



Joint Progress Toward Enhanced Aid Effectiveness

High Level Forum

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Harmonisation, Alignment, Results

PROGRESS REPORT ON AID EFFECTIVENESS



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Harmonisation, Alignment, Results

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RAPPORT SUR L'AMÉLIORATION DE L'EFFICACITÉ DE L'AIDE

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ABBREVIATIONS AND ACRONYMS

AFD	Agence française de développement
AsDB	Asian Development Bank
AusAID	Australian Agency for International Development
CIDA	Canadian International Development Agency
CPIA	Country Policy and Institutional Assessment (World Bank)
CSO	Civil society organisation
DAC	Development Assistance Committee (OECD)
DFID	Department for International Development (United Kingdom)
EFA-FTI	Education for All-Fast Track Initiative
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EU	European Union
GFATM	Global Fund to Fight Aids, Tuberculosis and Malaria
GDLN	Global Development Learning Network
GTZ	Gesellschaft für Technische Zusammenarbeit (Germany)
HLF	High-Level Forum
HOAP	Harmonisation in Overseas Audit Practices
IDA	International Development Association
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JCLA	Joint country learning and assessment
JICA	Japan International Cooperation Agency
JSA	Joint Staff Assessment
KfW	Kreditanstalt für Wiederaufbau (Germany)
LICUS	Low-Income Country Under Stress
MDB	Multilateral development bank
MDG	Millennium Development Goal
MFI	Multilateral financial institution
MOU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
NFD	National Development Framework
NGO	Non-governmental organisation
NORAD	Norwegian Agency for International Development
NZAID	New Zealand Agency for International Development
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development

PAF	Performance Assessment Framework
PEFA	Public Expenditure and Financial Accountability
PFM	Public financial management
PGAE	Partnership Group on Aid Effectiveness
PIU	Project Implementation Unit
PRS	Poverty reduction strategy
PRSP	Poverty Reduction Strategy Paper
PRSC	Poverty reduction support credit
PSCAP	Public Sector Capacity Building Program
SIDA	Swedish International Development Agency
SPA	Strategic Partnership with Africa
SWAp	Sector-wide approach
TRM	Transitional Results Matrix
UN	United Nations
UNDP	United Nations Development Programme
UNDG	United Nations Development Group
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WFP	World Food Programme
WHO	World Health Organisation
WP-EFF	OECD/DAC Working Party on Aid Effectiveness and Donor Practices

BACKGROUND

In the Monterrey Consensus (March 2002), the global community affirmed the importance of development to the world's well-being. The Consensus called on developing countries to strengthen their commitment to policies and institutions that can stimulate growth, reduce poverty, and achieve the Millennium Development Goals (MDGs). It called on developed countries to provide more and better aid, as well as improved trade and debt policies. As part of the follow-up to Monterrey, at the High-Level Forum on Harmonisation in Rome (February 2003), donors further committed to align development assistance with partners' strategies and improve systems, harmonise donors' policies and procedures, and implement principles of good practice in development cooperation.¹ A year later in Marrakech (February 2004), the Heads of the multilateral development banks (MDBs) and the Chairman of the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD-DAC) affirmed their commitment to foster a global partnership on managing for results.² Together, these international agreements define key goals and objectives for the aid effectiveness agenda.

A Continuum of Efforts. Attention to harmonisation, alignment, and managing for results had begun before these agreements.³ By focusing heightened attention on these areas, the Monterrey, Rome, agreements spurred a vast expansion in activities aimed at improving aid effectiveness, to which the Marrakech agreement is also beginning to contribute. Even as the development community worked on implementing those commitments, the ground continued to shift: for example, new donors emerged, the number and importance of global programmes expanded, and increased attention was turned to fragile states as a specific challenge in efforts to increase aid effectiveness. This report looks

¹ To increase readability, this report uses "donors" to refer to bilateral donors and to international institutions providing development financing, concessional and non-concessional. Similarly while "development co-operation" better conveys a spirit of partnership and co-operation, the term "aid" is also frequently used in this report for purposes of brevity, to refer to both concessional and non-concessional assistance.

² The OECD-DAC endorsed the Marrakech Memorandum, including the Core Principles for Managing for Development Results, at the DAC High-Level meeting later in 2004. They agreed to aligning cooperation programmes with desired development results, to defining how aid is expected to contribute to them and to relying on and strengthening partner countries' monitoring and evaluation systems in order to track progress.

³ Various agencies had begun to explore the area in a range of countries: for example, the Strategic Partnership for Africa, launched in 1987, has provided a framework for the donor community to cooperate with African countries in pursuing development progress and reform; and the Utstein Group (comprising the ministers of international development from Germany, Netherlands, Norway, Sweden, and the United Kingdom) has collaborated for improved development effectiveness. The European Union committed at the Barcelona Summit in March 2002 to "reach concrete steps in the coordination of policies and the harmonisation of procedures before 2004". The MDBs and the DAC established technical groups—including technical experts and representatives of partner countries—to work on issues such as donor cooperation, country analytic work, financial management, procurement, and environmental assessment. This work became increasingly coordinated as the bilateral and multilateral groups began working together. For the UN, the United Nations Development Group (UNDG) has spurred an internal reform process toward more harmonised efforts.

at this large body of activity—and the effects of recent changes—to assess progress in implementing the international commitments of Rome, and Marrakech; it draws some lessons of experience; and it identifies areas and opportunities for further action. The report is intended as an input to the deliberations at a High-Level Forum on Aid Effectiveness to be held in Paris, France on 28 February - 2 March, 2005.⁴ Beyond that, it will feed into the preparations for the United Nations (UN) five-year review of the Millennium Declaration taking place later in the year.

Scope and Structure of the Report. This report, prepared by a group of bilateral and multilateral donors and partner countries associated with the DAC Working Party on Aid Effectiveness,⁵ looks at the issue of aid effectiveness as it is affected by harmonisation, alignment, and managing for results. It recognises that aid effectiveness, important as it is, is only one among many factors that affect growth and poverty reduction. Others factors include the quality of governance in partner countries, their institutions, and their strategic choices; and policy coherence in donor countries in areas such as trade, migration, debt reduction, investment promotion, and security (areas that usually lie outside the policy remit of aid agencies and that are not addressed in this report). The report is organised into six chapters. Chapter 1 describes a framework for assessing progress on four levels—country ownership, alignment, harmonisation, and results. Chapters 2, 3, 4, and 5 assess progress in each of these areas in turn. Chapter 6 draws conclusions and provides a basis for monitorable commitments based on mutual accountability of donors and partner countries that will be submitted for endorsement at the Paris Forum.

Sources. This report draws on multiple sources of information. Those originating from the DAC Working Party on Aid Effectiveness include:

- Technical material prepared by the groups under the Working Party and guidance provided by donors and partners associated with the Working Party.⁶
- In-depth survey of the Working Party's 14 partner countries, conducted in 2004 (referred to in this report as the 14-country survey).
- Self-reporting by members of the DAC Task Team on Harmonisation and Alignment.
- 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 Working Party by the World Bank.
- Discussions at preparatory events, along with the background documentation and more than 36 case studies prepared for those events: Regional workshops on harmonisation, alignment, and results⁷ held in October and November 2004 in Asia (Bangkok, Thailand), Latin America (Tegucigalpa, Honduras), Central Asia (Bishkek, Kyrgyz Republic), Africa (Dar es Salaam, Tanzania), and in February 2005 in the Middle East (Jeddah, Saudi Arabia); a meeting of a number of partner countries participating in the Working Party in October 2004 in Managua, Nicaragua; and a CSO Forum on Aid Effectiveness (Paris, France, in February 2005).

⁴ See the Paris Declaration on Aid Effectiveness in Annex 5.

⁵ The DAC Working Party on Aid Effectiveness and Donor Practices (WP-EFF) and its subgroups include a broad range of bilateral and multilateral donors and partner countries. See details on page 3.

⁶ See Annex 4.

⁷ See Annex 2.

- Synopsis of the 2004 Peer Review findings regarding Harmonisation and Alignment.⁸
- A first test case in Nicaragua of a potential country-based instrument—the Joint Country Learning Assessment (JCLA) —involving donors from both headquarter and field offices working with the partner country and including both joint learning, assessment and facilitation elements.
- Discussions at the Senior-Level Meeting of the Development Assistance Committee in December 2004.

⁸

See Annex 3.

EXECUTIVE SUMMARY

Background. As part of the follow-up to Monterrey, the international development community committed in Rome (February 2003) to align development assistance with partner country strategies, harmonise donor policies and procedures, and implement principles of good practice in development co-operation. A year later in Marrakech (February 2004), the Heads of the multilateral development banks (MDBs) and the Chair of the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD-DAC) affirmed their commitment to fostering a global partnership on managing for results by aligning cooperation programmes with desired development results, and relying on-and strengthening-partner countries' monitoring and evaluation systems to track progress and assess outcomes. Against this background, this report assesses progress and issues in implementing the commitments of Rome and Marrakech. It identifies lessons of experience, positive and negative, as well as implications for the Second High-Level Forum on Aid Effectiveness (HLF-2), to be held in Paris, France on 28 February-2 March 2005.

A. KEY FINDINGS

The report draws on a range of sources to gauge progress on the Rome and Marrakech commitments. Key findings include the following:

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. In that effort, some of these countries as well as others have participated, along with bilateral and multilateral donors, in the OECD-DAC Working Party on 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 harmonisation, 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.

Progress in Harmonisation and Alignment to Strategies. *On harmonisation*, donors have made a start in using simplified procedures and practices, joint analytical work, enhanced focus on delivery of development results, delegated cooperation, common procurement and financial management procedures, and common arrangements for sector wide approaches and budget support. *On alignment*, as of October 2004, 43 countries had prepared poverty reduction strategies (PRSs), and many other low- and middle-income countries had nationally owned development strategies. Information from the survey of the 14 countries of the DAC Working Party on Aid Effectiveness and other sources suggests that there is a promising trend toward increased donor alignment behind country strategies. There is a small but growing list of examples of joint strategies among donors in support of these strategies. More donors are using programmatic, or budget, financing to provide overall support for country strategies and programmes at the national and sectoral levels. There has been a surge in interest in sector-wide approaches (SWAs) to align around sectoral priorities, and a growing number of SWAs include use of countries' existing frameworks for channelling and accounting for funds. But further progress is hampered by several factors: insufficient clarity of country policy and investment priorities; the absence of a robust medium-term framework that links country priorities to their budget decisions and timetables; and difficulty in agreeing on indicators that can serve as triggers for disbursement. More use of arrangements such as delegated cooperation (where one donor manages aid on behalf of another) and joint financing would also increase

harmonisation and alignment. 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 integration of global programmes and partnerships with country strategies and programmes.

Limited Use of Country Systems. A limited start has been made on the use of country systems as indicated by the DAC 14 country survey (see Figure 3). However, not a single donor in these countries reports using country systems across the board (for financial reporting, disbursement, procurement, audit, monitoring and evaluation). To address this donors and partners have been collaborating to develop commonly accepted international criteria for assessing and strengthening country systems and for harmonising donor requirements around them. There are associated multi-donor efforts in several countries to simplify and harmonise fiduciary, monitoring, and reporting arrangements.

Mixed Picture of Progress. Overall, while the scope and geographical coverage of activities to meet the Rome commitments 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, there is not yet sufficient momentum in applying good practice deeply and systematically. Intensified efforts are needed by bilateral and multilateral donors, working closely with country partners, to scale up aid effectiveness collectively.

Addressing Constraints. As recognised at Rome and Marrakech, sustained top-level attention is essential to address remaining constraints and ensure that momentum for these ambitious global change agendas does not stall. The up-front cost for both donors and partner countries of achieving harmonisation, alignment, and managing for results is high. Donors and partners need to allocate staff and financing in the short term in order to reap the benefits in the medium term of increased aid effectiveness and, subsequently, reduced costs (already achieved, for example, in Tanzania). Few donors have yet to put in place effective training programmes, procedures, resources, and incentives to support and encourage needed changes in staff behaviour. For example, there are generally no systems of incentives yet in place at either the institutional or individual level, to encourage initiating and sustaining meaningful action. Rather, many aid agencies still have in place arrangements that discourage, often unintentionally, the approaches and behaviours necessary to meet the Rome and Marrakech commitments. There is a need to review these arrangements, including codified requirements, in order to provide operational flexibility and delegated authority, especially to field-based staff, for harmonisation and alignment. These factors might help to explain why in the 14 country survey, only 8 per cent of donor missions in 2003 were conducted jointly and only 35 per cent said that donors were streamlining conditionality.

B. TOWARD MORE SELECTIVE, “HIGHER-VALUE” GOALS

While the overall picture on progress is mixed, it is promising, with upside potential and immediate opportunities. It also presents risks with significant remaining obstacles in donor and partner institutions. A particular risk is that the “clutter” of multiple processes on harmonisation, alignment, and results may generate more “noise”, consuming more and more time, rather than a sharp focus on progress in impact at the country level. Progress is vital in order to improve and increase public confidence in the effectiveness of development cooperation. The challenge going forward is to find ways to direct the building momentum for change to a few select “high-value” operational goals. These goals should have a significant impact on aid effectiveness; be seen as meaningful and constructive by development institutions and partner countries; respect the need for country ownership and for mutual accountability; motivate staff; and lend themselves to measurement and monitoring. The goals should be translated into operational commitments in the areas of ownership, alignment, harmonisation, and results. Monitorable indicators with selected time-bound quantitative targets should be developed to measure progress in meeting those commitments.

I. FRAMEWORK FOR ASSESSING IMPROVEMENTS IN AID PRACTICES

Summary. Too often, large unproductive costs and misalignment of aid have resulted in missed opportunities to improve people's lives by using all resources better. The effective use of aid, the case for more aid, and demonstrable results on the ground are intertwined, with key roles for both partner countries and donors. At Monterrey in 2002, partner countries were called upon to stimulate growth and poverty reduction by strengthening policies and institutions. The Rome and Marrakech meetings confirmed that 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 includes greatly increased reliance on partners' own administrative systems, as well as common approaches, simpler procedures, and shared information.

Aid effectiveness has always been fundamental to the case for higher aid volume. However, while aid has brought many benefits to partner countries, it has also brought unintended burdens. For example, policies and requirements of donors are usually different from each other and from those of the partner country. This has often led to priorities that are not aligned with country needs, misdirection of efforts, inconsistent systems and programmes, information gaps, avoidable duplication and waste. Donor practices have often served to undermine, rather than bolster the effectiveness of, countries' own systems and institutions. In addition, the sheer numbers of procedures, reports, and visiting missions that partner countries have to handle every year entail severe costs, particularly the opportunity cost of tying up scarce national managerial and political talent that could have been used to plan and implement development programmes.⁹ All of this represents resources that could have been used to reduce poverty, educate children, save lives, and promote growth.

