



**Issues Paper
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Building effective donor institutions and aid programmes

Development experience and development co-operation experience

Emerging donors have a wealth of experience to pass on to partner countries, not least by drawing on their often impressive recent and lasting development and transition process. At the same time, their experience of sharing their knowledge, expertise, or funds and the challenges that go along with this, is comparatively more limited.

This note highlights a few aspects that have been found to be key elements of today's approaches to the management of aid, with a view to stimulating discussions on the experience of managing aid programmes, and without claim or intention to be conclusive or comprehensive.

International context

It is self-evident that development co-operation takes place in an international context. Consequently, the design and implementation of national aid policies and programmes, although a domestic process, need to be conscious of the international framework in which aid interventions will take place. This framework itself is an outcome of the international development co-operation effort, and at the same time shapes and informs overall global approaches and debate on development co-operation.

In this sense, three key points of reference are: the Millennium Development Goals (2002), the Monterrey Consensus on Financing for Development (2002), and the Paris Declaration on Aid Effectiveness (2005).

... and key elements of a national framework

A key foundation of a development co-operation programme is a general ***overarching policy statement*** that clarifies the main purpose and objectives of a donor's development co-operation. DAC donors now generally aim to ensure the centrality of poverty reduction in their development co-operation and improve the effectiveness of their aid. The policy statement usually guides the action of all branches of government involved in development co-operation. It should be supported by formal and informal co-ordination mechanisms, at political and officials level, with a clear understanding regarding respective roles and overall lead responsibility. Another related important and overarching aspect is policy coherence for development. Many areas of government policy can have an impact on development, complementing or offsetting direct assistance efforts.

The ***internal structures*** of development agencies have tended to become more complex in past years. This is seen as a reflection of the challenges of the multidimensional nature of poverty and the need to work in more integrated and co-ordinated ways. Over the past years, there has been a trend away from free standing projects to country programming, as the basis for co-operation in partner countries. Similarly, there has been a move towards more programme aid and aid provided on a sector basis. These trends have led to adjustments in a number of donor countries to the institutional objectives and their internal organisation for development co-operation.

Selection of partners and sectors is a key decision that affects, and reflects the implementation and policy choices of donors. A strategic selection is important to avoid too much aid dispersion, and to ensure a strategic implementation of aid and sustainable impact. There is also a need to coordinate among donors to avoid limiting aid effectiveness due to inefficient aggregate allocation. The sector focus of assistance to partner countries should be strategically defined to reflect a comparative advantage of the donor that is relevant in the respective partner country context. Here, as well, coordination among donors is essential.

Monitoring and evaluation systems are important to ensure the effectiveness and impact of co-operation, and to be able to demonstrate accountable use of tax money. A well designed development intervention will have clear measurable objectives, and quantifiable indicators on the implementation of activities, and their results against the objective set. Evaluations assess the design, implementation and results of an intervention, with the aim to provide lessons to improve future efforts. Where joint evaluations, involving several donors, are undertaken, emerging donors should seek opportunities to share in this experience.

The ***aid budget*** is usually a composition of different budget lines, and most donors do not have a single budget that corresponds to their ODA. Predictability of future resource availability is important, as development plans often span several years. Therefore multi-year financing programmes or indicative rolling budgets are very helpful for improving the effective management and quality of aid.

Procurement and public financial management are fundamental components of development assistance. Aid includes the transfer of large sums, and donors need to foster expertise and experience in these areas to ensure (1) accountability to national authorities for the resources spent; and (2) value for money for development partners, who should be able to get the most benefit as possible per aid dollar. Hence also the importance of working with partner countries to build their own procurement capacity in line with internationally accepted procurement standards. These should meet key requirements of donors while being appropriate in the context of the respective partner country - e.g. not requiring procurement standards from developing countries that are often not matched by DAC members. Over the long term, effective and transparent finance and procurement policies will be essential for sustained public support for development co-operation.

Some lessons learnt and how to share them

A fundamental finding coming out of the DAC Peer Reviews is that there is no single model or perfect organisational set-up for donors. This should not be construed to mean that donors 'know that they know nothing' when it comes to aid management. Instead, this reflects a constant evolution and learning process, resulting in generally highly dynamic structures to manage and implement aid programmes.

Indeed, knowing the elements which are important for an effective national programme is in itself an essential lesson. This knowledge provides a toolkit and manual for building an effective aid programme, without being prescriptive. As a consequence, actual arrangements and forms of organisation vary considerably across donors.

A key challenge is to ensure that, once established, aid programmes remain effective, and take into account evolving knowledge and good practice. Effective co-ordination at the whole of government level plays an essential role in this regard. It is basic to avoiding duplication of efforts. Beyond that, it helps reduce the risk that structures drive aid programmes and that aid becomes supply driven on by delivery structures.

At the level of the DAC, the Peer Reviews take up this challenge with the aim to consolidate lessons learnt from all peer reviews so that each country benefits from the process. Assessing the extent to which the development policies, strategies and activities of the reviewed country meet the standards set by the DAC, Peer Reviews are a way to measure how DAC principles, guidelines and good practice are influencing donor behaviour on efforts with regard to aid policies, volumes, institutions and field operations.

Issues for discussion

- While there is no single right way to organise and manage an aid programme, there are basic elements which an effective aid programme needs to take account of:
 - What are key lessons for building effective institutions for delivering assistance and managing an aid programme?
 - How do donors manage change, both in terms of policy and in terms of scale, and the resulting organisational and operational challenges?
 - What forms of assessment and learning processes have proven useful and hold promise, given the context of individual donors?
- DAC Peer Reviews are meant to encourage positive change, support mutual learning and raise the overall effectiveness of aid throughout the donor community.
 - How can the lessons of Peer Reviews be shared effectively with non-DAC donors, and how can this be done to best relate to their specific context?