finland, Ireland, the Netherlands, Norway, Sweden, and the United Kingdom, joined later by Canada and Germany.

survey shows that the travel burden is still very heavy, averaging above 200 a year in the countries surveyed; and only a small fraction of visits are conducted jointly with others (see Table 4). Some agencies are chronic “travellers”: three-quarters of all visits were by a handful of donors (a total of seven in Vietnam, for example). The variance of travel across donors is large, out of proportion to the relative aid sums under management and the size of the local office. The remaining high number of missions is a clear symptom of weak progress towards alignment and harmonisation. Donors can reduce the burden for partner countries by more effectively decentralising authority, as well as staff, to country offices. Partner countries can help by making the ground rules more systematic and applying them consistently. For example, Tanzania and a few other countries have found it useful to declare blackout or “quiet” periods, linked to their peak budget discussion cycle, when they prefer not to receive visitors.

Table 5. Number of Donor Missions



67. **Delegated Cooperation.** Delegated cooperation or silent partnership is an arrangement under which one or several donors ask another to manage their funds and take on related fiduciary responsibilities on their behalf³¹. Such arrangements have not been very common, but their use is increasing. Most often, donors with no country presence of their own agree to have their seat at the table occupied by proxy; among bilateral donors, several have shown the capacity and flexibility to serve as lead donors or silent partners: Australia (AusAID), Canada (CIDA), France (AFD), European Commission, Germany (KfW, GTZ), Italy, Netherlands, New Zealand, Norway (NORAD), and Sweden (Sida). In other cases multilateral agencies serve as lead donors with bilaterals as silent partners. In addition, an increasing number of budget support programmes and SWAps are being facilitated through various forms of delegated cooperation. Box 12 provides some examples of delegated cooperation initiatives. In addition, the UN has introduced guidance notes on joint programming that allow for partnerships between UN agencies.

³¹ The extent and nature of delegated co-operation can take many forms and vary according to the type of aid (project, sector or budget support) as described in the DAC Reference Document *Harmonising Donor Practices for Effective Aid Delivery (OECD, 2003)*: see Chapter 6 on Delegated Co-operation.

Box 12. Delegated Cooperation

- Under delegated cooperation agreements for *Malawi* and for the *Lao PDR* health sector, Norway acts as the lead donor while Sweden is the silent or delegating partner. In an agreement being prepared for *Ethiopia*, Sweden will delegate its role in the health sector programme to Norway, while Norway will delegate its role in the education sector programme to Sweden
- In 2002, under a delegated cooperation agreement for the *India* health sector, CIDA delegated its role to DFID.
- In *Mali's* education sector, Germany's KfW has delegated its role to GTZ and to France's AFD, and Sweden has delegated its role to the Netherlands.
- Italy has a long-standing delegated cooperation arrangement with the EC which has implemented a number of programs, notably the Rehabilitation Programme in Somalia (1998-2002).
- In Mozambique and Nicaragua, donors have delegated cooperation agreements among themselves.
- In *Benin*, Germany's GTZ has delegated its role in a social change project to Denmark.
- In energy programs in *Uganda, Tanzania, Zambia, and Malawi*, the Netherlands has delegated its role to Germany's GTZ.
- In the energy sector in *Afghanistan*, Germany's KfW is handling its own funds and those of the EU.

C. Sharing Information

68. In the context of the aid effectiveness pyramid, sharing information has two essential components. First, donors should be completely transparent about their analytic work outputs, both with partners and with other donors. Second, they should communicate—fully, accurately, and in a timely manner—both their current disbursements and, more problematically, their future commitment and disbursement intentions. Sharing information with partners on aid flows is proving difficult, generally because donor agencies themselves do not feel able to commit themselves to future aid levels.

69. **Analytic Work.** Not all donors are rising to the challenge of transparency in country analytic work (CAW). In the countries surveyed, a majority of donors were candid in saying they posted only some of their output, or none at all. When it is not feasible to do the work fully transparently with other actors in the first place, giving them immediate access to the analysis and results is vital. In addition, providing information about upcoming or planned analytic work would allow donors and partner government to identify possibilities for joint work at an early stage. The CAW website (<http://www.countryanalyticwork.net>) has been set up to make it easier to list and search for country analytic documents. It carries major disclosed reports of both multilateral and bilateral agencies, including the World Bank, the EC, and the UN system, as well as other analyses. More than 25 donor agencies currently participate in this coordinated initiative and have assigned contact points. Additionally, the donors gather annually for one-day workshops to promote partnership schemes, and they have recently launched a CAW e-newsletter to further knowledge of their efforts. This allows, in theory anyway, for partners to have access to a “competition of ideas,” and to peer review of important recommendations, which could spill over into more autonomy over conditionality and key elements of the country strategy. One problem is that even these international donor-managed resources are not linked to partner government websites, so that ownership remains unclear. Going beyond this, only the donor representatives in a country, and partner staff, are likely to be fully aware of unpublished work that could be of use to others. Here it would be helpful if donor capitals would signal a presumption in favour of publishing. Overall, donor efforts to increase dissemination of both published and planned analytic work should be stepped up via the CAW Joint Website and individual institutional websites.

70. ***Disbursements and Commitments.*** On average, 70 percent of donors surveyed reported a substantial degree of compliance in notifying partners of actual disbursements—just over half said they complied fully and the rest that they complied but with some qualifications (for example, some donors reported being behind by at least one year in reporting, and some said they make data available only at the partner’s specific request). The IMF estimates that the commitments it receives from donors for program design purposes have little or no reliability as a basis for projecting disbursements, even in the relatively short term. The Working Party is carrying out work on the complex reasons for unpredictability in donor disbursements, looking ahead over the medium term.

71. Donors reported little ability to share information on aid flows, generally because they themselves do not have that information to share. For partner countries, this seems to be the main deterrent to moving toward multiyear budgeting. For many donors, legal and constitutional arrangements—for example, the cycle of government and legislature expenditure reviews—may limit the scope for long-range commitments. Some of these are at the formal, aggregate level but nonetheless allow country-level commitments within reasonable approximations; others are more binding, such as mandatory withdrawal of aid to countries depending on assessments of governance and human rights criteria. Obviously, events even further from a single country’s context (such as a sudden need for aid to respond to crises or opportunities elsewhere) also influence predictability. However, part of the problem is that donors give insufficient priority to pushing up to, and enlarging, the space that they have to make medium-term commitments in at least some partner countries.

D. Challenges and the Way Forward

72. ***Increasing Donor Complementarity.*** The objective is to reduce the burden on partners that arises from excessive fragmentation of donors at global, country, and sector levels,³² while preserving partners’ choice over preferred delivery channels for aid. *Partners* should express their preferences for the number and nature of the donors they wish to engage directly, and the areas they prefer for that cooperation, using their perspective on the comparative advantage of each donor and the need to balance costs and risks. This might be done bilaterally, or in the framework of a joint assistance strategy specifying the roles of many or all donors in funding the country’s development priorities. *Donors* should avoid both excessive international dispersion and excessive concentration. They should seek ways of improving cross-country balance and avoiding major gaps and overlaps, applying comparative advantage principles between and among bilateral and multilateral agencies. At the country level, there are many opportunities, in local aid co-ordination groups and in the context of Consultative Group meetings, for making informed decisions on better division of labour.

73. ***Creating Incentives for Harmonisation.*** The whole area of incentives for harmonising and aligning, and in particular for incurring the considerable extra institutional and personal costs of working in tandem with the country and other donors, is emerging as a critical variable on which more thought and action are urgently needed. The relationship between field and headquarters signals is also complex. One crucial factor is the extent to which promising country-based initiatives, which often call for exceptions to established norms, are seen to receive vigorous, tie-breaking support from senior managers. There is, conversely, the risk that establishing multiple memoranda of understanding and other local group procedures, important though they are, is measured as an end in itself (which would sharply increase costs at little added benefit), rather than as a useful indirect indicator of an underlying willingness to pool efforts in-country. The same is true of delegated cooperation. (Box 13 discusses incentives in greater detail.)

³² See EU Donor Atlas, mapping Official Development Assistance, May 2004.

Box 13. Incentives for Harmonisation

A September 2004 study examined how internal incentive systems in both bilateral and multilateral aid agencies influence harmonisation and alignment efforts. The study looked at different factors influencing individual and collective behaviour in aid agencies, to assess their impact on the adoption of harmonised practices.

At the political level, the efforts and commitment by senior managers in aid agencies to “spread the harmonisation gospel” have sometimes been undermined by such external political factors as donor country politicians concerned with visibility, NGOs and private sector lobbies, and lack of commitment and leadership on the part of partner governments. At the institutional level, initiatives have been less consistent. Decentralisation to country offices has not been matched by a strong coordination and policy support role by headquarters. Cumbersome and rigid procedures have made harmonisation more difficult on the ground. The human and financial resources devoted to the harmonisation cause have been insufficient. At the individual level, although agencies are providing increasing levels of training as well as informal incentives (mainly peer recognition), harmonisation criteria hardly ever feature in recruitment policies, staff performance assessments, and promotion systems. Therefore, the overall picture shows a certain degree of disconnection between high-level declarations and the challenges of providing adequate additional incentives to bring individual behaviour in line with harmonisation objectives. Staff members often face conflicting signals that can undermine harmonisation efforts.