Toward More Effective Aid. As the world has become more aware of the serious—and growing—dimensions of the development challenge, it has realised that more and better aid is needed for 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 reducing 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 focusing on the results to be achieved. Beyond this is a broader concern to help partner countries develop their systems and institutions so that they can use all their

⁹ In one survey, 11 countries representing different geographical regions and levels of development (Bangladesh, Cambodia, Egypt, Fiji, Mozambique, Romania, Samoa, Senegal, Uganda, Vanuatu, and Vietnam) ranked the burdens imposed by donor aid and suggested initiatives to improve aid management: see *Harmonising Donor Practices for Effective Aid Delivery* in the DAC Guidelines and Reference series, OECD, 2003.

resources—not just the relatively small external aid component—more effectively to the benefit of their people.

A. BACKGROUND

In the late 1990s, awareness of the 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 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.¹⁰ The aim was for donors and partner countries alike to use these good practices as a basis for harmonising their own policies and procedures.

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 (UN), 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 compels 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.

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 Harmonisation (Rome HLF) to 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 High-Level Forum on Aid Effectiveness will be convened in Paris (HLF-2) to assess progress on the commitments made in Rome and Marrakech. Participants will include ministers and senior officials from partner and donor countries, heads of multilateral organisations, and representatives of civil society. They will assess progress in harmonisation and alignment and in managing for results, and identify factors that contribute to and hinder progress. And they are expected to commit to specific high-impact actions to accelerate implementation.

B. COMMITMENTS

In the Rome Declaration, the international development community attached high importance to a country-based approach, emphasising country ownership and government leadership and engaging civil society, including the private sector. The Declaration recognised the diversity of aid modalities and committed donors and partner countries to an ambitious programme of actions in five broad areas: (a) aligning development assistance on partner countries' national development strategies, priorities,

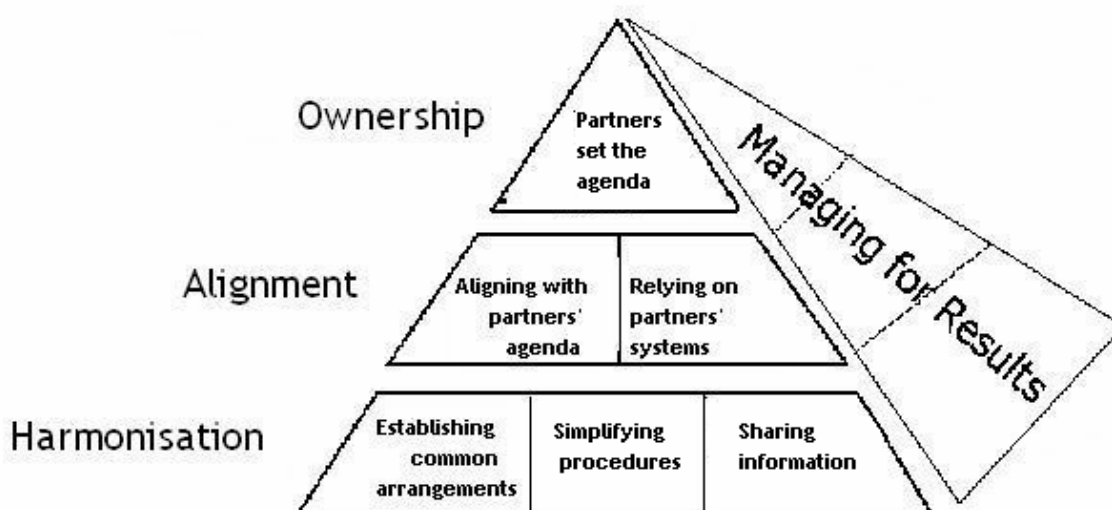
¹⁰ See *Harmonising Donor Practices for Effective Aid Delivery*, OECD, 2003.

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.

Together, the Rome and Marrakech commitments can be summarised in four 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.
- ***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 that would 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 projects more effectively; and develop incentives within their agencies to foster management and staff recognition of the benefits of harmonisation.
- ***Managing for Results.*** The Marrakech principles emphasise that 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. Donors should rely on and support partner countries' own priorities, objectives, and results, and work in coordination with other donors to strengthen partner countries' institutions, systems, and capabilities to plan and implement projects and programmes, report on results, and evaluate their development processes and outcomes (avoiding parallel donor-driven mechanisms).

Figure 1. Partnership for Greater Aid Effectiveness



C. FRAMEWORK

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

Interpreting the Pyramid. Whether read top-down or bottom-up, the pyramid provides insights about the harmonisation/alignment/managing for results agenda.

- **Top-down.** Partners begin by setting the agenda for achieving development results (such as the MDGs), and donors respond to this lead by aligning their support with the countries' results-oriented strategies and relying on partners' systems. At both of these levels, capacity strengthening and institutional development are essential. At the base of the pyramid, donors initiate the complementary actions of establishing common arrangements, simplifying procedures, and sharing information. At all levels of the pyramid, a focus on results is essential: the country's development agenda must be oriented toward the growth and poverty reduction results it expects to achieve.
- **Bottom-up.** Read from bottom to top, the pyramid illustrates the stages of maturity in the aid relationship and the separable, but reinforcing, gains expected at each stage. In almost any circumstance, 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 join this common effort, the partner nation may decide to forgo that source of aid.

II. 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. 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 and better in partner country capacity to build feasible strategies; embed these strategies more firmly in national processes such as the budget; and draw the legislature and other stakeholders further into the consultative process.

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

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 institutions¹¹ have required a PRS or equivalent national development framework as a prerequisite to access to debt relief and concessional funds. UN agencies and, increasingly, bilateral donors have also made such strategies central to their development cooperation,¹² 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 mobilising domestic and external resources that are needed to achieve those priorities. Ideally, in developing such a document a country clarifies its development goals, carries out broad-based domestic consultations to generate ideas and support for them, and specifies how it expects to achieve its goals as well as its plans for monitoring and evaluating progress.

Progress. Partner countries have made appreciable progress in providing an overarching framework for aid management by setting and leading their development agenda.¹³ As of 30 September 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

¹¹ The Bretton Woods institutions are the World Bank and the International Monetary Fund (IMF).

¹² 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. OECD-DAC *Shaping the 21st Century Strategy: the Contribution of Development Co-operation* (OECD, 1996); DAC Poverty Reduction Guidelines (OECD, 2001); and the World Bank's Comprehensive Development Framework (www.worldbank.org/cdf/).

¹³ See, for example, The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank's Support Through 2003, IEO/OED, July 2004.

alignment¹⁴ have prepared at least one PRSP. Because these PRS processes involve widespread consultation, they have fostered often unprecedented engagement with civil society (especially in the initial stages of strategy formulation) and thus have contributed to expanding 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 (Bangladesh, 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 effect on the availability and forms of donor financing, and planned time-bound actions going forward.
- The annual PRS progress reports of Burkina Faso, Mozambique, and Tanzania refer to the Memoranda of Understanding (MOU) between the government and donor groups; and Mozambique's annual PRS progress report presents the reduced indicator set by which donors will monitor performance.

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 the resources of both donors and the partner country 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. An effective MTEF requires both political endorsement of strategic spending priorities and linkage to a budget process capable of executing those decisions. It also assesses the feasibility of meeting commitments for investment and recurrent costs over time. Institutional reforms to develop an MTEF are being implemented in at least 41 partner countries, including most of those using a PRSP. A review of experience suggests that the main challenges in using the MTEF for resource allocation are: the absence of a modern functional budget classification, laws that establish a disciplined budget preparation calendar, and budget controls that provide some assurance of plans being executed. 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.

Results Focus. The emphasis on including a results framework in PRSs is relatively new. Until recently, the emphasis was simply on providing monitorable indicators, which tended to focus on inputs/outputs rather than on results and impacts. It is therefore understandable that at present the results focus of many PRSs and other development plans is inadequate. However, some systematic movement has begun on two fronts:

¹⁴ At the time of the Rome Declaration, 17 countries volunteered to be part of early work to expand country-led harmonisation efforts: Bangladesh, Bolivia, Cambodia, Ethiopia, Honduras, Kenya, Jamaica, Kyrgyz Republic, Morocco, Niger, Nicaragua, Pacific Islands (Fiji and Tonga), Philippines, Senegal, Vietnam, and Zambia. Tanzania, which was closely associated with the Rome process, was already a leader in these efforts. Of the 18 countries, 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.

- Some partner countries are beginning to develop results-based frameworks, although a particular challenge is to make analytically sound results chains that link the statement of a desired goal with implementation capacity and available resources.
- More donors, both multilaterals and bilaterals, are developing frameworks for managing their own operations for results.

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.

B. OTHER OWNERSHIP AND LEADERSHIP PROCESSES

Beyond PRSs and similar development strategies, there are other indications that partner countries—including difficult partnerships or fragile states—are making progress in laying out specific proposals for addressing aid management issues.

Harmonisation Action Plans. Some partner countries are developing harmonisation action plans (see Table 1) that are set out in time-bound format, with responsibilities assigned to specific government agencies and donors or clusters of donors.¹⁵ 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 to have fewer donors interacting with government, and greater pooling of both funding and other activities. In Vietnam, the government and its development partners have formed a Partnership Group on Aid Effectiveness (PGAE) and is working on implementing the Harmonisation Action Plan with its own monitoring framework. The PGAE submitted a joint report on aid effectiveness to the Consultative Group (CG) Meeting in December, 2004.

Table 1. Harmonisation Action Plans since Rome

Action plan	Draft plan	Under preparation
Cambodia (November 2004)	Bangladesh	Bolivia
Nepal (May 2004)	Dominican Republic	Fiji
Kyrgyz Republic (November 2004)	Ethiopia	Kenya
Nicaragua (October 2004)	Serbia	Mongolia
Niger (June 2003)		
Rwanda (December 2003)		
Tanzania (January 2003)		
Vietnam (May 2004)		
Zambia (April 2004)		

¹⁵ The Rome Declaration (see Annex 1) 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 OECD-DAC Task Force and the MDB technical working groups as reference points." Of the countries listed in Table 1, 10 are members of the WP-EFF: Bangladesh, Bolivia, Cambodia, Ethiopia, Kyrgyz Republic, Nicaragua, Niger, Tanzania, Vietnam, and Zambia. The dissemination of the Rome harmonisation and alignment agenda through regional workshops and the efforts of bilateral and multilateral agencies have encouraged non-members of the WP-EFF to articulate harmonisation action plans on their own.

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 that started in the mid-1990s has continued to evolve (see Box 1). In Bangladesh, harmonisation efforts were mutually agreed and supported through participation in the UN Aid Accountability Project (1992-1994), the implementation of a health sector SWAp (1998-2003), and the formation of a joint Government/donor group on aid governance (January 2003). Other partners, especially middle-income countries,¹⁶ have not elaborated an approach labelled “harmonisation and alignment” but, as part of their efforts to modernise their relationship with key development agencies, have simply pursued relevant aspects of the agenda. Some examples:

- 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 centred on 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 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.

Box 1. Mozambique Performance Assessment Framework

In 2000, six donors began supporting Mozambique’s development by providing coordinated and untied support to the state budget. The programme expanded rapidly: by 2004, 15 donors signed a Memorandum of Understanding with the Government, committing to align their support with the priorities the Government set out in the PRS, harmonise their procedures to reduce the transaction costs of aid, and enhance capacity. Specifically, the donors agreed to have no conditionality outside the common performance assessment, strongly enhance the predictability of their aid, and align the provision of that aid to the Government’s budget cycle and documents.

The cornerstone of PRS implementation is the common performance assessment framework (PAF). 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. For example, to achieve the PRS education objectives of increasing access and retention and reducing gender disparities, the agreed actions include carrying out low-cost classroom construction and following through on specific plans for teacher training; and the education indicators set targets for, and track, enrollment and completion rates for all children and for girls.

The PAF matrix also monitors donor 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 programme implementation, and total suspension of aid disbursement could take place only if the underlying principles were violated.

¹⁶ Middle-income countries (MIC) 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 USD1/day or less). Although these countries typically do not follow the PRS process, they are all seeking to achieve sustainable and equitable growth, and they have potential to accelerate progress in meeting development needs of the kind incorporated in the MDGs.

The Joint Country Learning and Assessment process (JCLA). This is an experimental instrument initiated by the DAC Task Team on Harmonisation and Alignment. The objective is to develop a joint government-donor instrument for learning, assessing and facilitating a country-led harmonisation and alignment process. 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, supported by the DAC Secretariat, and representatives of Japan and Netherlands in Managua, actively participated and contributed. The JCLA involved two technical missions, assistance with the completion of the DAC country survey, a draft JCLA report, and an action plan for harmonisation and alignment. This was followed by a high level mission, led by the DAC chair, and including senior level bilateral and multilateral representatives. The government valued the JCLA for its role in catalysing the internal dialogue and consensus building process within Nicaragua on the actions needed to be taken by the government and stakeholders and by donors to improve aid effectiveness, accelerating progress towards the drafting of the Nicaragua action plan on harmonisation. Experience with this instrument strongly suggested that 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. As well, actors and stakeholders at field level would benefit from facilitation assistance. A preliminary conclusion drawn from the process is that the JCLA is an interesting instrument that needs to be further developed and refined before it could be applied more widely in different country contexts. The main lessons learnt from the JCLA are elaborated in Box 2.

Box 2. Nicaragua JCLA: Main Lessons Learnt

A willingness on the part of the government to take leadership in aid coordination with a designated senior level focal point in the government provides purpose and direction to the harmonisation and alignment process. Broader ownership and commitment to the process through involving a wide range of government entities and stakeholders in the harmonisation and alignment 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.

The international support provided by the JCLA High Level Mission to the internal harmonisation and alignment process was seen as timely and provided needed impetus to reinforce the government's own efforts.

Further progress will depend on whether sectoral roundtables operate on the basis of explicit sectoral plans and strategies; and strengthen policies on transparency, fiduciary responsibility, as well as those combating corruption.

Exercising Stronger Aid Management Leadership. A partner country's leadership of aid management is about style or tone, as well as substance and capacity. 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 judgment, and sometimes, political courage. Countries that are relatively less dependent on aid tend to be more willing to set firm ground rules for donors to follow. 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 3 on Afghanistan).

Box 3. 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 (CG), which replaced all previous donor fora. The CG 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 programmes that duplicate rather than support the NDF and draw valuable capacity away from government.

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 (see Box 4), and helps to point the way forward for other countries.

Box 4. 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 CG, 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

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, and facilitated.

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. Another issue is that ownership of many PRSs is limited to a small circle of political or technical staff. Some key national institutions — for example, line ministries and local authorities which are responsible for service delivery may not be sufficiently involved. Moreover, parliament and other elected bodies are often left out of the process in many countries which has serious implications for country ownership and accountability. To involve these institutions as well as civil society, including the private sector, is therefore a key challenge.

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 may include political conditionality. Over time, the layering of conditions, their complexity, and in many cases, the inconsistency among them have become problematic. In addition, there is a tension between country ownership and donor accountability. Conditionality imposed by donors is not consistent with real country ownership of the development process and has a relatively low chance of sustained implementation. To address this issue, donors need to be more disciplined in (a) limiting the number of conditions to those that are essential; (b) focusing the conditions on key priorities in the PRS or equivalent processes; (c) being transparent in presenting the conditions and refraining from introducing new conditions during an ongoing programme that is on track; and (d) developing the conditions in close dialogue and collaboration with the government.

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, coverage, timeliness, and disclosure of public financial reports on the use of both domestic and foreign resources. In areas such as timely disbursement, donors should agree on an assessment framework covering their own performance (in line with the performance framework used to judge partner performance in the PRS or equivalent process); on a process for conducting this assessment; and on accepting accountability for assessment results. Donors and partners together may consider establishing an independent monitoring mechanism to ensure mutual accountability. There are several examples of accountability arrangements:

- The Tanzania Assistance Strategy outlines principles governing the relationship between donors and the government. The parties' adherence to their commitments is evaluated by an Independent Monitoring Group—a team of six Tanzanian and international experts—whose report is presented at Consultative Group meetings of Government, donors, and civil society.
- Government and donors collaborate in such social accountability initiatives as participatory monitoring and evaluation processes in several countries: Argentina, Armenia, Bangladesh, Benin, Ghana, Honduras, India, Malawi, Peru, Philippines, Russia, Senegal, Sri Lanka, Uganda, and Vietnam. In Philippines, for example, the citizens' report card, which is based on a national client satisfaction survey, provides client assessments of pro-poor services in

five areas—health care, elementary education, water supply, housing, and subsidised rice distribution.

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 large numbers of donors. For partners to feel encouraged to make the necessary commitments, donors need to support national capacity to frame, implement, and monitor development strategies and adopt effective aid management practices (see Box 5).

Box 5. Aid Effectiveness and Capacity Development

Capacity development is about enhancing partner countries' ability to formulate suitable policies, establish and maintain effective institutions, and acquire and use the human skills they need. When done correctly, these three aspects of capacity development complement and reinforce one another. Technical co-operation is an important vehicle for supporting such capacity development: each year the international donor community spends approximately USD 7 billion for technical co-operation to partner countries. The 2002 DAC Needs Assessment suggested that there is considerable scope for donors to improve the effectiveness of their support for capacity development—including technical assistance, much of which is still tied—by better alignment and harmonisation.

The 2003 UNDP-led multi-stakeholder research on technical cooperation has identified the following 10 principles for capacity development that can help policymakers and practitioners pursue effective capacity building:

1. Don't rush.
2. Respect the value system and foster self-esteem.
3. Scan locally and globally; reinvent locally.
4. Challenge mind-sets and power differentials.
5. Think and act in terms of sustainable capacity outcomes.
6. Establish positive incentives.
7. Integrate external inputs into national priorities, processes, and systems.
8. Build on existing capacities rather than creating new ones.
9. Stay engaged under difficult circumstances.
10. Remain accountable to ultimate beneficiaries.

Improving Aid Predictability. When aid is unpredictable, it is harder for governments to exercise effective leadership in countries' development processes; the result may be missed opportunities and stop-and-go policies that hinder growth and poverty reduction.¹⁷ This means that it is important for donors to 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 multi-year framework, aligned with partners' financial horizon. They should fully disclose expected flows (all aid, without exception, should be captured on the partner budget, even where not channelled through

¹⁷ 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, the authors recommended that donors make more cautious budget predictions and develop systems to make aid less procyclical.

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.

III. 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 in which aid does not accord with partner countries' stated priorities. Special challenges are alignment in countries where ownership is contested or absent, particularly in fragile states, and reconciling alignment to partner choices with global vertical programmes. Despite demonstrating increasing willingness to align with countries' strategy and policies, however, donors have been much slower to rely on partner administrative systems, including those for procurement—although there have been recent efforts in developing common standards and benchmarking systems against them. Moving forward will require agreement on satisfactory common standards that encourage transparency and improvements in public financial management, responsibilities for benchmarking, and transitional arrangements linked to capacity building.

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

Do donors use partner strategies - national development plans, PRSs, or equivalent frameworks - as the main springboard for their programmes? As recently as five years ago this practice was the exception rather than the rule, but now all donors (including bilateral and multilateral donors and the UN system) strive to base their programmes on partners' strategies. In the 14-country survey, donors and governments agreed that donors rely on the national framework for programming their own assistance; only a fifth of donors expressed some qualifications about their 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.¹⁸

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 equivalent processes), 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 programmes with the country's policy priorities and coordinate these programmes with each other. Together with the government, these groups also often establish a formal common performance assessment framework based on a limited set of indicators derived directly from the PRS, as in the Mozambique example cited in Box 1.

¹⁸ Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality: Progress Report, February 24, 2004.

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 country-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 that common strategy development may be more challenging, but it is also more important.

1. 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 according to good practice principles, and that it is integrated into and aligned with countries' sector programmes and MTEF (including regarding projected recurrent costs). In addition, some donors in several countries are increasingly shifting from stand-alone project aid to participation in sector-wide programmes and budget support.

Sector-wide Approaches. A SWAp is an approach to providing support that has the following characteristics: 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, disbursing and financial management). The instrument facilitates implementing projects and programmes in a coordinated manner using both project and budget support. 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 such as roads or water—and as a way to support streamlining and strengthening 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 6 briefly describes some recent SWAps.

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 economywide or sectoral level (usually as part of a SWAp), to the government's own budget and priorities. This fosters institutional development, particularly in public financial management and increases accountability by underscoring the budget's role as the statement and tool of government policy. The credibility of this role depends on transparency of both revenues and expenditures as well as establishment of effective internal control systems. Budget support is often structured around a matrix of performance measures developed by concerned donors with the partner government (as in Bangladesh, 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. Afghanistan, Bosnia-Herzegovina, Timor Leste, and in West Bank/Gaza), budget support is being provided through multidonor trust funds. In some fragile states with inadequate capacity to mobilise domestic resources, budget support has been found important to pay salaries of civil service, with appropriate safeguards where governance is not yet sufficiently strong.

Challenges. Although the SWAp and budget support approaches have advantages, they also present challenges. For both SWAps and budget support, 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. Budget support entails the risk of more demanding and extensive conditionality and the likelihood of heavy reporting requirements, especially in the fiduciary area; in addition, the possibility of suspension means the risk of significant volatility in aid flows.¹⁹ While partner governments appreciate that with harmonisation donors speak with “one voice,” they are also concerned that if donors herd around a common position linked to their assistance whether budget support or other disbursements could be totally suspended when things go wrong. In addition, both instruments tend to require continuous dialogue and monitoring during implementation.

Box 6. 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 AsDB, 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 and 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 programmes to support the poor into one comprehensive programme identifying synergies in health, education, and nutrition. Programme 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 contributing basket funds and others providing direct project/programme input.

2. 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 about the partner government’s commitment to poverty reduction. In some cases, a donor may approve of the broad direction of the strategy, but disagree substantially over the proposed 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.²⁰ This, unfortunately keeps the door open for donors to continue to decide “unilaterally” on the parts of the strategy (sectors, institutions) on which they prefer to focus their support, and in what timeframe, and it reinforces donors’ tendency to adapt country problems to fit their own sectoral or policy preferences. It also encourages comparable entrepreneurial behaviour by partner ministries that seek to use aid to get around budget priorities of

¹⁹ See *Harmonising Donor Practices for Effective Aid Delivery Volume 2: Budget Support, Sector Wide Approaches and Capacity Development in Public Financial Management*, OECD-DAC, 2005.

²⁰ In turn, the failure of many PRSs to prioritise has a variety of causes, including to avoid offending donors who champion favourite areas.

central authorities. In other cases, donors' reluctance derives from scepticism over the nature of national leadership, its commitment to poverty reduction relative to non-development objectives, or, even where this is not the case, the depth of its ownership and capacity to implement its PRS. As an example of the latter case, Bolivia submitted a detailed harmonisation and alignment plan for consideration at its CG meeting in October 2003. However, donors who were concerned about the unstable political situation and Bolivia's overall PRS considered that harmonisation and alignment may not have been the top priority at that juncture. As it turned out, the instability was such that the government fell shortly thereafter.²¹ Representatives of donors and partner countries have frequently pointed out that lags in information between donor headquarters and field offices—including insufficient guidance on what to support and what not to support on issues that arise at the country level, and inadequate delegation of authority to field offices—hamper proactive participation in country-level harmonisation and alignment initiatives.

3. FRAGILE STATES

As work on harmonisation and alignment has gone forward, donors have become increasingly concerned about issues surrounding aid effectiveness in fragile states²²—countries with the weakest commitment, and usually capacity, for growth and poverty reduction. Donors have been considering the special needs of these countries, reviewing alignment and harmonisation practices with a view to identifying appropriate ways to address their conditions.²³ In these countries the government's limited capacity and legitimacy mean that it is unable to play an effective co-ordinating or balancing role among a plethora of parallel donor approaches. The result is lack of coherence and sustainability, and the undermining of limited state capacity. Therefore, harmonisation and alignment are even more critical in difficult partnerships. Because many fragile states are particularly vulnerable to, or are emerging from, conflict, donor responses frequently include security sector activity (for example, peacekeeping or civil policing) and diplomatic efforts. In addition, firms from donor countries may have trade or investment interests that in some occasions may be contrary to donor development objectives and in some cases have even fueled conflict. Thus all government approaches are needed to assure that policies in different areas are coherent with objectives of addressing key development and governance issues. One tool to address this need is the transitional results matrix (see Box 7). Emerging approaches on how to engage in harmonisation and alignment in fragile states was a key theme of discussions at the January 2005 Senior-Level Forum on Development Effectiveness in Fragile States, held in London. An update from that forum will be presented at the Paris Forum.

²¹ 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 JSA Note. 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.

²² There is no agreed global list of fragile states but a proxy for state fragility using those countries in the two lowest categories of the World Bank's Country Policy and Institutional Assessments (CPIA) five categories and including a separate group of unranked countries also deemed fragile provides a list of 46 fragile states. Middle-income countries are not included in this list: they account for 870 million people or 14 percent of the world's population but nearly a third of the world's poor people and 41 percent of all child deaths.

²³ There is a multi-donor initiative on fragile states, the DAC “Learning and Advisory Process on Difficult Partnerships (LAP)”, as well as associated initiatives and policies by donors, including particularly the Low-Income Countries Under Stress (LICUS) initiative of the World Bank.

Box 7. Transitional Results Matrix

Transitional results matrices (TRMs) help apply an important principle of PRSs—a unified, country-driven plan—to fragile settings. TRMs are based on five principles, derived from the Rome Declaration and its harmonisation agenda, but adapted to the circumstances of fragile states in transition: they are simplicity; selectivity; integration across the political, security, economic, and social aspects of recovery; national ownership; and donor buy-in. TRMs promote the use of outcome indicators and monitorable targets, including intermediate indicators to track the progress of recovery programmes. They function as a management tool for strategic planning and implementation monitoring, and as an umbrella for donor coordination. The framework is intended to become a compact of joint responsibilities between country authorities and the donor community. By enhancing transparency across the board, TRMs can create strong incentives to achieve more visible results in post-conflict reconstruction, and provide a basis for participation and domestic scrutiny by civil society organisations.

Alignment in Fragile States. In some states that are fragile but with commitment and growing capacity, more or less full alignment may still be feasible. Where it is not possible to align with country systems—perhaps because of concerns about legitimising a particular government, or a significant and prolonged humanitarian presence, it is important for donors to harmonise their approaches to alignment. (“harmonise to align”). Donors should focus their harmonisation efforts on the creation of mechanisms that enhance, not undermine, the emergence of country leadership and ownership—for example, joint diagnostic work and strategies, efforts to minimise transaction costs, and joint planning, financing and implementation of programmes.

Partial and Shadow Alignment. Where feasible, donors should use (harmonised) “partial alignment”. This refers to aligning behind programmes in areas that have sufficient commitment and capacity - whether in ministries, agencies, or regional governments. Even where partial alignment is not feasible, shadow alignment can be useful. Shadow alignment refers to (harmonised) donor programmes that are as consistent as feasible with existing state institutions - *e.g.* administrative boundaries, systems and organisations. It should start with joint donor assessments of the current formal and informal policies and systems; there is invariably something in place. Shadow alignment is a state-avoiding approach, but one that to the extent feasible builds on what exists in a way that will lead to future full government ownership and capacity. A central element of this approach is providing information in a compatible format (*e.g.* respecting existing budget years and classifications) and using the same or at least compatible administrative layers or boundaries (*e.g.* the same administrative districts); planning and budgeting cycles; budget classifications; accounting, procurement, and audit systems; and staffing structures and hierarchies.