Some of the common challenges aid agencies face in turning around their incentive systems are as follows:

- Organisations that promote innovation in all fields including harmonisation are more likely to succeed in harmonisation than organisations that reward compliance with rules.
- Positive incentives need to be enhanced and negative incentives need to be weakened or removed at all three levels – political, institutional, and individual.
- The link between headquarters and field offices needs to be strengthened so that the organisation as a whole can effectively use the wealth of country-level experience on harmonisation.
- Programme approaches are particularly advantageous for promoting harmonisation; but harmonisation and alignment of project aid remains important.
- Personalities and individual characteristics are fundamental factors in the success or failure of harmonisation efforts, especially at the country level.
- Existing international mechanisms need to be strengthened to make them more effective in the adoption and monitoring of common approaches for harmonisation.
- Harmonisation has many benefits, but its costs are also quite high—and often headquarters does not consider the costs.

Agencies that want to review their existing incentive systems and adopt new measures to promote harmonisation can draw ideas from other agencies’ many initiatives. Areas in which further action is required include the following:

- Public information campaigns for politicians and NGOs.
- Supporting partner governments in aid coordination and harmonisation systems.
- Formulating agency policies and guidelines for harmonisation.
- Improving M&E systems for harmonisation activities.
- Giving more attention to formal and informal individual incentives.

74. *Donors* should increase the prevalence of joint diagnostic work, joint sector and budget groups, and shared information. They should simplify procedures and make them transparent, and should strengthen incentives for management and staff to work closely with partners and other donors. They should operate as far as possible within joint (partner-led) sector and budget support approaches and through subcontracting arrangements (delegated cooperation) that reduce the burden on partners. Areas for further action will be identified and analysed on the basis of on-going donor self-assessments (see Box 14).

**Box 14. Donor Self-Assessment of Progress in Implementing the Rome Agenda
— Selected Findings —**

As part of their activities in the DAC Task Team on Harmonisation and Alignment, bilateral and multilateral donors are undertaking individual self-assessments of their progress towards greater harmonisation and alignment (H&A) since Rome. Initial findings, based on reports available to date, indicate the following trends. Communication and dissemination of the Rome agenda is well underway, with nearly all donors reporting good progress. There is less progress in developing concrete guidelines, particularly in the area of training and staff sensitisation. However, several members report a number of initiatives to build the H&A agenda in their work with certain partner countries.

Sharing information with partner countries on aid flows is proving difficult, generally because aid agencies themselves do not feel able to commit to specific future aid levels. Donors have been more successful in pursuing, on a pilot basis, joint diagnostic reviews, joint assistance strategies, delegated cooperation and other common arrangements. The next step will be to embed such approaches in a wider range of countries.

The level of development in partner countries clearly influences the reported level of donor alignment with partner's policies and systems. Several donors state that they use partner systems when they can, but most feel that this is often not possible, particularly in post-conflict and fragile states. While many donors acknowledge the need for increasing partners' capacity in technical areas such as data gathering and statistics, only a few report funding such activities.

Key lessons:

- Agencies, particularly smaller ones with limited time and staff, need assistance in achieving H&A goals. Developing training materials, common frameworks for database monitoring, and guidelines for monitoring and evaluation would be particularly helpful.
- Some definitions have evolved since the H&A initiative began: concepts such as “multi-year budgeting” and “procedural flexibility” seem to mean different things to different donors. Establishing some common definitions may be useful in the future.
- Multi-donor coordination mechanisms work well. Members of the Nordic Plus Group report significantly more progress in areas such as development of action plans, common policy guidelines, joint diagnostic reviews and procedures for harmonisation. The newly created EU Ad Hoc Working Party on Harmonisation is providing new impetus for enhanced co-ordination and harmonisation at country level among Member States and with the European Commission.
- In the future, some donors wish to further strengthen monitoring using a methodology for reporting that focuses on concrete results and monitorable indicators.

CHAPTER 5

PROGRESS IN MANAGING FOR DEVELOPMENT RESULTS

***Summary:** Since the emergence of the global agenda on managing for results in Monterrey some progress has been made in partner countries, within the individual aid agencies, and across the development community. Aid agencies have supported countries in strengthening the results focus of their national strategies and public sector management. Equally important has been the internal drive to manage for results within the aid agencies, linking country assistance programs more explicitly to countries' priorities and desired outcomes. Partner countries and aid agencies are converging around core principles and results agendas that share common elements and approaches. This convergence contributes to a global partnership for greater harmonization of policies and procedures and better coordination of support to strengthen country capacity. A strong partnership between the bilateral and multilateral community will be key in taking forward the results agenda.*

75. In the context of shared responsibility to achieve better development results, established by the Monterrey Consensus³³, the shift in aid management and implementation practices toward a greater focus on results and using information to improve decision making has led to the establishment of a global partnership on managing for results. The aid effectiveness pyramid in Chapter 1 shows the centrality of a results focus in achieving development outcomes. By bringing together harmonisation, alignment and managing for development results, the development community recognises that one without the other will not deliver sustainable results on the ground. Previous chapters show the need for both partner countries and aid agencies to better manage for results that cuts across ownership, harmonisation and alignment. This chapter provides a consolidated summary of what has been achieved, the challenges that lie ahead, and where improvements in the focus on results are necessary.

A. The Global Agenda on Managing for Development Results

76. Since Monterrey, a community of practice on managing for development results has emerged. In two international roundtables on managing for results³⁴, through discussions and exchange of views, this community has defined the conceptual framework and the principles of managing for results (see Box 15). Furthermore, bilateral donors and multilateral development banks have formed the Joint Venture on Managing for Development Results, under the DAC Working Party on Aid Effectiveness, to join efforts in this area. A major accomplishment to date is that partner countries and aid agencies are converging around these core principles and results agendas that share common elements and approaches as briefly presented below.

³³ See Final Outcome of the International Conference on Financing for Development (Monterrey Consensus), March 2002, Monterrey, paragraphs 39-46: <http://www.un.org/esa/ffd/aac257L13-E.doc>

³⁴ See proceeds of the *First Roundtable on Better Measuring, Monitoring, and Managing for Development Results*, June 5-6, 2002, Washington, and the *Second Roundtable on Managing for Development Results*, February 4-6, 2004, Marrakech: <http://www.managingfordevelopmentresults.org>

Box 15. Promoting a Harmonised Approach: Principles on Managing for Results

The Joint Marrakech Memorandum outlined a set of principles for a harmonised approach to managing for results and a plan of action for taking that agenda forward. These principles provide a foundation for a broad consensus among aid agencies and partner countries on how best to manage for results, and ultimately get better results for sustainable improvements in the lives of the poor.

More specifically, the principles call for: (1) focusing the dialogue on results at all phases—from strategic planning through implementation to completion and beyond; (2) aligning actual programming, monitoring and evaluation activities with the agreed expected results; (3) keeping the results reporting system simple, cost-effective and user-friendly; (4) managing for, not by, results; and (5) using results information for management learning and decision-making, as well as for reporting and accountability.

The principles also emphasise that agencies should rely on and support partner countries own priorities, objectives and results, coordinate with other aid agencies and strengthen partner countries own institutions systems and capabilities to plan and implement projects and programs, report on results, and evaluate their development processes and outcomes, avoiding parallel donor-driven mechanisms. A strong partnership between the bilateral and multilateral community will be key in taking forward the results agenda.

77. **Conceptual Framework.** The conceptual framework underpinning the global agenda on managing for development results defines results as sustained improvements in development outcomes at the country level, and posits that they can be improved through enhanced attention at all phases of the development process, from strategic planning through implementation to completion. As part of the overall effort to increase the impact of development assistance and achieve results on the ground by building on country systems, the global results agenda calls for actions at three levels:

- *At the country level*, to strengthen capacity to manage for, and achieve, development results;
- *at the agency level*, to more effectively support countries in achieving results through assistance programs; and
- *across aid agencies*, to share knowledge, harmonise policies and reporting requirements among aid agencies, and coordinate support for country capacity to manage for results.

B. Early Progress in Managing for Development Results

78. Over the past two years, the development community has moved beyond the conceptualisation phase into the implementation phase of the global results agenda. Within this short period, progress has been made at all three levels.

79. **Country Systems for Managing for Development Results.** Today, the country and its policies and institutions are recognised as the key drivers of development outcomes. Unless development efforts are led by countries themselves, external assistance will prove ineffective. It is also widely acknowledged that achieving development outcomes such as the MDGs requires greater levels of aid matched with improved public sector governance. Experience from developed and developing countries suggests that managing for results can be an important element in sound public sector governance:

80. Managing for development results is increasingly taking hold in partner countries in a variety of ways:

- **Strategy and Planning.** Managing for development results begins with identifying national goals and the strategies to achieve them within a specific context. For low-income countries, the introduction of the PRSP has led to a common platform for defining desired country outcomes

and the strategies for obtaining and measuring progress toward results. For middle-income countries, there is no common platform, but most define national development strategies and are increasingly linking them to results-based expenditure management and performance orientation in public administration. In several countries, especially those undertaking poverty reduction strategies, central and line ministries are developing more results focused strategies accompanied by results frameworks to monitor progress. This is equally true in Vietnam as in Sudan or East Timor. In Ethiopia strong sector strategies in health and education has helped in setting a well prioritized and costed PRS programme. While the results orientation in many of these strategies is still weak, progress in integrating results in the strategy process is being made.