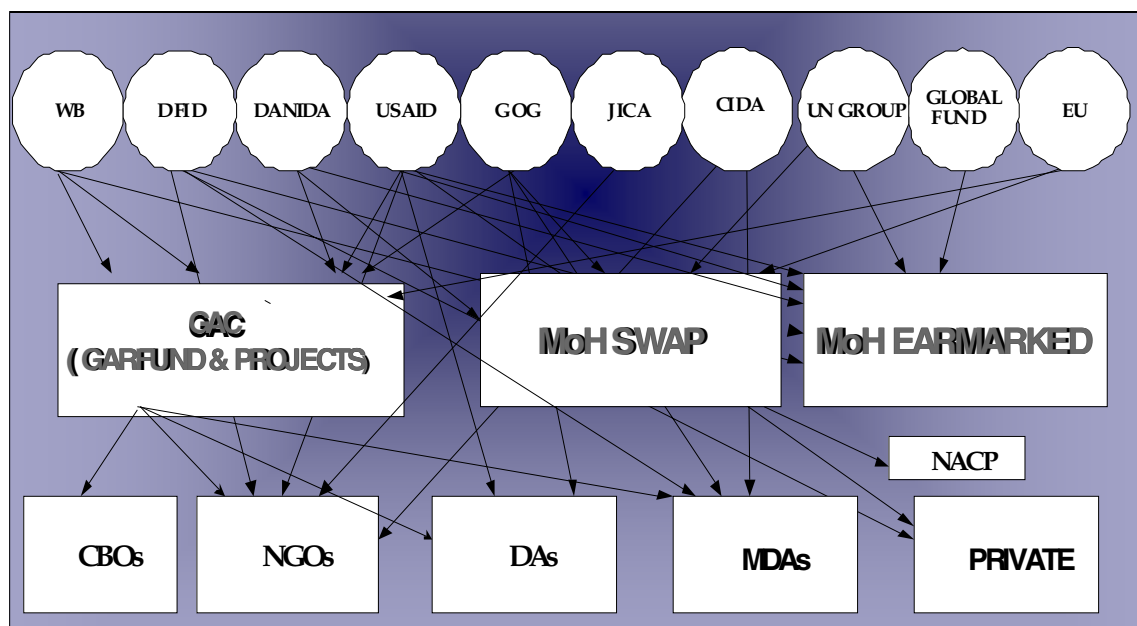
4. GLOBAL PROGRAMMES

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 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. Each of these initiatives is valuable in its own right, but from a recipient’s standpoint each may come with its own political priorities, its own systems, and incentives that may not align with national priorities. The urgency of a global programme’s mission and the need to achieve specific outcomes often are perceived to take precedence over, and even interfere with, 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.²⁴ Global programmes are increasingly incorporating policies and measures to address these problems.

- HIV/AIDS.** Following 10 years of global advocacy and campaigning, the world has made an unprecedented response to the HIV/AIDS issue: funding rose from USD 2.1 billion in 2001 to USD 6.1 billion in 2004. A series of global and vertical initiatives have been responsible for the lion's share of the increase in funding: among others, WHO's "Three by Five"; the World Bank's Multicountry HIV/AIDS Program (MAP); the United States. President's Emergency Plan for Aids Relief (PEPFAR) initiative; the Global Fund to Fight AIDS, Tuberculosis and Malaria; and US President Clinton's HIV/AIDS Initiative (CHAI). At the country level, governments are facing an increasingly complex situation. Development partners are challenged to harmonise large but separate and distinct inflows of new resources to HIV/AIDS within broader development priorities and national systems of implementation and accountability (Figure 2 captures the harmonisation and alignment challenges in Ghana, but the same challenges may be seen in many countries with a large number of donors). To address this problem, in April 2004 UNAIDS launched the "Three Ones" agreement, setting out a framework by which donors agree to harmonise their funding for tackling the HIV epidemic, with explicit reference to the post-Rome agreements on harmonisation (see Box 8).

Figure 2. Funding for HIV/AIDS in Ghana



²⁴

See Addressing the Challenges of Globalization: An Independent Evaluation of the World Bank's Approach to Global Programs, Operations Evaluation Department, World Bank, December 2004.

Box 8. UNAIDS “Three Ones” Approach

The “Three Ones” principles help align all HIV/AIDS work in a country, ensuring that the core national system is linked to the national-level HIV/AIDS framework, and encouraging investment in strategies to build data quality and national-level capacity:

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

- **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, to be most effective its programme funding needs to be supportive of the government’s macroeconomic programme, 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 has become a participant in the DAC Working Party on Aid Effectiveness to this effect. It also subscribes to the “Three Ones” principles. And it is reinforcing its efforts to work within existing pooled- funding mechanisms. In Mozambique, for example, Global Fund grants are being integrated into a SWAp for health care activities. Under the SWAp, 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. Global Fund processes are supported by a range of bilateral and technical partners.
- **The Education For All-Fast Track Initiative (EFA-FTI).** EFA-FTI is a partnership among partner countries and 30 donors to focus global commitments and local implementation around a set of reciprocal obligations to achieve the MDGs on education. While the partnership’s major work is undertaken at the country level, its work is guided by specific reference to the principles of the Monterrey Consensus and the Rome agenda for harmonisation and alignment. In line with this direction, the EFA-FTI has evolved from a vertical programme with decisions at the global level and a focus on parallel funding to become a more country-based and country-led process of programme development with donors supporting the same programme. Countries such as Bangladesh, Mozambique, Niger, and Nicaragua have developed sound education programmes, and donors support these programmes with coordinated, harmonised efforts to accelerate progress. The global partnership serves as a platform to support country-level processes, innovation, and resource mobilisation, and steps in where traditional donor funding channels do not meet the country’s needs. 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

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. Therefore, it follows that rather than seeking to improve only the institutions needed to manage aid flows, 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.

1. PROGRESS IN USE OF COUNTRY 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 9). The creation of specific project units for donor projects or programmes, 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 involves most of the drivers of aid effectiveness: ownership, capacity development, 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, alignment is strengthened when donors do 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, and when they disburse budget support in line with the domestic budget schedule, accept financial and other progress reports in the format normally used by the administration, and rely on the country's monitoring and evaluation systems, strengthening them as necessary.²⁵ As in several countries that have developed systems for aid management (*e.g.* Tanzania and Uganda), donor support and encouragement build confidence.

Box 9. 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; MTEFs and related management and monitoring systems.
- Accounting, financial reporting, and auditing arrangements.
- Public procurement rules.
- Project and programme planning, management, monitoring and evaluation systems.

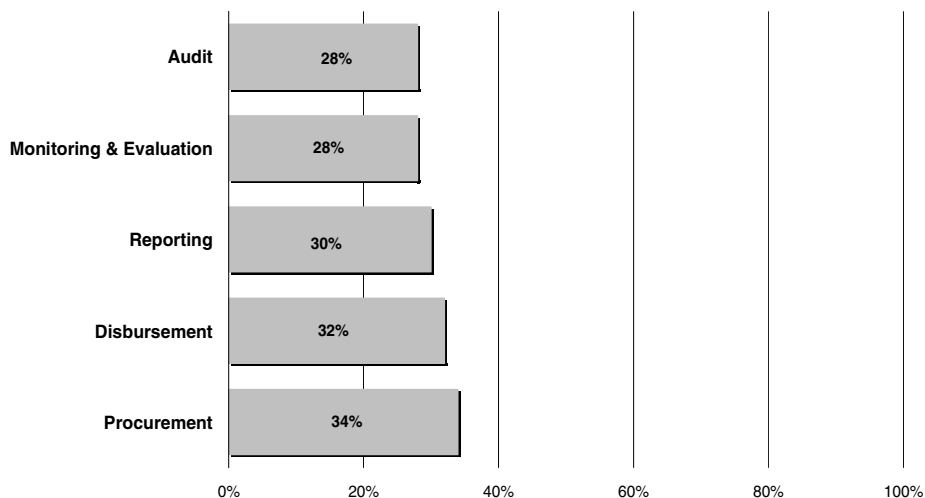
Progress: Project Funding. Progress in the use of country systems since Rome has been generally slow, lagging behind most other components of the harmonisation and alignment agenda and with few exceptions even in the 14 countries surveyed by the DAC Working Party on Aid Effectiveness, which are among the more active test cases for alignment. This survey, attempts to capture the extent to which donors are relying on country systems along five dimensions — procurement, disbursement, reporting, evaluation and audits — as a percentage of their portfolio of projects. As can be seen from Figure 3, the average is around 30 percent across the 14 countries. In some partner countries (country level data is not shown), the average was as high as 56 percent for Bangladesh and 59 percent for Morocco, which is encouraging. On the other hand, in Nicaragua,

²⁵

In the area of statistics systems, 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.

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. For the major categories surveyed—procurement, disbursement, reporting, evaluation, audit—no single donor reported using national systems in all five, and most said they use national systems in less than 50 percent of their projects (see Figure 3). 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 10). The use of 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.

Figure 3. Percentage of Donor-Financed Projects Using Partner Country Systems



Box 10. Lao PDR Roads Sector: New Approach to Implementation

For many years, major donors—the AsDB, Japan International Cooperation Agency (JICA), Swedish International Development Agency (SIDA), and the World Bank—had been financing projects in the Laotian roads sector. Multiple project implementation units (PIUs) inside and outside the responsible ministry were established, many 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.

- 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.

Progress: Budget Support. 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 synchronised with the budget cycle, most said yes or a qualified yes (see Table 2).

2. MOVING TOWARD GREATER USE OF COUNTRY SYSTEMS

To address the slow progress in using country systems, it will be important to develop a robust overall regulatory framework, at either the institutional or the country level that is acceptable to all or at least most donors and partners. Such a framework would facilitate defining acceptable standards and indicators to assess compliance with them. The goal is not to “harmonise upwards” to include the most stringent or specialised norms required by any donor around the table, but to base the framework on reasonable norms that are widely applied in the donor world.

Possible Approach. The best way forward would be for donors, in close consultation with partner countries, to agree on standards, changes in policies and legislation needed on both sides, and a roadmap for capacity development. Piloting and experimentation would be necessary. This process would then be followed 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 and apply the standards. Such actions would focus attention on those parties - 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 determine more specifically what the issues are and work out practical solutions.

Table 2. DAC Survey Responses: Extent to Which Budget Support is Predictable

	<i>Multiannual commitments</i>	<i>Timely commitments</i>	<i>Timely disbursements</i>	<i>DBS programmed/ disbursed in accordance with budget cycle</i>
Bangladesh	●	■	□	□
Bolivia	●	■	□	□
Cambodia	●	●	●	■
Ethiopia	■	■	□	□
Fiji	□	□	□	□
Kyrgyz Republic	■	□	■	□
Morocco	■	●	□	□
Mozambique	■	■	■	●
Nicaragua	■	■	■	■
Niger	□	■	●	○
Senegal	●	●	●	□
Tanzania	□	□	○	□
Vietnam	■	■	■	■
Zambia	●	■	■	■
Key: ■ Yes, but (qualified yes) ● No, but (qualified no) □ Yes ○ No				
DBS = Direct budget support				
Source: DAC Survey on Harmonisation and Alignment, 2004.				

Progress in Setting Criteria. Wider use of country systems would require agreement on criteria against which systems should be assessed. There has been some notable progress in three areas of the work on country systems—financial management, procurement, and environment.

- **Financial management.** 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 PEFA²⁶ secretariat has 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:
 - PFM 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.
 - Medium-term planning and budget formulation.
 - 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, including follow-up.
 - External accountability, audit, and scrutiny.
- **Procurement.** The Joint Venture on Procurement, which involves both donors and partner countries, has developed an integrated set of strategies and tools for strengthening partner country procurement systems. The indicators were designed specifically to feed into and support the PEFA and PFM indicators described above.
 - 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 indicators.²⁷
 - 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 emphasises 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

²⁶ PEFA (Public Expenditure and Financial Accountability) is a joint effort of the EU, World Bank, IMF and several bilateral donors, to reach common approaches to strengthening PFM.

²⁷ 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.

processes, looking at the linkages between procurement operations and the government's PFM and other activities.

- These strategies and tools are now ready to be moved into implementation. To this end participants in the Joint Venture have adopted a number of commitments that are aimed at bringing the issues of procurement and the need for effective reform more into the mainstream of development in their countries and agencies; expanding the number and network of donor and partner country participants; optimizing use of the strategies and tools over time; and progressively moving toward greater use of national systems.²⁸ They have agreed to maintain the network of professionals created by the Joint Venture process, and to meet in late 2005 to assess progress in meeting these commitments.
- **Environment.** The Multilateral Financial Institution (MFI) Working Group on Environment has worked to disseminate the Rome Declaration and identifying follow-up actions. This includes, in particular, formulating “*A Common Framework for Environmental Assessment: A Good Practice Note*”, which reflects good practice in multilateral and bilateral agencies.²⁹ Work is also underway to update the *Pollution Prevention and Abatement Sourcebook*, which has become an international reference in the field³⁰ and prepare an *Indigenous Peoples Policy Handbook Guidebook*.³¹ In future, the World Bank will work with the OECD-DAC to develop Environmental Guidelines for Small and Medium-Scale Infrastructure for MFIs and Bilateral Donors. Other activities underway include a *Joint training work program for environmental and social review of intermediate credit operations*³² and a *Joint Work Program for the Use of Country Systems*.³³

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:

- Does the country claim to have a viable system, which it proposes that donors rely on instead of their stand-alone procedures?
- Are international standards already agreed for that system, and are they generally accepted as appropriate and relevant?
- If yes, has there been satisfactory assessment of compliance with the standards, fully involving both the partner and donors?
- If yes, did it certify the national system as fully, or only partially, meeting the standard?
- If fully, how many donors are now relying on it, or propose to rely on it?

²⁸ See the Johannesburg Declaration, endorsed at the Third Roundtable of the World Bank /DAC Joint Venture initiative on strengthening procurement capacities in developing countries, Johannesburg, South Africa, on 2 December 2004.

²⁹ This work has been coordinated by Inter-American Development Bank and the World Bank. English and French versions were distributed at Paris HLF (March 2005).

³⁰ This work is co-ordinated by the International Finance Corporation.

³¹ This involves collaboration between the AsDB, Inter-American Development Bank, and World Bank.

³² This is coordinated by the European Bank for Reconstruction and Development.

³³ This is coordinated by the African Development Bank and the World Bank.

- If only partially, are harmonised interim systems in place to address major fiduciary risks?
- Are there capacity development programmes in place to address these weaknesses and which provide for a shift to use the national system when improvements occur? Do donors support these programmes?

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. 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.

Capacity Development. Clearly, many countries (and especially fragile states) have systems whose quality is inadequate for donors to rely on them. In these cases, collective donor action will be needed 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 11).

Box 11. Coordinated Donor Support to Ethiopia's Strategic Capacity-Building Programme

The Government of Ethiopia recognised that efforts to build public sector capacity were largely supported by fragmented donor projects and financed in an ad hoc manner. In addition, it was concerned about the degree of transparency in implementing capacity building, problems in effectively leveraging global knowledge, and the bias toward intensive off-site training activities.

To address these issues, in May 2003, the Government launched a consolidated five-year federal programme called the Public Sector Capacity Building Program (PSCAP), under which Ethiopia would scale up its capacity-building and institutional transformation efforts in six priority areas: civil service and expenditure management, district-level decentralization, urban management, tax systems, justice systems, and information and communications technology. Program features include:

- Incorporation of donor commitments under PSCAP within the Government's overall macroeconomic fiscal framework.
- Alignment of donor procedures with the 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 a SWAp, and alignment of nonpooled support with the Government's planning, budgeting, and M&E system.
- Explicit identification of rules governing access, allocation, and execution, including an established vertical division of resources between federal and regional levels, and a simple formula for 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.

CIDA, DFID, EC, IDA, Ireland, and SIDA 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, Italy, and USAID, are also supporting this programme but without pooling, and Netherlands participated in the appraisal mission.

C. CHALLENGES AND THE WAY FORWARD

The goal of alignment 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 PRSs and equivalent national development frameworks) 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 programme conditionality from the strategies; and they should use partners' performance assessment frameworks to monitor progress against the strategies, and adjust their aid accordingly.

Relying on Country Systems. The agreed aim is for donors to commit to use the partner country's national systems, as soon as they jointly assess those systems 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 they should support effective capacity development to help partners 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.

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 of capacity development. Some of this funding should be pooled, with the partner freely selecting among sources of expertise. Donors and partners together should prioritise funding of joint diagnostic work, carried out transparently. Donors 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. As part of doing so, they should promote joint training at country level. Where it is advisable to break the link between funding and control of external staff in sensitive positions, donors should increase recourse to third-party managers of technical support, including local and international civil society.

IV. 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.*

This chapter reviews donors' progress in adopting harmonised approaches in the three broad areas at the base of the partnership and aid effectiveness pyramid: (a) common arrangements, (b) simplifying procedures, and (c) sharing information. While harmonisation is treated separately here, and can proceed at a different pace from alignment, the two are closely related, as shown in the preceding section on alignment. Similarly, much of what follows on harmonisation, for example on incentives, applies to alignment as well.

A. COMMON ARRANGEMENTS

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.

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 environments.³⁴ Partner countries report a substantial and growing number of common diagnostic reviews in certain areas. In the 14-country survey, 9 of the countries reported more than one donor involved in assessing both financial reporting and procurement

³⁴ Chapter 3 on "Measuring Performance in Public Financial Management" of the DAC Reference Document "*Harmonising Donor Practices for Effective Aid Delivery*" (OECD, 2003) provides guidance on diagnostic work stressing the importance of full involvement of development partners and collaboration among donors. This approach reduces transaction costs, particularly to partner countries, and improves the overall quality and acceptance of the analysis. While different donors have different criteria or thresholds to use in deciding on the amount and nature of financial assistance, the principle is that they draw from a common body of information concerning the PFM system. For fragile states, see *Guide to Post-conflict Needs Assessment*, prepared by the World Bank and UNDG.

systems.³⁵ Within the UN system each agency's independent diagnostic reviews have been replaced by the Common Country Assessment.

Joint and Harmonised Assistance Strategies. Donors and partner countries are increasingly defining joint and harmonised assistance strategies and programming to support the partner country's development priorities (see Table 3). These strategies differ in many ways—the number of donors involved the role of the partner country government, and specific content and approach. (Clearly, the range of actors in fragile states—humanitarian, diplomatic, and military, each with different objectives and approaches—makes the development of joint assistance strategies there more difficult.) Among the agencies of the UN system, joint assessments and assistance strategies are now 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. Meanwhile, in May 2004, the EU Council of Ministers approved a report defining the Union's contribution to advancing coordination, harmonisation, and alignment in five areas: a Road Map for country-level harmonisation, joint assistance strategies, complementarity, coordination of policies, and a common framework for aid implementation procedures (see Box 12).

Table 3. Examples of Harmonised Assistance Strategies

Countries	Type of strategy/programming	Donor agency
Bangladesh	Joint task force on PFM to review harmonisation and alignment of aid modalities with country system. Coordinated country assistance strategy Joint review of aid governance studies	AsDB, DFID, Japan, WB UNDP, Canada, Netherlands
Cambodia	Coordinated country assistance strategy with Government of Cambodia Collaboration in preparation of assistance strategies	AsDB, DFID, WB
Mediterranean Region (MEDA countries)	MOU establishing joint strategies, a joint financial instrument, joint offices and staff exchanges	EC,EIB, WB
Nepal	Donors have agreed on common outcomes for their country assistance programmes	DFID, WB
Papua New Guinea	Coordinated country assistance strategy under consideration	AsDB, AusAid, WB
Rwanda	Donors preparing assistance strategies in consultation with others	DFID, EC, SIDA, UN system
Tajikistan	Linkages among donors working on poverty reduction programmes	EC, WB
Tanzania	Government finalising concept paper on joint assistance strategy in consultation with donors	CIDA, Denmark, DFID, EU, Finland, Ireland, Netherlands, Norway, Sweden, WB
Uganda	Ongoing process to develop a joint country assistance strategy	DFID, Germany, Netherlands, Norway, SIDA, WB
Vietnam	Action Plan for closer coordination and harmonisation among EU donors in support of the Vietnamese action plan on harmonisation	Austria, Belgium, Czech republic, Denmark, EC, Finland, France, Germany, Hungary, Italy, Luxemburg, Netherlands, Poland, Slovak republic, Spain, Sweden, UK
Zambia	A joint multiyear strategic plan is expected to be completed by end-2005	Canada, Denmark, Finland, Germany, Ireland, Japan, Netherlands, Norway, Sweden, UK, UN, WB

³⁵ Joint financial management assessment mirrors the intent of PEFA 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.

Box 12. Road Map of the EU Ad Hoc Working Party on Harmonisation

The EU Ad Hoc Working Party on Harmonisation, established in April 2004,^a focuses on enhancing EU coordination and harmonisation at the country level. It is working to develop 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. The Road Map will be country-specific and will consist of a menu of possible options: for example, 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 work to elaborate common development policies in specific sectors or circumstances. Given the strong implementation focus, the Working Party encourages member states and the Commission to further decentralise competencies, responsibilities, and decision making to facilitate a country-led approach to harmonisation.

^a The EU Council of Ministers established the Ad Hoc Working Party on Harmonisation as a follow-up to the Monterrey Consensus and the Barcelona Commitments, adopted in 2002 by the EU Heads of States, "to take concrete steps on coordination of policies and harmonisation of procedures before 2004, both at European Commission and Member States Levels, in line with internationally agreed best practices including by implementing recommendations from the OECD-DAC Task Force on Donor Practices."

Harmonised Operational Approaches. Considerable progress is being made toward the use of harmonised approaches to budget support, although this has not necessarily resulted (yet) in reducing transaction costs for donors or (more importantly) for government.³⁶ However, as noted above, there have been cost reductions in Tanzania, as well as increases in aid effectiveness. Among the agencies of the UN system, for example, new policies and procedures facilitate joint programmes, with a lead agency and pooled financing arrangements. A recent study conducted by the Strategic Partnership with Africa (SPA)³⁷ concluded that sector programmes on procurement arrangements, disbursement mechanisms, financial management, technical assistance, and capacity building had very low levels of harmonisation.

Joint Financing Arrangements for EU Donors. The EU Council of Ministers recently approved increased use of joint financing arrangements (JFAs), which help EU donors harmonise their aid modalities and the procedural requirements, as well as facilitate harmonisation with non-EU donors.³⁸ JFAs establish a framework for coordinating donor support and cooperation with a partner government. Under these arrangements, signatories agree to undertake support jointly, work within one set of procedures, monitor and measure results at the end, and 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. JFAs could apply to budget support, sector-wide approaches, and related basket funding, or jointly financed programmes and projects;³⁹ they have been used, for instance, for multidonor budget support operations in Bolivia, Mozambique, and

³⁶ "Progress in Harmonisation and Alignment at the Country Level," Note by the SPA Working Group, DAC Meeting 2-3 July, 2004.

³⁷ SPA Secretariat, SPA-2003 Sector Program Tracking Report Based on SPA Partners' Inputs, January 2004.

³⁸ 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.

³⁹ JFAs could cover goals of the program supported; responsibilities and representation; financial contributions; consultation; decisionmaking; organisational structure; disbursements; procurement; reporting, review, and evaluation (missions); audit; noncompliance, and force-majeure; corruption; modifications; withdrawal; dispute settlements; and technical assistance.

Nicaragua. It is expected that increased use of JFAs will lead to a decrease in the number of stand-alone projects and programmes funded by individual EU donors.

Bilateral/Multilateral Harmonisation. In a number of Asian countries, where JBIC, the AsDB, and the World Bank provide a dominant share of the external development assistance, the three institutions 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 Bangladesh, Cambodia, Indonesia, Kyrgyz Republic, the Philippines, and Vietnam (see Box 13). In Vietnam, two other bilateral agencies—Germany’s Kreditanstalt für Wiederaufbau (KfW) and France’s Agence Française de Développement (AFD)—have joined the efforts of the three banks. In the Pacific Islands, Australia is working with AsDB, the World Bank, and NZAID as part of the Pacific Poverty program to harmonise the activities of donors and to enhance the capacity, both within government and civil society, for the collection and analysis of poverty and hardship related data. However, simply developing such common documents and procedures is not enough—they must also be used. 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.

Box 13. Cooperation in East Asia

Guided by strategic partnerships supported at high management levels, JBIC, the AsDB, and the World Bank are involved in a host of harmonisation and coordination activities in East Asia:

- To *harmonise processes*, the three organisations have established working groups and taken action in several areas, including fiduciary issues, capacity building, governance, and evaluations. For example, in Vietnam, the three banks, joined by KfW and AFD, are implementing activities in support of the partner’s harmonisation action plan, giving priority to aligning operational processes in fiduciary work, project preparation, and portfolio management.
- The three organisations are cooperating closely on *coordinating strategies and operational activities*, including country strategies, normally under a PRSP umbrella (for example, joint strategy and CAS formulation in Cambodia, cofinancing of PRSCs in Vietnam, and coordination of aid efforts in Timor Leste).
- The three banks are *jointly strategising* on analytic work (such as joint portfolio reviews in Indonesia, Philippines, and Vietnam), regional studies (Regional Infrastructure Study) and allocation of concessional resources (collaboration on Nam Theun 2 in Lao PDR).
- Global issues, including global and regional public goods, are also emerging as an important cooperation arena for all three institutions. The objectives of the three institutions regarding *dissemination of global development knowledge* (last year in Tokyo JBIC and AsDB co-hosted, with IDB, a forum in which the World Bank also participated) are strongly aligned with those of the GDLN. In June 2004, AsDB participated in the launching of the Tokyo Development Learning Center, which JBIC is now using for its operational work and other activities.

The three institutions’ joint efforts to improve aid effectiveness are working well at the country level, but some of the country-level work could be shared with other countries in the region—for example, a standard bidding document is a harmonised product that other countries can use. At the country level, the key challenges are going to be rationalising the use of project management units and working to move forward on the results agenda. And an immediate challenge for the three agencies will be to help coordinate the recovery and reconstruction efforts in areas affected by the tsunami.

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 development 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.⁴⁰ 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 Government (see Box 14). It will be important to continue developing common procedures for projects. In addition, as many donors shift from project-based support to SWApS and budget support, appropriate environmental assessment approaches - commonly known as “strategic environmental assessment” - will be needed.

Box 14. Harmonisation of Environmental Safeguards in Vietnam

In Vietnam, a rapidly growing economy with aid flows increasing in infrastructure financing, five major donors—the AsDB, France’s Agence française de développement (AFD), the Japan 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.

Untied Aid. It is widely acknowledged that tied aid - that is, aid that must be used to purchase goods or services from a particular donor country - undermines aid effectiveness. It has been clearly documented that tying aid raises the cost of many goods, services, and works by 15-30 percent,⁴¹ and the cost of food by 40 percent.⁴² If we consider 20-30 percent to be an approximate average of the direct cost of tying aid, then tying aid reduced the actual value of total bilateral aid by USD 5-7 billion in 2002. Put in another way, tying significantly reduces the de facto grant element of aid because of the rents captured by exporters in donor countries. But beyond these financial aspects, tied aid hinders developing country ownership of programmes and requires procurement procedures that often circumvent local procurement systems. This not only results in higher transaction costs, but also limits incentives and efforts to harmonise donor procedures and co-ordinate their activities. Over time, many donors have increased the relative share of untied aid in their bilateral programmes. Annual reviews of DAC’s 2001 recommendation to untie aid to the least developed countries have concluded that overall,

⁴⁰ 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).

⁴¹ Jepma, C. (1991), *The Untying of Aid*. Paris, OECD.

⁴² The Developmental Effectiveness of Food Aid and the Effects of its Tying Status, DCD/DAC/EFF(2004)9.

implementation is progressing well, but that the actual impact on aid effectiveness is modest because the focus and coverage of the recommendation were limited. DAC donors will maintain their efforts to implement the 2001 DAC Recommendation on Untying ODA to the Least Developed Countries and consider how to extend its benefits.

B. HARMONISING AND SIMPLIFYING PROCEDURES

Over 90 per cent 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. In 2003 the members of the United Nations Development Group approved and began applying a fully harmonised and simplified programming and implementation process. The World Bank has introduced reforms enabling pooling of resources under SWApS and other modernisation and simplification actions supporting greater harmonisation. In addition, in 2003 and 2004 the World Bank (a) required that all new country assistance strategies for countries that are eligible to borrow from IDA be based on the country's PRSP and issued new guidance on such results-based strategies, (b) amended its audit policy to align with international auditing standards and increasingly rely on country audit processes, (c) liberalised its expenditure eligibility requirements to better align financing with needs, (d) adopted new procurement guidelines opening up eligibility to bidders from all countries of the world and allowing harmonisation based on best practice recommended by the MDB heads of procurement, and (e) revised its development policy (formerly adjustment) lending policies in a way that further recognises the importance of country ownership and collaboration among donors. The IDB has recently adopted similar policies for SWApS and expenditure eligibility, and work in some of the same areas is in progress at the AsDB. Among bilateral agencies, the most progress was reported among Nordic Plus members.⁴³ Several 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 with its main partner countries and normally also with other partner countries 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. In 2004 the members of the United Nations Development Group approved and began applying a fully harmonised and simplified programming and implementation process. The World Bank has undertaken a series of policy changes that would enable it to harmonise and align at the country level. The IDB recently adopted a similar policy and work is in progress at the AsDB.