- ***Public Expenditure Management.*** The budget is a powerful policy document for governments in reconciling competing policy objectives and their implementation in concrete terms. The political and institutional pressures to sustain the status quo in expenditure patterns and practices can be pervasive as governments move towards a results focus and implement a budget strategy that ties annual budgets to development outcomes. Aid agencies support efforts to give budget processes and public expenditure management a stronger results orientation. In more advanced countries (Philippines, Brazil, Uganda, South Africa, Thailand, Vietnam), there are increasingly strong links between expected results and budget and medium term expenditure processes. In all countries, there are pockets of innovation where the principles of managing for results are being applied, either in a line ministry, in a programs or in cross cutting themes.
- ***Results-Based Monitoring and Evaluation Systems.*** Results-based monitoring and evaluation (M&E) is a public management tool that helps policymakers track progress and demonstrate the outcomes and impacts of a given policy, program, or project. The information from a well-functioning M&E system is essential both internally for management and externally for transparency and accountability to citizens. It is the backbone that links desired country outcomes and actions—most useful when developed in conjunction with national plans and linked to public expenditure management systems. Definition of objectives and identification of indicators are key elements of an M&E system, but equally important are the quality of statistics and data used to verify indicators and the analytical capacities to evaluate and use the information. Many countries are recognizing the critical role that monitoring and evaluation can play in policy and program decisions. A number of countries have developed strategies to improve these M&E systems.
- ***Statistics.*** Countries are recognizing that the quality of the statistical systems for M&E is critical for the ability to make informed policy choices and to develop strong analytical work. Two kinds of data are needed. Aggregate country statistics and indicators are important for international comparisons and for assessing country development performance over time. At the same time, ongoing management of ministries and programs, and accountability, require more disaggregated and timely information. Effective international partnership is essential to increase resources and collaboration to strengthen statistical systems and reporting mechanisms. The statistical community has been working toward the targets set out in the Marrakech Action Plan on Better Data for Better Results. At the national level, the action plan focuses on mainstreaming strategic planning of statistical systems, preparing for the 2010 Census Round, and increasing financing for statistical capacity building. Programs for statistical capacity development have started in Ukraine and Burkina Faso, and strategic plans are being finalised in other countries, such as Kenya, Nigeria, China, India, Yemen, Albania. At the international level, it focuses on setting up an International Household Survey Network, improving MDG monitoring, and increasing accountability for the international statistical system.

81. ***Improving Aid Agencies' Focus on Results.*** Aid agencies do not achieve development outcomes directly through their individual actions. For them, success depends on effectively deploying assistance in high-quality ways in countries and in programs that deliver, and on influencing country policies and programs—often at a distance. This means that it is inherently hard to assess the aid agencies' contribution to the achievement of country outcomes—and, indeed, to design assistance programs to maximise that impact. To be more relevant and effective partners, aid agencies are strengthening the focus on results in their strategies, instruments, incentives and reporting systems.

- ***Results-Based Country Programming.*** Many aid agencies are improving their alignment to country strategies in a results-oriented manner through results-based country programming. Deriving country programming directly from the partner country's poverty reduction strategy and from the results specified in that context, and linking country support to the partner's MTEF is proving successful for aid agencies and partner countries. Emerging practices are being analysed and discussed in the OECD-DAC Joint Venture on Managing for Development Results for subsequent further dissemination. Box 16 presents the general principles for results-based country programming.

Box 16. Results-Based Country Programming

Results-based country programming can be a powerful tool to improve strategic selectivity, enable better allocation of resources to country priorities, and provide a framework to help manage to achieve results. The process of designing a results-oriented country program can improve teams' multisectoral dialogue toward outcomes, foster a dialogue with clients and partners on outcomes, and promote a results focus across the programme.

The general principles for results-based country programming are drawn from internationally agreed principles for aid effectiveness set out in such places as the DAC Agenda for the 21st Century (1996), the Comprehensive Development Framework (1998), the Monterrey Consensus (2002), the High-Level Forum on Harmonisation (2003), and the Second International Roundtable on Managing for Development Results (2004):

1. Wherever possible, **align the country strategy, programme, or plan to country-owned goals, objectives, and priorities**, as set out in the country's MDGs, PRS, or equivalent. Through consultation with country partners (governments, donors, civil society groups) **choose the programme components that can add the most value**, bearing in mind agency comparative advantage and other donor activities.
2. **Specify the national long-term development goals and priorities to which the results-based country strategy will contribute.** Set out a plausible results chain linking long-term development outcomes and intermediate outcomes to agency outputs and inputs. Concentrate on proximate outcomes that the country team can directly influence and manage during implementation. Specify the development constraints, risks, and assumptions that may affect the achievement of those outcomes.
3. **Use, do not duplicate, existing government systems for monitoring and evaluation.** Be flexible in the expectations for baselines, quantitative targets, and the "perfect" indicator. Weaknesses in government systems provide an opportunity to strengthen government systems.
4. **Support strengthening country capacity to measure, monitor, and manage for results.**
5. Within aid agencies and governments, **strengthen the internal incentives for moving toward results-based country strategies**, including performance incentives, skills upgrading, and teamworking, supported by high-level leadership. **Temper individual agency accountability pressures with the principles of harmonisation and country ownership.**

Source: A note of the OECD/DAC Joint Venture on Managing for Development Results

- **Operational Products and Services.** Important as strategies and programming are, by themselves they do not achieve results. The individual operations in the aid agencies programs must have high quality, relate to the country strategy, and have synergies with other operations, so that the whole is greater than the sum of the parts. All the aid agencies are giving greater attention to the quality and impact of their operations through enhanced monitoring and evaluation and portfolio management.
- **Incentives.** The lessons of past change management programmes in aid agencies suggest that when management systematically focus their attention on an issue—via corporate reporting and other vehicles—the signals to staff will follow. At the same time, it is important to be proactive in correcting disincentives that staff perceive in human resources and budget policies. It is also important to ensure that there is adequate capacity for staff to draw on in implementing the results focus at the country level. Aid agencies are working to improve staff ownership of the results agenda by identifying and providing appropriate incentives and support, including effective staff guidance and training and supportive information technology systems.
- **Corporate Reporting.** Corporate reporting is critical for informing stakeholders about progress on the agenda and for ensuring sustained management attention and, institutional follow-through. Since Monterrey, both bilateral and multilateral aid agencies have been upgrading their development effectiveness work and strengthening their corporate reporting.

82. **Global Partnership on Managing for Results.** The global partnership for results that the Monterrey Consensus spurred has been changing the way partner countries and aid agencies work together. There is a wide recognition that assistance programs are more effective when they are designed and implemented in collaboration with all partners and stakeholders, both in partner countries and aid agencies. It is also widely recognised that a critical goal of aid agencies' work is to make it easier for countries to achieve better and lasting results. Fostering this global partnership on results is an important element of the aid agencies' commitment to manage for development results, and has become a key part of each agency's results agenda.

83. As a result, aid agencies are making a more systematic effort to identify actions that produce results, scale up support for what works, ensure that the basic data to steer toward shared goals are available, and converging in their approaches to managing for development results. Global dialogue on country outcome monitoring is leading to harmonisation of approaches, policies, and procedures at the agency level, as well as in partner countries, thus reducing the costs to partner countries of dealing with the aid agencies. Aid agencies are approaching the challenge of coordinated support for capacity building and collaborative design, monitoring, and evaluation of operations. There are three critical areas of the global partnership that aid agencies participate in and contribute to.

- **Sharing Knowledge on What Works.** Aid agencies recognise the importance of drawing international lessons from what works and what doesn't, and disseminating this information broadly. For this purpose, the MDB-OECD/DAC Joint Venture on Managing for Development Results provide a forum for participant to share emerging practices and learn from each other, as well as from partner countries, as the basis for harmonisation of operational policies and procedures and coordination of support for country capacity building. Work is underway to capture existing experience in a *Sourcebook on Emerging Good Practice in Managing for Development Results*, and to use information tools to make this available worldwide. Managing for development results also was discussed extensively during four regional workshops that took place in October/November 2004³⁵.

³⁵ See Annex 4: Summary Note on Regional Workshops on Harmonisation, Alignment and Results.

- **Harmonisation around Results Reporting.** As aid agencies align their cooperation strategies to country priorities, results reporting requirements must also be harmonised around national monitoring and evaluation systems that help countries to manage for results. For example, in countries such as Mozambique aid agencies are using the performance monitoring frameworks of the country to report on budget support, or are using agreed results frameworks for reporting on program support, especially in SWAPs. These early lessons provide an opportunity for aid agencies to see how the evolution to reliance on country M&E systems is tacking hold and what efforts are needed for capacity building in this area. Through the Evaluation Cooperation Group, the aid agencies have already made progress in harmonising project and country strategy evaluation methodologies. This year tangible progress is expected in four pilot countries in Africa through a process to harmonise results reporting around national systems.
- **Coordination of Country Level Support:** The partner countries need increased and better coordinated support to strengthen strategic planning, analytical, statistical, as well as monitoring and evaluation capacity. These are essential capacities for generating and using information to make better decisions. Aid agencies increasingly recognise that strengthening capacity in these areas should not be an afterthought, but rather a central component of their cooperation strategies. Aid agencies rely on the monitoring and evaluation capacity of the country, including the supporting statistical capacity, for aligning to results, measuring, and reporting against them. Increasingly, Aid agencies are working together to assess the monitoring and evaluation setting in country and aligning capacity building support to a national strategy on M&E – but this work is at its infancy.