⁴³

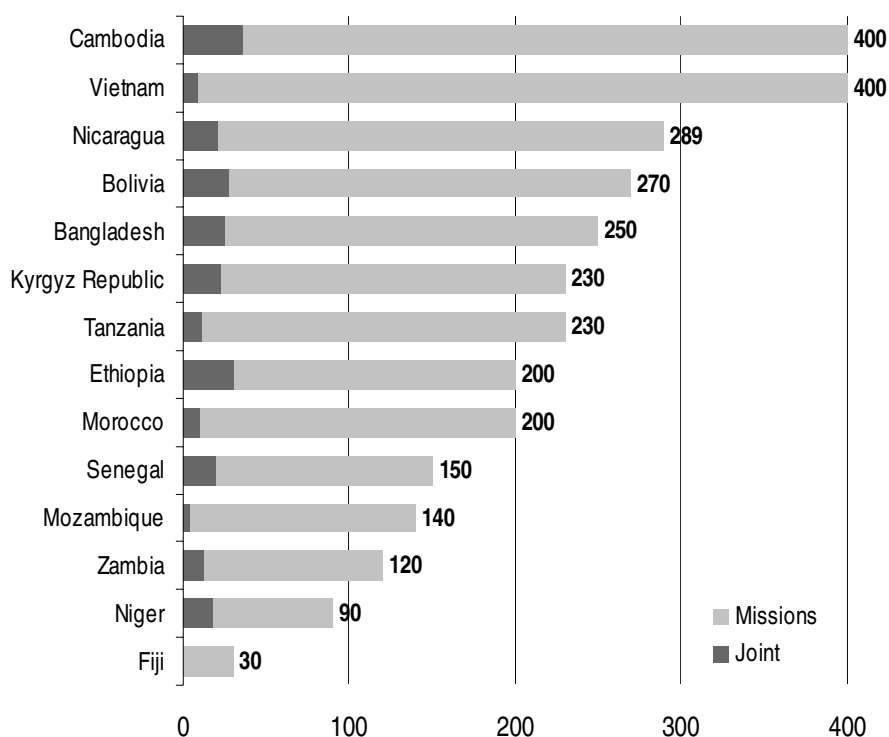
The original Nordic Plus group of countries included Denmark, Finland, Ireland, Netherlands, Norway, Sweden, and the United Kingdom.

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 Executive Committee of the UNDG (UNDP, UNFPA, UNICEF, and WFP), 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 harmonisation activities have included efforts by the MDBs to create harmonised standard bidding documents for goods, works, and services contracts on projects they finance, and to simplify 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 of countries jointly developed a set of procurement policies and guidelines on harmonisation that explicitly encourage use of the strategies and tools developed by the Procurement Joint Venture and that aim to maximise use of partner country procurement systems. Where full use of these systems is not possible because of the risks involved, the guidelines provide 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 information technology 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.

Audit Requirements. Over the past two years, a working group (Harmonisation in Overseas Audit Practices, or HOAP) has been working to develop a common approach to the audit of multidonor SWAp and donor budget support operations. HOAP tested the approach by mounting a pilot audit of the 2003 Zambia Education SWAp expenditure, conducted jointly by the audit offices of Netherlands, Norway, and United Kingdom. The results of the pilot audit showed that a group of independent-minded supreme audit institutions could work together and form a common audit report. This experience should be useful in supporting the design of new funding agreements to help anticipate and avoid potential problems with ensuring appropriate audit.

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 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 high number of missions is a clear symptom of weak progress toward alignment and harmonisation. To reduce the burden for partner countries, donors need to more effectively decentralise 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 4. Number of Donor Missions



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 behalf.⁴⁴ 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, 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; and the UN has introduced guidance notes on joint programming that allow for partnerships between UN agencies. Box 15 provides some examples of delegated cooperation initiatives.

⁴⁴ The extent and nature of delegated cooperation can take many forms and vary according to the type of aid (project, sector, or budget support), as described in Chapter 6 of the DAC Reference Document *Harmonising Donor Practices for Effective Aid Delivery* (OECD, 2003).

Box 15. Delegated Cooperation

- In *Malawi*, Sweden has delegated the administration of its entire bilateral aid programme, except budget support, to Norway. The two countries are also planning a similar arrangement in *Mali*, with Sweden as the lead donor.
- In 2002, under a delegated cooperation agreement for the *India* health sector, CIDA delegated its role to DFID. CIDA and DFID also have a delegated cooperation agreement in *Bangladesh's* Financial Management Reform Programme.
- 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 Cook Islands, Australia has a delegated cooperation programme with New Zealand whereby NZAID delivers the total Australian and New Zealand combined program.
- In energy programs in *Malawi*, *Uganda*, *Tanzania*, and *Zambia*, 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

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.

Analytic Work. Not all donors are rising to the challenge of transparency in country analytic work (CAW), even though it can help them to develop a common basis for interacting with partner countries and each other, without compromising their institutional independence. In the countries surveyed, a majority of donors were candid in saying they posted only some of their output, or none at all; their reasons included the lack of a centralised unit that can quickly identify and approve material for public disclosure, or the lack of decentralised units, such as country offices, that could quickly post relevant documents. When it is not feasible to do analytic work jointly with other actors in the first place, it is good to give them immediate access to the analysis and results, since knowledge sharing is key to improving development impact and cost-effectiveness. In addition, sharing information about upcoming or planned analytic work allows donors and partner governments to identify possibilities for joint work at an early stage and can provide an opportunity for capacity building. 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 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 participate in this 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 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. Overall, donors should step-up their efforts to increase dissemination of both published and planned analytic work through the CAW Joint Website and individual institutional websites.

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 programme design purposes have little or no reliability as a basis for projecting disbursements, even in the relatively short term. The DAC Working Party on Aid Effectiveness is carrying out work on the complex reasons for unpredictability in donor disbursements, looking ahead over the medium term.

Multi-year Aid Predictability and Programming. 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 is seen as the main deterrent to moving toward multi-year 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 arrangements 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

Although donors have made great strides in their work on harmonisation, they will need to continue their efforts and, in many ways, deepen it. Given that this work involves both operational and investment elements and is costly, they should place a high premium on disciplined engagement that leads to productive outcomes and monitorable improvements in business practices. They should carry out more joint diagnostic work, share information systematically, simplify procedures and make them transparent, and 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 (limiting sector/budget working groups to efficient numbers) and through subcontracting arrangements (delegated cooperation) that reduce the burden on partners. Each donor can identify and analyse the areas in which to take further action through self-assessments (see Box 16).

Increasing Donor Complementarity. Partners and donors will need to work together to reduce the burden on partners that arises from excessive fragmentation of donors at global, country, and sector levels.⁴⁵ 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

⁴⁵ See EU Donor Atlas, Mapping Official Development Assistance, May 2004. The increased need for enhancing the effectiveness of aid and reducing transaction costs requires a qualitative jump in terms of operational complementarity. The EU Donor Atlas presents updated information on each of the 26 EU donor's strategic framework and activities. It shows current trends and directions of development and takes stock of related activities over the last decades. It highlights areas and scope for further improvements, and intends to trigger further discussions on donor complementarity. The Atlas is available online at: <http://europa.eu.int/comm/development>

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 coordination groups and in the context of Consultative Group meetings, for making informed decisions on better division of labour and rationalising the role of donors in a way that reflects the size and the strengths and weaknesses of each one, focusing most on what each can best bring to the collective effort to improve aid effectiveness.

Box 16. Donor Self-Assessment of Progress in Implementing the Rome Agenda: Selected Findings

Bilateral and multilateral donor members of the DAC Task Team on Harmonisation and Alignment are undertaking self-assessments of their progress toward greater harmonisation and alignment since Rome. Initial findings indicate that communication and dissemination of the Rome agenda is well under way, 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 harmonisation and alignment agenda in their work with partner countries—for example, joint diagnostic reviews, joint assistance strategies, and 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 the partner's policies and systems. Several donors state that they use partner systems when they can, but most find 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.

Early lessons:

- Agencies, particularly smaller ones with limited time and staff, need assistance in achieving harmonisation and alignment 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 harmonisation and alignment initiative began: concepts such as “multiyear budgeting” and “procedural flexibility” seem to mean different things to different donors. Establishing some common definitions may be useful.
- 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 coordination and harmonisation at the country level among member states and with the EC. As part of the wider UN reform, the UN agencies coming together in the UNDG have made considerable progress in simplifying and harmonizing programming and operational procedures and in linking their activities with national priorities through the UN Development Assistance Framework.
- In the future, some donors wish to further strengthen monitoring using a methodology for reporting that focuses on concrete results and monitorable indicators.

Creating Incentives for Harmonisation. 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, are emerging as a critical variable on which more thought and action are urgently needed. (Box 17 discusses incentives in greater detail). The relationship between field and headquarters signals is also complex; field office staff often complain that they are asked to make progress that can realistically happen only through administrative changes at headquarters or through increased delegation to the field. In some cases, promising country-based initiatives, which often call for exceptions to established norms, must be seen to receive vigorous, tie-breaking support from senior managers. In others, in-country staff may be bound by the priorities and procedures that flow from headquarters, leaving them little flexibility to align with the country's priorities.

In addition, there is a risk that establishing multiple memoranda of understanding and other local group procedures, or creating a number of delegated cooperation arrangements, important as such activities 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.

Box 17. Incentives for Harmonisation and Alignment

A September 2004 study^a examined how internal incentive systems in both bilateral and multilateral aid agencies influence harmonisation and alignment efforts.

At the *political* level, the efforts and commitment of 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, 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 as well as alignment more difficult on the ground; and insufficient human and financial resources have been devoted to the harmonisation cause. At the *individual* level, although agencies are providing increasing levels of training as well as informal incentives (mainly peer recognition), harmonisation and alignment criteria hardly ever feature in recruitment policies, staff performance assessments, and promotion systems. Therefore, the overall picture shows a certain degree of disconnect between high-level declarations and the challenges of providing adequate additional incentives to bring individual behaviour in line with harmonisation and alignment objectives. Staff members often face conflicting signals that can undermine harmonisation and alignment efforts.

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

- Enhancing positive incentives and removing negative incentives at all three levels—political, institutional, and individual. An example would be building harmonisation into criteria for promotion or recruitment.
- Strengthening the link between headquarters and field offices so that the organisation as a whole can effectively use the wealth of country-level experience on harmonisation.
- Strengthening existing international mechanisms to make them more effective in the adoption and monitoring of common approaches for harmonisation.
- Ensuring that the high short-run costs of harmonisation and alignment are fully funded.

^a *Incentives for Harmonisation in Aid Agencies*, issued by the DAC Working Party on Aid Effectiveness, was prepared by the Overseas Development Institute, financed by UK-DFID, Swiss Development Cooperation, and the World Bank, November 2004.

V. 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 programmes 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 harmonisation 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.

When the Monterrey Consensus established a shared responsibility to achieve better development results,⁴⁶ many in the development community may have been a little surprised. After all, donors had always been concerned with the performance of their projects, and consistently evaluated the outputs of the funding they provided. However, what the Monterrey participants meant was a broader and deeper kind of results: not so much how many clinics are built, but whether mortality rates are falling; not how many schools are built, but how many children receive an education; not how many dollars are loaned to a country, but whether the country has less poverty. For many in the development community, thinking about aid in this way meant a profound shift in orientation.

Managing for Results. This shift in orientation was the genesis of the agenda on managing for results—which simply means managing and implementing aid in a way that focuses on the desired results and uses information to improve decision making. The aid effectiveness pyramid in Chapter 1 showed 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 harmonisation and alignment are not ends in themselves; rather, they are tools to help achieve sustainable results on the ground, and a focus on results must be integral to them. Previous chapters have mentioned many aspects of managing for results in the context of ownership, alignment, and harmonisation. This chapter looks separately at the managing for results agenda, providing a consolidated summary of what has been achieved, what challenges lie ahead, and where improvements in the focus on results are needed.

A. THE GLOBAL AGENDA ON MANAGING FOR DEVELOPMENT RESULTS

Because the managing for results movement is somewhat more recent than the harmonisation and alignment movement, it has fewer concrete achievements to record. Nonetheless, something of

⁴⁶ 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>.

tremendous importance has been accomplished: since Monterrey a community of practice on managing for development results has emerged that has worked through international roundtables,⁴⁷ discussions, and exchanges of ideas to lay the conceptual foundations for the agenda (see Box 18). In addition, bilateral and multilateral donors have formed the Joint Venture on Managing for Development Results, under the DAC Working Party on Aid Effectiveness, to continue efforts in this area. Partner countries and donors are converging around these core principles as they increase their results focus.

Areas for Action. The global results agenda calls for actions at three levels. Countries need to strengthen their capacity to manage for, and achieve, development results; donors need to work internally to use their assistance programmes to more effectively support countries in achieving results; and the donor community needs to work together to share knowledge, harmonise policies and reporting requirements, and coordinate support for country capacity to manage for results.

Box 18. Promoting a Harmonised Approach: Principles on Managing for Results

The Joint Marrakech Memorandum outlined a set of principles for a harmonised as well as aligned 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 donors and partner countries on how best to manage for results, and ultimately get better results for sustainable improvements in the lives of poor people.

The principles:

- Focusing the dialogue on results at all phases of the development process—from strategic planning through implementation to completion and beyond.
- Aligning actual programming and monitoring and evaluation activities with the agreed expected results.
- Keeping the results reporting system simple, cost-effective, and user-friendly.
- Managing for, not by, results.
- Using results information for management learning and decisionmaking, as well as for reporting and accountability.

B. EARLY PROGRESS IN MANAGING FOR DEVELOPMENT RESULTS

Having laid the conceptual foundation for the global results agenda, over the past two years the development community has moved into the implementation phase. Progress has been made in all three areas.

1. COUNTRY PROGRESS

Today it is widely understood that countries, and their policies and institutions, are the key drivers of development outcomes—that is, that unless countries themselves lead development efforts, external assistance will prove ineffective. Thus the first area of action in the global results agenda is at the country level. As short as the agenda's implementation phase has been, there is evidence that managing for development results is taking hold in partner countries.

⁴⁷ See proceedings of the First Roundtable on Better Measuring, Monitoring, and Managing for Development Results, Washington, D.C., June 5-6, 2002; and the Second Roundtable on Managing for Development Results, Marrakech, Morocco, February 4-6, 2004: <http://www.managingfordevelopmentresults.org>.

Strategy and Planning. For countries, managing for development results begins with identifying national goals and developing the strategies to achieve them. For low-income countries, the PRS is a common platform for defining the outcomes they want to achieve and the strategies to attain these results. Middle-income countries have no common platform, but most set out national development strategies. It is true that the results orientation of many of these strategies is still weak. However, countries such as Bangladesh, Nepal, Sudan, Timor Leste, and Vietnam are making progress in linking the PRS or development strategy to results-based expenditure management and performance orientation in public administration, and central and line ministries are developing more results-focused strategies accompanied by results frameworks to monitor progress. As another example, in Ethiopia, strong sector strategies in health and education have helped in setting a well prioritized and costed PRS programme.

Public Expenditure Management. Governments use the budget to reconcile competing policy objectives and their implementation in concrete terms. As governments move toward a results focus, they need to implement a budget strategy that ties annual budgets to national plans or poverty reduction strategies. Some more advanced countries (Brazil, Philippines, South Africa, Thailand, Uganda, Vietnam) are forging increasingly strong links between expected results and budget and medium-term expenditure processes. In all countries, though, there are pockets of innovation where the principles of managing for results are being applied—perhaps in a line ministry, in a programme, or in cross-cutting themes.