C. Challenges and the Way Forward

84. Despite notable progress in managing for results in countries, within and across agencies, a complex and demanding implementation agenda lies ahead that requires medium-term institutional development at the country level, systems development and a further change in mindset within the aid agencies, and an easing of constraints to harmonised action among agencies. In going forward, challenges that need to be addressed to fully implement the results agenda include the following:

- **In partner countries,** the PRSs are not always adequately focused on results because there is a lack of prioritisation, inadequate assessment of trade offs among development options, and an absence of cost-benefit analysis for making strategic decisions on investments. While Chapter 2 has pointed to the improved leadership that partner countries have taken by preparing their PRSs, these strategies are not always aligned to a public expenditure review or to the capacity of the budget to deliver resources to finance proposed programs and projects. Finally, there are many weaknesses in statistical systems and hence monitoring and evaluation of results is poorly done without impact on, or lessons for, the allocation of resources to future programs to achieve better results.
- **In aid agencies,** if alignment of country programs is to mean anything in operational terms, the results from that alignment need to be specified, and there needs to be a program of managing for the results intended. Partner countries need to exercise ownership of their development strategies and the results frameworks that follow from these, and need to urge aid agencies to align to those frameworks and to the related medium-term budget frameworks.
- **Among aid agencies,** fragmented and uncoordinated assistance to partners that is not focused on a careful assessment of likely results is counterproductive. If aid agencies are to rely on the capacity of partner countries to monitor and assess progress towards results, appropriate national monitoring mechanisms and statistical institutions are vital, and support for strengthening these institutions and capacities needs to be increased.

85. To further the implementation of the global agenda on managing for results, partner countries and aid agencies need to work together. The first priority will be to continue the emphasis on the importance of focusing on results in the planning and implementation of assistance programs by partner countries and aid agencies. The second should be an agreement by partners and agencies that all assistance programs should include a results framework in the planning documents that sets out the anticipated results and the pathway to those results. Third, there should also be an agreement by partners and agencies that strong support will be given to building statistical and M&E capacity in partner countries to monitor and evaluate results.

86. The Joint Venture on Managing for Development Results intends to continue its work programme which it has only recently started. The focus in the JV's programme will continue to be to collect *emerging practices* of how partner countries and aid agencies give shape to the principles outlined above, and to provide a platform for discussion of those practices. Gradually this work, it is hoped, will yield *good practices* in managing for development results that support countries and aid agencies in enhancing the effective attainment of development results.

87. The Joint Venture intends to invite partner countries to join its work, provide valuable experiences and participate in the discussion of the potential added value of the products of the Joint Venture.

MONTERREY CONSENSUS

International Conference on Financing for Development (March 2002)

Excerpt on making aid more effective (Paragraph 43)

43. Recipient and donor countries, as well as international institutions, should strive to make ODA more effective. In particular, there is a need for the multilateral and bilateral financial and development institutions to intensify efforts to:

- Harmonize their operational procedures at the highest standard so as to reduce transaction costs and make ODA disbursement and delivery more flexible, taking into account national development needs and objectives under the ownership of the recipient country;
- Support and enhance recent efforts and initiatives, such as untying aid, including the implementation of the Organisation for Economic Cooperation and Development/Development Assistance Committee recommendation on untying aid to the least developed countries, as agreed by the Organisation for Economic Cooperation and Development in May 2001. Further efforts should be made to address burdensome restrictions;
- Enhance the absorptive capacity and financial management of the recipient countries to utilize aid in order to promote the use of the most suitable aid delivery instruments that are responsive to the needs of developing countries and to the need for resource predictability, including budget support mechanisms, where appropriate, and in a fully consultative manner;
- Use development frameworks that are owned and driven by developing countries and that embody poverty reduction strategies, including poverty reduction strategy papers, as vehicles for aid delivery, upon request;
- Enhance recipient countries' input into and ownership of the design, including procurement, of technical assistance programmes; and increase the effective use of local technical assistance resources;
- Promote the use of ODA to leverage additional financing for development, such as foreign investment, trade and domestic resources;
- Strengthen triangular cooperation, including countries with economies in transition, and South-South cooperation, as delivery tools for assistance; and
- Improve ODA targeting to the poor, coordination of aid and measurement of results.

We invite donors to take steps to apply the above measures in support of all developing countries, including immediately in support of the comprehensive strategy that is embodied in the New Partnership for Africa's Development and similar efforts in other regions, as well as in support of least developed countries, small island developing States and landlocked developing countries. We acknowledge and appreciate the discussions taking place in other forums on proposals to increase the concessionality of development financing, including greater use of grants.

ROME DECLARATION ON HARMONISATION

Ministers, Heads of Aid Agencies and other Senior Officials representing 28 aid recipient countries and more than 40 multilateral and bilateral development institutions endorsed the Rome Declaration on Harmonisation in February 2003.

1. We, the heads of multilateral and bilateral development institutions and representatives of the IMF, other multilateral financial institutions, and partner countries gathered in Rome, Italy, on February 24-25, 2003, reaffirm our commitment to eradicating poverty, achieving sustained economic growth, and promoting sustainable development as we advance to an inclusive and equitable global economic system. Our deliberations are an important international effort to harmonise the operational policies, procedures, and practices of our institutions with those of partner country systems to improve the effectiveness of development assistance, and thereby contribute to meeting the Millennium Development Goals (MDGs). They directly support the broad agreement of the international development community on this issue as reflected in the Monterrey Consensus (*Report of the International Conference on Financing for Development*, March 2002, para. 43).

2. We express our appreciation to the governments of Jamaica, Vietnam, and Ethiopia, and to the bilateral donors and international institutions that sponsored and coordinated regional workshops in Kingston, Hanoi, and Addis Ababa in January 2003, in preparation for the Rome Forum. The key principles, lessons, and messages synthesised in the reports of these workshops have provided valuable input to the Forum.

Improvements in development effectiveness

3. We in the donor community have been concerned with the growing evidence that, over time, the totality and wide variety of donor requirements and processes for preparing, delivering, and monitoring development assistance are generating unproductive transaction costs for, and drawing down the limited capacity of, partner countries. We are also aware of partner country concerns that donors' practices do not always fit well with national development priorities and systems, including their budget, programme, and project planning cycles and public expenditure and financial management systems. We recognise that these issues require urgent, coordinated, and sustained action to improve our effectiveness on the ground.

4. We attach high importance to partner countries' assuming a stronger leadership role in the coordination of development assistance, and to assisting in building their capacity to do so. Partner countries on their part will undertake necessary reforms to enable progressive reliance by donors on their systems as they adopt international principles or standards and apply good practices. The key element that will guide this work is a country-based approach that emphasizes country ownership and government leadership, includes capacity building, recognises diverse aid modalities (projects, sector approaches, and budget or balance of payments support), and engages civil society including the private sector.

Good practice standards or principles

5. We acknowledge that while our historical origins, institutional mandates, governance structures, and authorising environments vary, in many instances we can simplify and harmonise our requirements and reduce their associated costs, while improving fiduciary oversight and public accountability and enhancing the focus on concrete development results. We endorse the good practice work by the technical groups of the DAC-OECD Task Force and the multilateral development banks (MDBs), and look forward to the expected completion next year of the UN harmonisation work that is being coordinated by UNDG. We are ready to follow existing good practices while continuing to identify and disseminate new ones.

Going forward

6. We agree that, for both donors and partner countries, the progress we make on the ground in programmes and projects will be a concrete and important measure of the success of our efforts. We recognise that such progress can be facilitated and enhanced by harmonisation efforts at the international and regional levels. Building on the work of the DAC-OECD and MDB working groups and on country experience, including the recent country initiatives, we commit to the following activities to enhance harmonisation:

- Ensuring that development assistance is delivered in accordance with partner country priorities, including poverty reduction strategies and similar approaches, and that harmonisation efforts are adapted to the country context.
- Reviewing and identifying ways to amend, as appropriate, our individual institutions' and countries' policies, procedures, and practices to facilitate harmonisation. In addition, we will work to reduce donor missions, reviews, and reporting, streamline conditionalities, and simplify and harmonise documentation.
- Implementing progressively – building on experiences so far and the messages from the regional workshops – the good practice standards or principles in development assistance delivery and management, taking into account specific country circumstances. We will disseminate the good practices to our managers and staff at headquarters and in country offices and to other in-country development partners.
- Intensifying donor efforts to work through delegated cooperation at the country level and increasing the flexibility of country-based staff to manage country programmes and projects more effectively and efficiently.
- Developing, at all levels within our organisations, incentives that foster management and staff recognition of the benefits of harmonisation in the interest of increased aid effectiveness.
- Providing support for country analytic work in ways that will strengthen governments' ability to assume a greater leadership role and take ownership of development results. In particular, we will work with partner governments to forge stronger partnerships and will collaborate to improve the policy relevance, quality, delivery, and efficiency of country analytic work.
- Expanding or mainstreaming country-led efforts (whether begun in particular sectors, thematic areas, or individual projects) to streamline donor procedures and practices, including enhancing demand-driven technical cooperation. The list of countries presently involved includes Ethiopia, Jamaica, Vietnam, Bangladesh, Bolivia, Cambodia, Honduras, Kenya, Kyrgyz Republic, Morocco, Niger, Nicaragua, Pacific Islands, Philippines, Senegal, and Zambia.
- Providing budget, sector, or balance of payments support where it is consistent with the mandate of the donor, and when appropriate policy and fiduciary arrangements are in place. Good practice principles or standards – including alignment with national budget cycles and national poverty reduction strategy reviews – should be used in delivering such assistance.
- Promoting harmonised approaches in global and regional programs.

7. We wish to record that a positive by-product of our collaboration on harmonisation has been increased information sharing and improved understanding of commonalities and differences during the preparation or revision of our respective operational policies, procedures, and practices. We will deepen

this collaboration in the future, and will explore how such collaboration could help to ensure that new or revised policies are appropriately harmonised or “harmonisable” with those of the partner countries and donor institutions.

8. We recognise the global work on monitoring and assessing the contribution of donor support to the achievement of the MDGs. We will track and, as necessary, refine lead indicators of progress on harmonisation such as those described in the DAC-OECD Good Practice Papers.

9. We acknowledge the potential contribution of modern information and communication technologies to promoting and facilitating harmonisation – already demonstrated by the use of audio and videoconferencing facilities in the staff work on harmonisation, the Development Gateway, the Country Analytic Work Website, and the early work on e-government, e-procurement, and e-financial management. We commit to further efforts to exploit these technologies.

Next steps

10. Partner countries are encouraged to design country-based action plans for harmonisation, agreed with the donor community that will set out clear and monitorable proposals to harmonise development assistance using the proposals of the DAC-OECD Task Force and the MDB technical working groups as reference points. In turn, the bilateral and multilateral agencies will take actions to support harmonisation at the country level. As part of their self-evaluation processes, bilateral and multilateral agencies and partner countries will assess and report on progress in applying good practices, and on the impact of such practices. Whenever possible, we will use existing mechanisms to develop such plans and to assess and report on progress, and we will make these plans available to the public.

11. We will utilise and strengthen, including through partner country participation, existing mechanisms to maintain peer pressure for implementing our agreements on harmonisation. In this regard and in the context of the New Partnership for Africa’s Development, we welcome regional initiatives, such as the work by the Economic Commission for Africa, for a joint annual aid effectiveness review in a framework of mutual accountability that would also address harmonisation issues.

12. Reflecting our experience over these last two days, we plan stocktaking meetings in early 2005 following the review already scheduled in DAC-OECD in 2004. This follow-up would assess progress in and sustain the momentum for fundamental changes that enhance aid delivery, and would contribute to the review of the implementation of the Monterrey Consensus, the timing and modalities for which are expected to be determined by 2005.

JOINT MARRAKECH MEMORANDUM
Second International Roundtable on Managing for Development Results
(February 2004)

1. We the heads of the African Development Bank, Asian Development Bank, Inter-American Development Bank, European Bank for Reconstruction and Development and World Bank, along with the chairman of the Development Assistance Committee of the Organisation for Economic Cooperation and Development, affirm our commitment to fostering a global partnership on managing for development results. We would like to thank the Moroccan authorities for hosting this Second International Roundtable on Managing for Development Results in Marrakech. We also take this opportunity to thank participants from around the globe who have contributed to this Roundtable, and to the growing awareness that getting better development results requires management systems and capacities that put results at the centre of planning, implementation and evaluation.
2. Since the International Conference on Financing for Development in Monterrey in 2002, the development community has embraced a new partnership; one that calls for developing countries to strengthen their commitment to policies and actions that reduce poverty and stimulate economic growth, and for developed countries to provide more relevant and effective support through improved trade and aid policies. Within this global partnership it is recognized that countries must take the lead in managing their development processes. This involves using information to improve decision-making and steer the development process toward clearly-defined goals. To do this, countries need to strengthen capacity for strategic planning, statistical analysis, monitoring and evaluation, while development agencies need to provide increased and better coordinated support in these areas. We accord the highest importance to strengthening the capacity of countries to better manage for development results.
3. We recognize the need for development agencies to enhance their organizational focus on results, taking into account their different mandates and modalities for providing country support. This calls for aligning cooperation programs with desired country results, defining the expected contribution of our support to country outcomes and relying on—and strengthening—national monitoring and evaluation systems to track progress and assess outcomes. As agencies with regional or global reach, we can and should distill the lessons of countries' experiences and better disseminate knowledge about what gets results in different country contexts.
4. Going forward, it will be essential to foster the global partnership that has emerged since the first Roundtable on Managing for Results in 2002. We acknowledge that it is only through such partnership that certain obstacles to managing for results can be addressed. A global effort is needed to support countries in generating reliable and timely data to assess progress toward the Millennium Development Goals and other country goals, and to strengthen international reporting mechanisms. A global partnership is also essential to reduce the burden on countries of multiple, agency-driven reporting requirements and monitoring and evaluation systems. We encourage all agencies to join in an effort to harmonise reporting requirements through a country-led process that builds on national and sectoral systems.
5. We are encouraged by the work that has been undertaken within and across agencies and countries to better manage for development results. Through the extensive discussions and preparations that have led to today's Roundtable, a consensus is emerging on the content and priorities for this far-reaching agenda, as well as the critical next steps. It will be essential to widen the circle of this consensus, in part through regional workshops to be held in the months to come. We believe that the attached core principles and action plan can serve as a solid foundation for building a broader consensus and taking effective action in the year to come. We endorse these principles and action plan, and encourage other agencies and developing countries to embrace them as well.
6. Extraordinary efforts are required on the part of developing and developed countries to accelerate progress on economic growth and poverty reduction. Commitment and accountability by all partners are essential if we are to work together to achieve better development results. The challenge is enormous, but so will be the return on our investment in terms of healthy and educated children, hopeful and productive youth, empowered communities and a safer and more equitable world.

SUMMARY NOTE ON REGIONAL WORKSHOPS ON HARMONISATION, ALIGNMENT AND RESULTS

1. In preparation for the Second High-Level Forum in Paris, four Regional Workshops were held on Harmonization, Alignment and Results. Workshops were planned in order to ensure a balance between harmonization, alignment and results at the country level, with a focus on country case studies, the coverage of thematic areas (procurement, financial management, environment, evaluation, and reflecting issues of concern in the region such as the private sector and harmonization in transition economies (for Bishkek), and the post-conflict issues (for Bangkok). Most of the country case presentations were made by partner country representatives, with a few sessions being presented by donors. The purpose of the Workshops were to assess progress in the three areas in these countries and regions, share experiences and best practices, and derive messages to be forwarded to HLF-2 in March 2005. Regional Workshops were held in:

- *Asia* — Bangkok, Thailand (19-20 October, 2004).
- *Latin America* — Tegucigalpa, Honduras (8-10 November, 2004).
- *Central Asia* — Bishkek, Kyrgyz Republic (11-12 November, 2004), and
- *Africa* — Dar-es-Salaam, Tanzania (9–11 November, 2004).

2. A brief summary on each of these workshops³⁶ is provided below:

ASIA REGIONAL WORKSHOP — BANGKOK, THAILAND

3. The Regional Workshop held in Bangkok, sponsored by the Asian Development Bank and Government of Japan, and hosted by the Government of Thailand, was attended by 119 participants from partner countries³⁷, bilateral and multilateral agencies, and civil society. The workshop provided a forum in which participants exchanged ideas and considered different approaches and solutions to the challenges of increasing aid effectiveness through harmonisation, alignment and results, and further discussed progress achieved in the above areas, since Rome. Case studies presented included country cases on capacity building in Vietnam, managing for results in Nepal, Harmonisation and Alignment of business processes in the Philippines, sector approaches in the Education sector in Bangladesh, the Education and Health sectors in Cambodia; and Harmonisation and Alignment in the context of post conflict countries like Afghanistan and Sri Lanka. Additional presentations were also provided on a sector and project perspective of managing for results in: a) rationalisation and corporate governance of Specialised Financial Institutions perspectives in Thailand; and b) a Monitoring and Evaluation system for a national provincial level HIV/AIDs program in Vietnam.

4. The workshop, was well received by partner government officials, and deepened the involvement of partner countries' officials in the international harmonization process. The use of cases drawn from the Region rendered the discussions meaningful and relevant to ground-level concerns. It also provided a good example of how the "tripartite partnership"—bilaterals, multilaterals, and partner countries—was engaged in focusing attention on the global aid effectiveness agenda, while simultaneously strengthening that architecture through improved aid coordination, results-focus, and capacity development at partner country level.

³⁶ An additional workshop maybe held in Jeddah for the Middle Eastern Region before HLF2. Information on this will be added to the report at a later date.

³⁷ Countries invited included Afghanistan, Bangladesh, Cambodia, Fiji, Indonesia, Lao PDR, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Sri Lanka, Thailand, Timor Leste, and Vietnam.