Results-Based Monitoring and Evaluation Systems. Results-based monitoring and evaluation (M&E) is a public management tool—it yields information that can be used both to manage ongoing policies, programmes and projects better and to demonstrate progress to citizens. It links actions with desired country outcomes, showing the extent to which one contributes to achieving the other. M&E systems depend on careful definition of objectives and identification of indicators. As countries recognise the critical role of M&E in informing sound policy and programme decisions, they are developing strategies to improve their M&E systems (for example, Philippines and Vietnam).

Statistical Capacity. One of the most crucial aspects of managing for results is the ability to collect and use statistics. If countries cannot measure their baseline—for example, the number of people living in poverty, or the number of girls in school—and if they cannot measure the outcomes of interventions, they cannot manage for or demonstrate results. More importantly, they have no information on which to base the management of resources to achieve results. Thus developing the ability to collect and use statistics and data empowers countries as they seek to exercise stronger aid management leadership. Two kinds of data are needed: aggregate country statistics and indicators are important for international comparisons and for assessing country development performance over time; and more disaggregated and timely information is needed for ongoing management of ministries and programmes, and for accountability. The increased resources needed to help countries strengthen their statistical systems and reporting mechanisms will only happen through effective international partnership. At Marrakech the statistical community set out an Action Plan on Better Data for Better Results, focusing at the national level on mainstreaming strategic planning of statistical systems, preparing for the 2010 census round, and increasing financing for statistical capacity building.⁴⁸ Since then, programmes for statistical capacity development have started in Burkina Faso and Ukraine, and other countries—Albania, China, India, Kenya, Nigeria, and Yemen, for example—are finalising strategic plans.

⁴⁸ The Action Plan also has an international focus: setting up an International Household Survey Network, improving MDG monitoring, and increasing accountability for the international statistical system.

2. DONOR PROGRESS

Donors do not achieve development outcomes directly through their individual actions; for them, success depends on effectively deploying assistance in countries and in programmes that deliver, and on influencing country policies and programmes—often at a distance. This means that it is inherently hard to assess a donor’s contribution to the achievement of country outcomes—and, indeed, to design assistance programmes to maximise that impact. Thus donors are working to be more relevant and effective partners by strengthening the focus on results in their strategies, instruments, incentives, and reporting systems.

Results-Based Country Programming. Many donors are using results-based country programming to improve their alignment to country strategies—deriving country programming directly from the results specified in the partner country’s PRS (or equivalent process), and linking their support to the partner’s MTEF. The MDB/OECD-DAC Joint Venture on Managing for Development Results is analysing emerging practices for future dissemination. (Box 19 presents the general principles for results-based country programming.)

Operational Products and Services. Important as strategies and programming are, by themselves they do not achieve results. But if the individual operations that donors fund are to achieve results, they must be of high quality, relate to the country strategy, and have synergies with other operations. Many donors, including the MDBs, are giving greater attention to the quality and impact of their operations through enhanced monitoring and evaluation and portfolio management.

Results-based Aid Allocation. Another results-related issue for donors is taking account of results in aid allocations. The Joint Venture on Managing for Development Results commissioned a study of how donors are approaching this issue. A few are experimenting with formal models to inform their aid allocation, with a performance-based approach that also takes account of factors such as poverty and population. The objective is not that allocation decisions should be made according to these models but that those making allocation decisions should be informed by the norms that emerge from the models. In a co-ordinated effort, the Learning and Advisory Process on Difficult Partnerships of the DAC commissioned studies on allocations of aid to fragile states in the context of the same overall performance-based approach. One common finding from these studies is that some partner countries with strong performance have attracted so much aid from so many donors that the aggregate far exceeds what performance-based norms would suggest. At the other extreme, some fragile states with weak performance attract so little aid from so few donors that they become “donor orphans”, with aggregate aid falling well below the performance norms. This then raises a related issue of how these apparent imbalances should be addressed, whether at the level of individual donors or the overall system of aid architecture. However, the findings, and others that have emerged, are preliminary and require verification through further analysis and debate.

Incentives. The lessons of change management programmes suggest that when management systematically focuses its attention on an issue—for example, through corporate reporting—the signals to staff follow. In most donor agencies, management is demonstrating its interest in and commitment to the results agenda. At the same time, as in the case of harmonisation and alignment, donors need to identify and correct disincentives that staff may perceive in human resources and budget policies, ensure that there is adequate capacity for staff to draw on in implementing the results focus at the country level, and provide appropriate incentives and support, including effective staff guidance and training and supportive information technology systems. As one incentive approach, DFID has introduced links between senior management’s pay and certain results.

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 donors have been upgrading their aid effectiveness work and strengthening their corporate reporting; for example, both the African Development Bank and the Asian Development Bank are building on the recently developed IDA14 Results Measurement System to guide their own corporate reporting.⁴⁹

Box 19. Results-Based Country Programming

Results-based country programming can be a powerful tool to improve strategic selectivity, enable a 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 programme can improve teams multi-sectoral 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:

- 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.
- 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.
- 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.
- Support strengthening country capacity to measure, monitor, and manage for results.
- Within aid agencies and governments, strengthen the internal incentives for moving toward results-based country strategies, including performance incentives, skills upgrading, and team working, 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. These principles 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).

⁴⁹

The IDA14 Results Measurement System will assess results at two levels. Tier 1, which consists of 14 outcome indicators that are closely related to the MDGs and outcomes identified in MDGs, will monitor trends in "big picture" outcomes to which IDA14 contributes. Tier 2 will monitor measures of operational performance that are under the direct control of IDA staff and management. See *IDA Results Measurement System: Recommendations for IDA14*, June 2004, available at <http://web.worldbank.org/>.

3. PROGRESS TOWARD A GLOBAL PARTNERSHIP

The Monterrey Consensus spurred a global partnership for results that has been changing the way partner countries and donors work together. Fostering this global partnership is an important element of the donors' commitment to manage for development results, and has become a key part of each donor's results agenda. As a result, donors are making a more systematic effort to identify actions that produce results, scale up support for what works, ensure the availability of basic data to steer toward shared goals, and converge in their approaches to managing for development results. Global dialogue on country outcome monitoring is leading to harmonisation of donors' and partners' approaches, policies, and procedures, thus reducing the costs to partner countries of dealing with the aid agencies. Donors are addressing the challenge of coordinated support for capacity building and collaborative design, monitoring, and evaluation of operations.

Sharing Knowledge on What Works. Donors recognise the importance of drawing international lessons from what works and what doesn't, and disseminating this information broadly. The MDB/OECD-DAC Joint Venture on Managing for Development Results provides one forum in which participants share emerging practices and learn from each other and from partner countries, to help them harmonise their operational policies and procedures and coordinate their support for country capacity building. A Sourcebook on Emerging Good Practice in Managing for Development Results is being prepared to capture this experience and make it available worldwide. Another valuable opportunity for discussing experiences was the four regional workshops that took place in October/November 2004.⁵⁰

Harmonisation around Results Reporting. As aid agencies align their cooperation strategies to country priorities, they must also harmonise their results reporting requirements around national monitoring and evaluation systems that help countries to manage for results. For example, in countries such as Mozambique donors are using the country's performance monitoring frameworks to report on budget support, or are using agreed results frameworks for reporting on programme support, especially in SWApS. Such efforts allow donors to evaluate the feasibility of relying on a country's M&E systems and assess what capacity building efforts are needed. Through the Evaluation Cooperation Group,⁵¹ the MDBs have worked to harmonise 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. If partner countries are to strengthen their strategic planning, analytic, statistical, and M&E capacity, they will need more, and better coordinated, support. Donors increasingly recognise that strengthening capacity in these essential areas should not be an afterthought, but rather a central component of their cooperation strategies. Donors are beginning to work together to assess the monitoring and evaluation setting in country and align their capacity-building support to a national strategy on M&E—but this work is in its infancy.

C. CHALLENGES AND THE WAY FORWARD

Despite some good progress in managing for results, a complex and demanding implementation agenda lies ahead that requires medium-term institutional development at the country level, systems development and a continuing evolution in mind-set within donors, and an easing of constraints to

⁵⁰ See Annex 2: Summary Note on Regional Workshops on Harmonisation, Alignment and Results.

⁵¹ The Evaluation Cooperation Group was set up in 1996 to strengthen collaboration on and harmonisation of evaluation work among the MDBs' evaluation units.

harmonised action among agencies. A number of challenges need to be addressed to fully implement the results agenda.

Partner Countries. The success of the global results agenda depends on partner countries' willingness and ability to manage for results. This in turn is determined by countries' institutional capacity—which in many cases is still insufficient. In the area of strategy, PRSs and equivalent documents are not always adequately focused on results: they often fail to prioritise; they inadequately assess trade-offs among development options; they lack cost-benefit analysis for making strategic decisions on investments; and they are not always aligned to a public expenditure review or to the capacity of the budget to deliver resources to finance proposed programmes and projects. Finally, there are many weaknesses in countries' statistical systems, so results cannot be adequately monitored and evaluated and lessons drawn for the allocation of resources to future programmes to achieve better results. Donors will need to intensify their support for strengthening countries' capacity to integrate a focus on results into their own strategy formulation and public sector management. In addition, civil society will need to participate in the development process and continue its demand for greater accountability for results.

Donors. Donors need to continue, and expand, their efforts to align their country programmes to the results frameworks and medium-term budget frameworks set out in country strategies. All donors need to fully incorporate results frameworks in their country assistance programmes and strengthen the associated M&E systems. They will also need to move beyond country strategies and programmes to focus on results in global, regional, and sectoral programmes. If donors are to become more effective institutions for delivering development services to partner countries, they need to strengthen their results-based thinking. The essential change is a change in mind-set—from focusing on programming inputs and then analysing their likely impacts, to focusing on the desired outcomes and then identifying what inputs and actions are needed to achieve them.

Global Development Community. Donors as a group need to understand that fragmented and uncoordinated assistance to partners that is not focused on a careful assessment of likely results is counterproductive. If donors are to rely on the capacity of partner countries to monitor and assess progress toward results, they will need to provide coordinated support for strengthening national monitoring mechanisms and statistical institutions. The progress in harmonising evaluation methodologies and engaging in joint design, supervision, and evaluation should be widened to encompass harmonisation of results reporting around national monitoring and evaluation systems, as well as a better understanding of what works and what doesn't in the focus on results. In all this, partner countries and donors need to work together.

Priorities. Going forward, donors' and partners' first priority should be to continue emphasising the need for partners and donors to focus on results in planning and implementing development programmes. The second should be to agree that the documentation for all assistance programmes should include a results framework that sets out the anticipated results and the pathway to those results. Third, partners and donors should commit to strong support for building statistical and M&E capacity in partner countries.

VI. CONCLUSION AND WAY FORWARD

The emerging picture shows progress in implementing the commitments made in Rome and Marrakech. In the past several years, many development agencies and partner countries—low-income countries, middle-income countries, and fragile states—have begun to give high priority to improving the management of aid. As this report reflects, they have made progress in focusing aid more on the goals and activities set forth by partner countries, and they are continuing their efforts to reduce duplication and conflicts in the policies, procedures and processes by which such assistance is programmed, delivered, assessed, monitored, and evaluated. There has also been progress in defining broadly acceptable international criteria in areas such as public financial management and procurement, which will contribute to mutual accountability for the use and outcomes of donors' and partners' development funds.

Continuing Efforts Needed. Compared to just two years ago, the scope and geographic coverage of activities to meet the Rome and Marrakech commitments are impressive. However, it is clear that much more needs to be done to sustain the momentum and apply the developing good practices more deeply and systematically. Bilateral and multilateral donors, working with country partners, still need to make a considerable and collective effort to scale up harmonisation and alignment and managing for development results to maximise aid effectiveness. At the same time, partner countries still need to exercise leadership by improving transparency and good governance, accelerating progress on reforms, and strengthening capacities of public systems of fiduciary management and of monitoring and evaluation.

A. HIGH-LEVEL ATTENTION

As participants in the Rome and Marrakech meetings recognised, sustained high-level attention is essential to ensure that the momentum for these ambitious global change agendas does not stall.

Partner Countries. In each partner country, the highest levels of officials must take concrete action to exercise real leadership of its development process—set goals, develop a results-based strategy for growth and poverty reduction, secure broad buy-in by stakeholders in the country, and then coordinate the efforts of donors to support the strategy. These officials will also need to lead the hard work of reforming or strengthening their country's systems for financial management, procurement, and environmental and social assessment so that they will meet common acceptable standards; donors—and more importantly, the countries themselves—will then be able to rely on these systems to use development funds appropriately. To pursue harmonisation, alignment, and results implementation, countries and donors will need a deepened knowledge of their mutual aid relationship, the costs and benefits of the work, and the approaches and sequences that would be most effective.

Donors. Among donor institutions, few have put in place effective training programmes, procedures, resources, and incentives to support and encourage needed changes in staff behaviour. For example, there are generally no systems of incentives yet in place at either the institutional or individual level, to encourage initiating and sustaining meaningful action. Rather, many aid agencies still have in place arrangements that discourage, often unintentionally, the approaches and behaviours

necessary to meet Rome and Marrakech commitments. There is a need to update these arrangements, including codified requirements, in order to provide operational flexibility and delegated authority, especially to field-based staff for harmonisation and alignment. To deepen implementation of these agendas, donors' senior officials will need to lead their institutions in a range of areas:

- Narrowing the communication gap between the headquarters policy managers, agency operations staff, and field-level staff, and improving the feedback loop between and among them. Progress cannot be deepened unless the emphasis on country-level implementation is matched with clarity of policy, provision of policy guidance, delegation of authority to act, and establishment of clear lines of communication within the agencies so that field-level staff are empowered to be proactive within the full limits of their agency mandates and policy frameworks.
- Deepening the understanding and learning of headquarters, regional, technical and field-level operations staff. This will require additional investment in training, knowledge management, and dissemination.
- Deepening the change management agenda promoting supportive behavioural and cultural change, setting appropriate monitoring indicators and carrying out follow-up action.
- Deepening the partnership between donors in both bilateral and multilateral agencies working on these issues, building on the relationships and experience developed in recent years, and sharing it with emerging donors as they embrace these international agendas in their programmes.