5. Recommendations to the HLF-2 event included increased recognition to sector approaches as an instrument to promote alignment, the need to ensure strengthening of capacity to achieve alignment, the importance of engaging in a more in depth discussion on issues of capacity building, and ensuring that institutional reform accompany capacity building efforts in order to achieve results in the region.

LATIN AMERICA REGIONAL WORKSHOP — TEGUCIGALPA, HONDURAS

6. The LAC Regional Workshop on Harmonization, Alignment and Results held in Tegucigalpa, Honduras, sponsored by the Inter American Development Bank, and hosted by the Government of Honduras, engaged a total of 224 participants from member countries³⁸, bilateral and multilateral organisations. The opening presentation of the workshop was presented by the Ministry of Finance from Chile where the budget experience of Chile, the feedback mechanism of building the evaluation function into the decision making processes of the Chilean Parliament were described at length.

7. Subsequent sessions on the following days included country case presentations on harmonization and alignment, namely Bolivia, Ecuador, Honduras, Nicaragua, and Jamaica. Results cases were presented on Peru Roads, Public Financial Management and Fiscal environment of Peru, and Managing for Results in Bolivia, Chile and El Salvador. Additional sessions on financial management, procurement, SWAps, and country analytical work were held. Brief presentations were also made on the Joint Country Learning Assessment experience of Nicaragua, donor perspectives on harmonisation and alignment by the Ministry of Foreign Affairs, Government of Japan, and by the Minister of Finance, Government of Honduras.

8. Summary workshop conclusions included the recognition of progress made in the region on harmonisation, alignment, and results in the areas of financial management, procurement, sector wide approaches, joint sector and programmatic activities by donors and partner country, the diversity of experiences in the middle income and low income country context, the presence of a vast amount of engagement in H&A in countries which did not have Harmonisation Action Plans, the strength of harmonization and alignment experiences in the region that predated Rome and Monterrey, and the need for enhanced communication on lessons and good practice in harmonisation, alignment and results. Several participants stress the need for alignment of ODA financed international NGO work to the national strategies. Participants also recognised the difficulties of achieving results in the region in the face of fiscally difficult environments. Recommendations to the HLF-2 included the need for encouraging alignment to country “owned” strategies, recognition of the diversity of partner country’s institutional and political climates, implementing joint evaluations of aid agencies, engaging in more joint activities, linking to the original framework for harmonisation and alignment, ensuring policy coherence, and strengthening results oriented frameworks of nationally “owned” strategies.

CENTRAL ASIA REGIONAL WORKSHOP — BISHKEK, KYRGYZSTAN

9. The Regional Workshop on Harmonisation, Alignment, and Management for Development Results was sponsored by the Asian Development Bank, DFID, and EBRD, and hosted by the Government of the Kyrgyz Republic, in Bishkek, Kyrgyzstan. 85 participants attended the workshop from partner countries³⁹, bilateral and multilateral agencies, and civil society.

10. Workshop sessions in this region were built around issues that were unique to the region like harmonisation and alignment in transition economies, and managing for developing results in the private sector. Cases discussed at the workshops included: Capacity building in Tajikistan, H&A in business processes in the Kyrgyz, Results in the public and private sector respectively in the Kyrgyz, H&A in early transition economies, and the Education Swap in Mongolia.

³⁸ Member countries included: Bolivia, Chile, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, and Peru.

³⁹ Member countries included: Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.

11. To accelerate progress in harmonisation, alignment and managing for results at the country level, a critical message from the Central Asia workshop was the urgent need for a common understanding of the harmonization and alignment agenda and its benefits between donor headquarters and their staff in the field. While noting that policy constraints for some donors exist, there was also a lack of understanding by local donors of their institutional commitments or cases where the field staff need guidance or resources on how to implement harmonisation and alignment activities in the country. Increased delegation of decision-making authority to field representatives in order to expedite the ability of local donors to undertake harmonisation-related actions was recommended.

12. Another critical challenge raised was the need to focus on developing human resource base of the governments of the Central Asian countries. Capacity development is at the heart of economic transition, sustainable development and poverty reduction, participants noted -- the capacity to formulate policies, to build consensus, to implement reforms, and capacity to monitor results, learn lessons, and adapt accordingly was important.

13. Lastly, discussions at the workshop raised the issue on what would be the appropriate role for civil society and the private sector in facilitating the harmonisation and alignment, and managing for results agenda. The CSO/NGO representatives were keen to have a role and saw successful development, including implementing the harmonisation and alignment objectives as very much a trilateral responsibility among government, donor agencies and civil society organizations.

AFRICA REGIONAL WORKSHOP — DAR ES SALAAM, TANZANIA

14. The Second Africa Regional Workshop on Harmonisation, Alignment, and Results for Development Effectiveness sponsored by the African Development Bank and the World Bank, and hosted by the Government of Tanzania, convened over 150 participants involved in development work in the region: representatives of 20 partner countries⁴⁰, 32 multilateral and bilateral aid organizations, and 10 civil society organizations. The 2 ½ day program of meetings covered a wide range of subjects—country cases on early and advanced experiences in harmonisation and alignment, (Burkina Faso, Ethiopia, Mozambique, Uganda, Tanzania, and Zambia), public financial management, budget support, sector programs, environment and social safeguards, managing for results at national and subnational levels with cases from Uganda, Malawi, Kenya, Mozambique; and achieving PRSP results in the region. Participants emphasized that they do not consider harmonization, alignment, and managing for results as ends in themselves, but rather as important tools for achieving an enhancement of development effectiveness in the work for poverty reduction and economic growth. They acknowledged that development requires cooperation and collaboration among a variety of parties: governments, civil society, the private sector, and donors that the partner countries' ultimate development goal was to decrease (and eventually eliminate) their dependence on aid and leave behind the cycle of poverty and despair.

15. Workshop participants further noted that progress in African countries had been uneven, and that less advanced countries can learn much from countries (such as Workshop host Tanzania), Mozambique, and Uganda that were relatively more advanced in harmonisation, alignment, and managing for development results. Others, like Ethiopia, Zambia and Malawi are following the lead with recent collaboration initiatives articulated in formalized MoUs and time-bound action plans. Yet other countries, including Rome frontier countries like Niger and Kenya, remain for the most at the discussion and concept stage. Most of the reported progress is in the context of budget support or SWAps, with hardly any achievements at project-level. Notable progress was reported in cross-cutting areas of work, such as the increased coverage and improved quality of joint diagnostic work, or joint results-based assistance

⁴⁰ Member countries included: Burundi, Chad, Congo (Democratic Republic), Congo (Republic of), Cote D'Ivoire, Ethiopia, Gambia, Ghana, Guinea, Kenya, Madagascar, Malawi, Mali, Morocco, Niger, Nigeria, Rwanda, Senegal, Tanzania (United Republic of), Togo, Tunisia, Uganda, and Zambia.

strategies being undertaken in several countries. They also focused on the need to move “from rhetoric to reality”, namely from theoretical discussions to sustained implementation. Key messages collected from the Workshop for Paris were:

- Reaffirm Monterrey and Rome commitments to provide the increased and more predictable resources required to meet the MDGs.
- Stress the importance of donor and government results-based strategies as a basis for H&A, and partner countries’ need to own and lead the development process, including through increased south-south collaboration, existing regional efforts.
- Define a clear agenda for action, reflecting mutual accountability, building on countries’ own systems, with clear allocation of responsibilities for all parties, and covering the needs for: (i) increased, prioritised and joint support for human and institutional capacity building to manage for results, to carry out analytic work and implement findings and recommendations, along with increased reliance on private sector and civil society; (ii) increased predictability and volume of low transactions cost discretionary resources; (iii) strengthened communication channels and mechanisms for improved information and knowledge sharing within and across countries; (iv) enhanced flexibility - expenditure eligibility and untying of aid, staff incentives and willingness of field donor representatives to move towards common practices and procedures.

KEY MESSAGES

16. Key messages from all of the Regional Workshops included recognition that harmonisation and alignment can improve aid effectiveness. Benefits for partner countries included more effective resource allocation and use and reduced transaction costs. However, harmonisation and alignment was not an end in and of itself. Rather, it was a means to improve aid effectiveness. The Regional Workshops while focused on the priorities and development objectives of partner countries, was informed by ongoing global dialogues about key development issues (commonly referred to as “the global development agenda”) relating to the Rome Declaration, the Monterrey Consensus, the Marrakech Memorandum and Action Plan and the MDGs. Participants recognised that Harmonisation, Alignment and Managing for Results, was challenging yet essential, and lesson learning from good practice needed to be carried out across countries and regions. They also recommended that the development community pay attention to all aspects of building institutional and organisation capacity, set good governance mechanisms, carry out more joint activities, work towards alignment of country “owned” strategies, nurture leadership and ownership at the country level, phase and sequence implementation with care, and work in the context of governments, donors, private sector, and civil society.

JOINT COUNTRY LEARNING ASSESSMENT (JCLA) ON HARMONISATION AND ALIGNMENT IN NICARAGUA

1. The joint country learning and assessment process (JCLA) was initiated as an experimental instrument by the DAC Task Team on Harmonisation and Alignment. The objective is to promote and facilitate a country-led harmonisation and alignment process through a joint government-donor learning and assessment team. Documenting and disseminating lessons learnt from it was a key element among its objectives. Nicaragua, which has been making efforts on its own to improve donor harmonisation and alignment, and is one of the 14 partner countries associated with the Task Team, chose to be its first test case. EC and UNDP led the process from headquarters, joined by representatives of Japan and Netherlands in Managua, supported by the DAC Secretariat.

2. The Nicaragua JCLA was launched by a technical mission led by EC in May, and driven by an in-country process in which the field offices of the 4 lead donors worked closely with the government to prepare the JCLA report and to help develop the Harmonisation and Alignment Action Plan. The process was open to all interested representatives of bilateral and multilateral agencies in Managua. Communication with the headquarters team was maintained through video and telephone. A second technical mission visited Managua in September lending additional support to the finalisation of the JCLA report and the consultation draft of the Action Plan. The completion of the Nicaragua report of the 14 country DAC Survey just before this mission arrived contributed substantively to the process. This report provided a credible baseline assessment of the H&A situation that was conducted through an in-country process in which the Government and donors had taken ownership. It has proved to be influential in assessing progress to date and for developing a consensus on what remains to be achieved.

3. Following these two preparatory technical missions, the Nicaragua JCLA was wrapped up with the High Level Mission to Managua, 4 - 5 October 2004, led by the DAC chair in which the four lead facilitators and also the World Bank co-chair of the Task Team participated. The mission participated in a day long meeting with the government and the local development community, including civil society. This meeting launched the consensus building process within Nicaragua on the actions needed to be taken by the government and stakeholders, and by donors to improve aid effectiveness.

4. The main lessons learnt from the JCLA process in Nicaragua are:

- A willingness on the part of the government to take leadership in aid coordination with a designated focal point in the government provides purpose and direction to the H&A process. Broader ownership and commitment to the process through involving a wide range of government entities in the H&A process is essential.
- There needs to be clarification of mandate, roles and responsibilities within the various parts of the government for implementing its aid effectiveness agenda, in line with the newly developed Operative National Development Plan.
- Whether the learning and assessment aspects of the JCLA is best done through a time and labour intensive “report” or through an instrument such as the DAC survey needs closer examination. Facilitation support provided by the JCLA technical team was valued by the government.
- The international support provided by the High Level Mission to the internal H&A process was seen as timely and provided needed impetus to and reinforced the government’s own efforts.
- Further progress will depend on whether sectoral roundtables operate on the basis of explicit sectoral plans and strategies; and maintain and strengthen policies on transparency, fiduciary responsibility, as well as those combating corruption.
- Continued involvement by the OECD-DAC to facilitate and monitor progress in implementing the H&A action plan is seen as essential for the follow up to the JCLA

UNTYING AID

1. The tying status of aid has long been considered a key test of donors' commitment to coherent policies and effective aid delivery. Partners have consistently identified the practice of tying as one of the principal procedures that undermine aid effectiveness. Recently, DAC partner countries in the current aid effectiveness debate restated their concern about the tying status of aid, which, according to them, implies that a significant amount of aid does not contribute to its intended development objectives. Consequently, they requested that aid be untied⁴¹.

2. A recent independent study financed by the European Commission concluded that untying contributes significantly to more effective development assistance and that the perceived disadvantages of untied aid (e.g. reduced aid volume and political/public support, disadvantaged local and third country suppliers, etc.) are not substantiated in reality. Furthermore, untying aid will increase competition, develop the local private sector, simplify procedures and send a clear signal to developing countries of donors' genuine commitment to provide effective aid to support locally owned development strategies.

3. It has been clearly documented that tying aid raises the cost of many goods, services and works by 15% to 30% on average, and by as much as 40% or more for food aid. If one accepts the range of 20% to 30% as an approximate average of the direct cost of tying, and extrapolates the results, then tied aid reduced the actual value of total bilateral aid by USD 5 to USD 7 billion in 2002. (Note that in 2002 only two DAC Members provided bilateral aid in excess of USD 5 billion, all others had lower individual aid budgets.)

4. This number represents a conservative estimate of the real costs of tied aid, since it does not incorporate the indirect costs of tying. Tied aid often results in higher transaction costs for recipients. To satisfy tied aid requirements, donors apply restrictive procurement rules that, in most cases, circumvent local procurement systems and procedures. Thus, recipients need to set up parallel procurement systems and operate monitoring and evaluation systems that comply with donor requirements, overtaxing already weak capacities. These systems constitute a serious barrier to harmonising donor procedures. Donor co-ordination is also adversely affected when donors are reluctant to co-ordinate their activities with others who may be considered as competitors in search of commercially interesting projects.

5. Tied aid is at least partially guided by commercial considerations, which do not necessarily comply with local needs and priorities. In fact, tied aid tends to favour activities that require capital intensive imports or donor-based technical expertise, e.g. in the field of infrastructure provision, over activities with low import content, such as rural development projects promoting pro-poor growth objectives, and in particular those requiring local-cost financing. This bias often leads to the provision of goods, technology and advice that do not conform to the priorities and specifications of the recipient country and that do not fully exploit the potential contribute of local suppliers and expertise.

6. In light of these arguments, many donors have increased, over time, the share of untied aid in their bilateral programmes. In fact, a small number of bilateral donors, have untied all or large parts of their aid programmes in order to improve aid effectiveness and strengthen local ownership of the development process. More recently the Commission of the European Union has introduced new provisions to allow further untying of Community assistance. In the United States, aid distributed from the Millennium Challenge Account is also provided untied. In addition, multilateral development agencies have untied all their aid at the insistence of their members.

⁴¹ DCD/DAC/EFF(2004)29 Managua Declaration par. 2, 32, 37 and 51

7. As a result the share of untied aid in total bilateral aid increased from 40% in 1984 to 55% in 1994 despite some intermittent fluctuations. Data from 1995 and 1996 are not available due to a break in the series. From 1997 onward, the share of untied bilateral financial aid has stabilised at around 40% to 45% of total bilateral aid. In the context of the Millennium Development Goals, the DAC is responsible for reporting on share of bilateral aid that is untied (indicator no. 35). Thus, this indicator clearly shows that there is still a large amount of aid that could be untied to promote aid effectiveness objectives.

8. Responding to the broad call for untying aid from the international aid community, the DAC explored ways to build on unilateral initiatives being undertaken to provide a multilateral framework to encompass these efforts and stimulate others. Following detailed discussions of options and targets for a possible initiative, the 1998 DAC HLM mandated work on a Recommendation to untie ODA to the Least Developed Countries. These relatively aid dependent countries face the greatest challenge in achieving the Millennium Development Goals and can ill afford the additional costs and inefficiencies associated with tied aid.

9. In 2001, DAC HLM reached agreement on a Recommendation⁴² to untie ODA to the Least Developed Countries⁴³ with the objectives to: (i) untie ODA to the LDCs to the greatest extent possible; (ii) ensure adequate ODA flows, and (iii) achieve balanced efforts among DAC members in untying their aid. The Recommendation acknowledges that different approaches might be required for different categories of ODA and that actions to implement the Recommendation might vary between donors in terms of coverage and timing. Therefore a balance was struck between maintaining a degree of donor involvement in development co-operation programmes alongside the objective to procure more goods and services in partner countries.

10. The Recommendation entered into force on 1 January 2002. All DAC Members have untied all categories of ODA to the LDCs that are covered by the Recommendation⁴⁴. The apprehension voiced at the time of the adoption of the Recommendation that it would result in diversion of ODA from the countries and activities it covers, is not borne out by the facts. In 2003, both the volume of ODA to the LDCs and the LDCs' share of total bilateral ODA increased. Considerable progress was also made with notifying ex ante untied aid offers that are covered by the Recommendation, in particular, those offers where a direct link with procurement exist at the project level⁴⁵. Preliminary conclusions on contract awards pertaining to ex ante notifications indicate that 90% were awarded to companies outside the donor territory and 45% of these went to companies in partner countries. Effort-sharing among donors also improved and both indicators - the bilateral LDC untying ratio and the effort-sharing composite indicator - reached or surpassed their reference points in 2003.

11. The Recommendation recognises that untying improves aid effectiveness through the positive effects on (i) co-ordinated and effective partnerships with developing countries, (ii) strengthened ownership and responsibility of partner countries in the development process, and (iii) improved value for money in aid procurement. However, the contribution of the Recommendation to these objectives is

42. Text of the DAC Recommendation can be found on <http://www1.oecd.org/dac/htm/Untie.htm>

43. As at 1 May 2002, the list of countries classified as "least developed" is: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Congo Dem. Rep., Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Laos, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Tanzania, Timor-lest, Togo, Tuvalu, Uganda, Vanuatu, Yemen and Zambia.

44. The following categories of ODA to the LDCs are covered in the Recommendation balance of payments and structural adjustment support, debt forgiveness, sector and multi-sector programmes assistance, investment project aid, import and commodity support, commercial services contracts and ODA to NGOs for procurement related activities.

45. A small number of Members have not notified any aid offer. For most of them this is most likely due to the fact that their activities are not covered by the Recommendation, e.g. technical co-operation and activities below SDR 700.000.

limited, in particular, by its present coverage provisions (only the LDCs, excluding food aid and technical co-operation and elevated thresholds). Therefore, the Recommendation invites Members to consider untying aid beyond its present coverage.

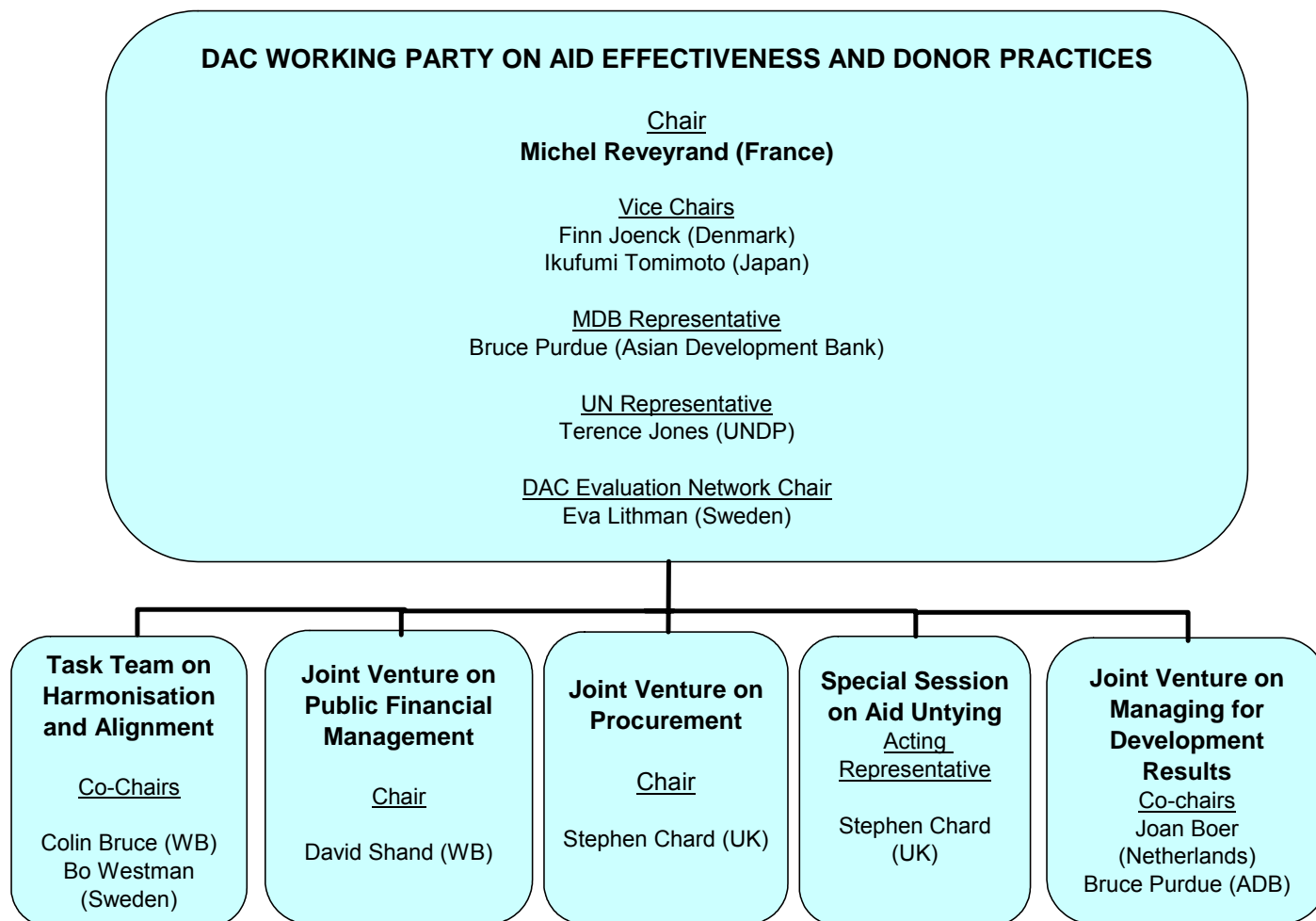
12. Against this background, there is a growing acknowledgement of both the need and value of increasing the contribution of the Recommendation to the broader aid effectiveness objectives. Members have exchanged preliminary views on the possibilities and modalities for broadening of the scope of the Recommendation. Two main approaches are under consideration. The first one would build upon the current Recommendation, expanding it into activities and/or areas that are presently not covered. Within this approach there are three obvious options for increasing the impact of the Recommendation over time:

1. Maintaining the LDC focus, while eliminating the exclusions for food aid, technical co-operation and/or thresholds.
2. Maintaining the above exclusions and thresholds while broadening the country focus to include, for instance, the Other Low Income Countries.
3. Maintaining the exclusions and thresholds, while broadening the coverage for all developing countries to specific sectors, such as health, education, infrastructure, etc.

13. An alternative approach to filling gaps in the present Recommendation concerns a different modality that would consist of an agreement on the general principle stating that untying improves aid effectiveness, a best endeavours clause by Members to move towards further untying and a strong peer review mechanism.

14. The present discussion in the DAC has signaled the importance of pursuing the implementation of the 2001 Recommendation. It has equally acknowledged that the 2001 Recommendation has been a success, and that further aid untying would contribute to the aid effectiveness agenda. There is as yet no consensus on the pace or extent of further untying. The discussion has noted that the second High-Level Forum on Aid Effectiveness (HLF-2) cannot remain silent on such an important issue of aid effectiveness. Furthermore, the HLF-2 will provide an excellent opportunity to exchange views on this issue with development partners, who have clearly stated their opinions on the tying status of aid. It is therefore essential that the HLF-2 considers this issue and mandates continued work to explore approaches how to build on the current DAC Recommendation to improve aid effectiveness.

ORGANISATION CHART



DAC WORKING PARTY ON AID EFFECTIVENESS AND DONOR PRACTICES

OVERVIEW OF WORK IN PROGRESS

AREAS OF WORK	OUTPUTS	December 2004 REFERENCE
AID EFFECTIVENESS		
Preparation of HLF-2 Report and Declaration	<ul style="list-style-type: none"> ▶ Draft Report on Aid Effectiveness for HLF-2 ▶ Issues Paper: Framework for a HLF-2 Declaration and Agenda for Action ▶ Menu of Options 	DCD/DAC/EFF(2004)20/REV1 DCD/DAC/EFF(2004)18/REV1 DCD/DAC(2004)44
HARMONISATION AND ALIGNMENT		
Facilitating implementation of the Rome Declaration	<ul style="list-style-type: none"> ▶ Report from the Regional Workshops ▶ Study on Incentives for Harmonisation and Alignment ▶ Good Practice Paper on Providing Support to Sector Programmes 	Room Documents DCD/DAC/EFF(2004)27 DCD/DAC/EFF(2004)24
Tracking progress on the Rome commitments	<ul style="list-style-type: none"> ▶ OECD-DAC Survey on Progress in Harmonisation and Alignment ▶ Synthesis of self-reporting by donors 	www.oecd.org/dac/wpeff/harmonisation/survey DCD/DAC/EFF(2004)28
Enhancing peer review mechanisms	<ul style="list-style-type: none"> ▶ Joint Country Learning and Assessment (Nicaragua) 	DCD/DAC(2004)46
PUBLIC FINANCIAL MANAGEMENT		
Budget support	<ul style="list-style-type: none"> ▶ Good practice paper on budget support 	DCD/DAC/EFF(2004)21
Predictability of aid flows	<ul style="list-style-type: none"> ▶ Good practice paper on predictability of aid 	DCD/DAC/EFF(2004)23
Capacity building in PFM	<ul style="list-style-type: none"> ▶ Good practice paper on capacity building in PFM 	DCD/DAC/EFF(2004)22
Performance measurement	<ul style="list-style-type: none"> ▶ Supporting better public financial management systems – towards a strengthened approach to PFM reform 	DCD/DAC/EFF(2004)25
PROCUREMENT		
Mainstreaming procurement	<ul style="list-style-type: none"> ▶ Good practice paper on mainstreaming procurement 	DCD/DAC/EFF(2004)16
Capacity building	<ul style="list-style-type: none"> ▶ Good practice paper on capacity development in procurement 	DCD/DAC/EFF(2004)15
Standards on benchmarks, monitoring and evaluation	<ul style="list-style-type: none"> ▶ Good practice paper on benchmarking, monitoring and evaluation 	DCD/DAC/EFF(2004)14
MANAGING FOR DEVELOPMENT RESULTS		
Sharing emerging practices	<ul style="list-style-type: none"> ▶ Core principles ▶ Sourcebook on good practice in managing for development results – Conceptual framework and examples ▶ Results-based aid allocations – overview paper ▶ Harmonised results reporting ▶ Assessment of agency performance: 	DCD/DAC/EFF(2004)12
AID UNTYING		
Monitoring implementation	<ul style="list-style-type: none"> ▶ Progress report on implementation – the 2001 recommendations on aid untying 	DCD/DAC/EFF(2004)31
Food aid	<ul style="list-style-type: none"> ▶ Assessment of the development effectiveness of food aid and the effects of its tying status 	DCD/DAC/EFF(2004)9
Broadening the application of the DAC Recommendation	<ul style="list-style-type: none"> ▶ Assessment of the scope for broadening the application of the 2001 DAC Recommendation over time 	