Both Partners and Donors. Senior development officials in partner countries and donors must share an understanding that this work is not easy. On all sides it requires nothing less than a change in mind-set, a revolution in many of the old ways of doing business. Achieving harmonisation, alignment, and managing for results will continue to require intensive work among participants - in the donor community and in partner countries - that typically is costly and unfunded in the short run, yielding benefits and rewards only in the medium to long term. Ultimately, sustained action is influenced by a complex set of incentives operating at the political, institutional, and individual levels. For donors, for example, incentives operate on their relations with partners and other donors; and among and within different parts of their agencies, especially field offices and headquarters; and with their environment (parliaments, audit bodies, advocacy lobbies, and so on). For partner countries, incentives operate within governments and in their relations with other national stakeholders. Making substantive progress after the Paris High-Level Forum will depend very much on whether efforts are appropriately funded and on whether these incentives work for the aid effectiveness agenda and not against it. And finally, accountability: partners will need to deepen their accountability to the people and to their legislative authorities, and donors will need to deepen their accountability to support and not undermine this process through their assistance programs.

B. ACTIONS GOING FORWARD

Overall, then, the picture on progress is mixed, with both promising immediate and potential opportunities and given the remaining obstacles in donor and partner institutions, significant risks. Indeed, one particular risk is that the “clutter” of multiple processes on harmonisation, alignment, and managing for results may generate a growing number of discussion groups, consuming more and more time and generating more “noise” rather than positive impact at the country level. Progress is vital in order to improve and increase public confidence in the effectiveness of development cooperation. The challenge going forward is to find ways to direct the building momentum for change to a few “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.

Paris Declaration. The participants in the Paris High-Level Forum have indicated their commitment to further the work of harmonisation, alignment, and managing for results, and they expect to signal this commitment in a major statement, the Paris Declaration. An integral part of the Paris Declaration will be a series of Partnership Commitments and Objectives - the high-value operational goals called for in the previous paragraph. These operational commitments and goals will be set out under four general headings: ownership, alignment, harmonisation, results and mutual accountability. The Declaration will also set a date for the next high-level forum, to be held in a developing country to take stock of implementation progress.

Monitorable Actions and Indicators. When work on the harmonisation and alignment agenda began to be “globalised” through the increasingly collaborative MDB and DAC processes around 2000/2001, the goals were less precise, the consensus more fragile, and instruments and modalities for implementation more limited than they are today. Since the Rome High-Level Forum, substantial work has been undertaken to develop, test, and undertake the initial survey work for a set of country-level indicators of progress in implementing harmonisation and alignment actions. Given the centrality of country-level implementation, the importance of that work should be recognised - particularly as the country-level indicators have not only measured progress but have also served, in a number of countries, as a framework for government and local donor groups to consider what actions are important. A major advance expected from the Paris Forum is endorsement of a set of monitorable actions for which there will be indicators that are measured at country level and monitored at global level, including those that are specific to individual donor agencies. Indicators would be proposed to monitor implementation progress, with time-bound quantitative targets, and with qualitative ones measuring progress over time. Indeed this in itself will be a concrete measure of the progress made over recent years. The donor and partner country representatives that endorse the Paris Declaration are expected to commit to develop and use both the existing country-level indicators and additional country and global/agency-level indicators that capture more precisely the expected behaviour, processes and outcomes improving aid effectiveness, at all levels of the aid system, and encourage and measure progress toward them.

C. INSTITUTIONAL FRAMEWORK

Looking forward to the serious work that will need to be carried forward after the Paris Forum, it is important to consider what appropriate institutional framework will have the capacity to promote, facilitate, and monitor implementation. Following the Rome Forum, the DAC Working Party on Aid Effectiveness—including the traditional DAC members, the Bretton Woods institutions (IMF and World Bank), the regional development banks, UNDP and members of the UNDG, and 14 partner countries - was set up with a mandate to promote, facilitate, and reporting on progress. The bilateral/regional/multilateral/and national participation on this scale was a critical institutional innovation and set the stage for a strong and evolving partnership that served several aspects of the post Rome agenda well; therefore, there are compelling arguments for maintaining its basic elements and building others within the Working Party that can help to support a monitorable action-oriented implementation agenda after Paris and achieve greater and faster progress before the next HLF. This framework will need to be flexible and adaptable to deal with a much larger and varied group of countries—which could include all those countries where harmonisation, alignment, and results work is taking place, the nearly 50 countries that come under the rubric of fragile states, and, further down the road, emerging donors—as well as increasing involvement of global programmes. Most importantly, the institutional framework for implementation will need to recognise and encourage the power of country-led initiatives supported by well-functioning government/donor mechanisms,

informed and empowered by clear directives from headquarters and knowledge of cross-country lessons learned, and motivated by appropriate incentives.

Coalitions and Communities of Practice. Besides the formal institutional framework, there is a need for coalitions of champions - communities of practitioners - to help facilitate and deepen the agenda. Since the Rome Forum, a few communities of development practitioners have made harmonisation a centrepiece and have aligned key pillars of their pragmatic efforts to improve the impact of their development work. Most of these communities are informal, international groupings of professionals from bilateral and multilateral agencies - joined voluntarily by common interests rather than institutional compulsion - in areas such as education, rural development, financial management,⁵² and procurement, and program-based approaches. They represent a largely untapped reservoir of potential change agents with considerable motivation, valuable skills, and close proximity to front line service delivery.

D. CONCLUSION: A UNIQUE OPPORTUNITY

The preface to this report placed the harmonisation, alignment, and managing for results agenda in the broader context of aid effectiveness, the Monterrey Consensus, and international work to achieve the MDGs. Five years ago, following the Millennium Summit, the international community planned to reconvene in 2005 to look at progress in the MDGs. At Monterrey, an understanding was also reached that the timing and modalities for the review of its consensus would be determined in 2005. The Rome Forum agreed to have a follow-up stocktaking meeting in 2005. In Marrakech, participants were encouraged to seek their agencies' and governments' support for the action plan in 2005. Thus the year 2005 has been planned to focus international high-level attention on these issues in an interconnected way—what progress is being made on meeting explicit targets for MDGs; how much more aid is needed; how it should be delivered; and how it can be managed for better development results.

Time to Act. Nobody could have predicted that the Paris Forum discussions would take place against the backdrop of a tsunami and the global effort to deal with its aftermath. But the unprecedented scale of global humanitarian assistance being provided in the wake of the disaster, the need to address immediately issues relating to the restoration of livelihoods, plan for the likely large-scale reconstruction assistance to come and for broader development, serve to underline the critical importance of effective delivery and management of aid with a focus on results, even under crisis conditions.⁵³ The uniqueness of 2005 therefore makes it a time for action. History will not be kind if, despite the consistency of political support, solid analytic work, global consensus on what needs to be done, and a ready-made and functioning international institutional framework, the international community fails to deepen the harmonisation, alignment, and results implementation process and make its mark in contributing to the achievement of the MDGs.

⁵² Harmonisation in Overseas Audit Practices led by several Supreme Audit Institutions mentioned in para. 64 is a good example of such a group; others are SPA and the learning networks for program approaches (LENPA) and capacity development (LENCDD).

⁵³ The general principles of harmonisation, alignment and results dealt with here and in the other background papers for the Paris High Level Forum contain much that applies directly to both humanitarian assistance and long-term development co-operation in disaster-stricken areas. Also, the 1994 DAC "Guidelines for Aid Agencies on Disaster Mitigation" remain highly relevant. The DAC has recently begun to include humanitarian relief in its Peer Review Process based on the Principles of Good Humanitarian Donorship approved in Stockholm in 2003. The DAC will also consider, jointly with the UN, ways to improve the tracking of aid pledges made in response to disasters.

ANNEX 1

INTERNATIONAL COMMITMENTS

- Excerpt from the Monterrey Consensus
- Rome Declaration on Harmonisation
- Joint Marrakech Memorandum

MONTERREY CONSENSUS

INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT (MARCH 2002)

EXCERPT ON MAKING AID MORE EFFECTIVE (paragraph 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.

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).

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

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.

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 emphasises 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

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

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 incountry 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.

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.

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.

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

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.

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.

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)

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.

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.

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.

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.

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.

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.

ANNEX 2

SUMMARY NOTE ON REGIONAL WORKSHOPS ON HARMONISATION, ALIGNMENT AND RESULTS

In preparation for the Second High-Level Forum in Paris, four Regional Workshops were held on Harmonisation, Alignment and Results. Workshops were planned in order to ensure a balance between harmonisation, 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 harmonisation 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).
- Africa - Dar-es-Salaam, Tanzania (9-11 November 2004).
- Middle-East – Jeddah, Saudi Arabia (8-9 February 2005).⁵⁴

A brief summary on each of these workshops is provided below:

ASIA REGIONAL WORKSHOP - BANGKOK, THAILAND

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 countries,⁵⁵ 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 programme in Vietnam.

⁵⁴ A summary will be available after the workshop.

⁵⁵ Countries invited included Afghanistan, Bangladesh, Cambodia, Fiji, Indonesia, Lao PDR, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Sri Lanka, Thailand, Timor Leste, and Vietnam.

The workshop, was well received by partner government officials, and deepened the involvement of partner countries' officials in the international harmonisation 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.

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

The LAC Regional Workshop on Harmonisation, 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 countries,⁵⁶ 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.

Subsequent sessions on the following days included country case presentations on harmonisation 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.

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 harmonisation 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.

⁵⁶ Member countries included: Bolivia, Chile, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, and Peru.

CENTRAL ASIA REGIONAL WORKSHOP - BISHKEK, KYRGYZ REPUBLIC

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, Kyrgyz Republic. 85 participants attended the workshop from partner countries,⁵⁷ bilateral and multilateral agencies, and civil society.

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.

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 harmonisation 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.

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.

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 organisations.

AFRICA REGIONAL WORKSHOP - DAR ES SALAAM, TANZANIA

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 countries,⁵⁸ 32 multilateral and bilateral aid organizations, and 10 civil society organizations. The 2½ day programme 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

⁵⁷ Member countries included: Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.

⁵⁸ 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.

subnational levels with cases from Uganda, Malawi, Kenya, Mozambique; and achieving PRSP results in the region. Participants emphasized that they do not consider harmonisation, alignment, and managing for results as ends in themselves, but rather as important tools for achieving an enhancement of aid 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.

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 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

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.

ANNEX 3

DAC PEER REVIEWS AND HARMONISATION AND ALIGNMENT - OVERVIEW AND FINDINGS IN 2004 -

I. INTRODUCTION

As agreed by the Working Party on Aid Effectiveness and Donor Practices and its Task Team on Harmonisation and Alignment (H&A), DAC Peer Reviews are used as one instrument for reporting on progress in implementing the Rome commitments. A tracking exercise was introduced in 2003 as a first attempt and on-going efforts are being made toward a systematic and structured approach of this issue in Peer Reviews.

Five Peer Reviews of DAC member countries are conducted each year. Since 2004, specific questions on the implementation of H&A principles have been introduced in the questionnaires and reviewed countries are asked to address this issue in their memorandum. During capital visits, extensive discussions on H&A are held with key actors in the national development co-operation system.

Furthermore, as part of the Peer Review process, eight to ten developing countries are visited each year. Discussions with the reviewed DAC member country representation, as well as meetings with donors on harmonisation issues and with partner governments on alignment and co-ordination issues are organised regarding the implementation of the Rome commitments at local level. This generates insight on how the collectivity of donors and the partner government work together and supports an assessment of the performance of the reviewed donor in that context.

II. MAIN FINDINGS IN 2004

These elements inform both Peer Review reports and DAC discussions. In addition, a comparative approach can be built on the basis of the findings of each Peer Review. This annex provides an overview of the main findings on H&A in the Peer Reviews of France, Italy, Austria, Norway and Australia undertaken in the course of 2004. In addition to visits to headquarters for these five Peer Reviews, field missions were conducted to nine countries: Benin, Mauritania, Mozambique, Tunisia, Nicaragua, Bosnia & Herzegovina, Zambia, Papua New Guinea and Cambodia. Four of these countries (Mozambique, Nicaragua, Zambia and Cambodia) belong to the group of 14 partner countries associated to the Task Team on H&A. This overview is structured according to the three principle dimensions of the Rome Declaration, ownership, alignment and harmonisation.

Ownership: Among the nine partner countries visited, the four partners belonging to the group of countries associated to the Task Team on H&A were characterised by higher levels of ownership and thus were more advanced in implementing the Rome commitments as compared to non-Task Team partner countries. At the same time, donors are confronted with very different situations in terms of high/low levels of local ownership in partner countries, leading to very different roles/tasks the former have to take up. All Peer Reviews showed that if the partner country is not assuming responsibility and not taking up a strong leadership role in aid co-ordination and aid management, then the H&A process

becomes very difficult. In situations where partner countries are face low capacity and weak institutions, donors need to actively co-ordinate among themselves and strengthen partner country capacity. However, only a few examples of capacity building were found in the five Peer Reviews.

Alignment: As the five Peer Reviews show, alignment has taken place to varying degrees. While examples of good practice exist, explicit alignment to locally-owned development strategies has taken place in very few cases so far and needs to be strengthened. The Reviews stress the need for aligning all aid modalities, including projects, to national and sector strategies. They also highlight the fact that the adoption of a programme-based approach does not necessarily lighten the administrative burden that aid management poses on partner countries. Donors use different channels at the same time, from SWAPs and budget support to project aid and, as a result, transaction costs for donors and partner countries have not been reduced to a great extent. In addition, the trend towards new modalities means that field office staff increasingly consult with mostly higher level officials from partner countries' ministries and from other donor representatives in-country, with less and less involvement in day to day operations and hence the risk of losing touch with local conditions. Finally, none of the five donor countries has established substantive multi-annual funding commitments. As a consequence, in all five Peer Reviews, the DAC recommended increasing aid predictability through assessing the possibility of multi-year funding commitments consistent with the beneficiary country's programming cycle.

Harmonisation: Four out of five DAC member countries reviewed have produced draft action plans on H&A, which will become effective in 2005 at the latest. However, only one donor had set up formal focal points in order to systematically promote H&A at headquarters and in the field. Delegated or silent partnerships are used by two of the five donors and are considered by a third. Reviews show that a number of conditions are required to improve harmonisation. Adequate decentralisation of authority to the field and enhanced human and financial capacities in field offices appear as key factors to implement harmonisation and ensure aid effectiveness. Furthermore, an organised and responsive system of communication and information sharing between headquarters and the field is required for further progress, and experience from the field should be more systematically taken into account at headquarters and at the international level. The deeper dialogue and closer co-ordination with partners and other donors within the framework of national poverty reduction strategies and programme approaches call for a different set of skills to that required for project implementation. Field offices must therefore be equipped with adequate authority and staff capacity for implementing H&A. However, only two donors have begun to offer staff training which explicitly takes into account H&A issues. Donors should also concentrate their support in a limited number of partner countries and sectors in order to increase results/impact and reduce transaction costs. Finally, DAC member countries should establish monitoring systems in order to measure progress in H&A.

III. FUTURE PROSPECTS

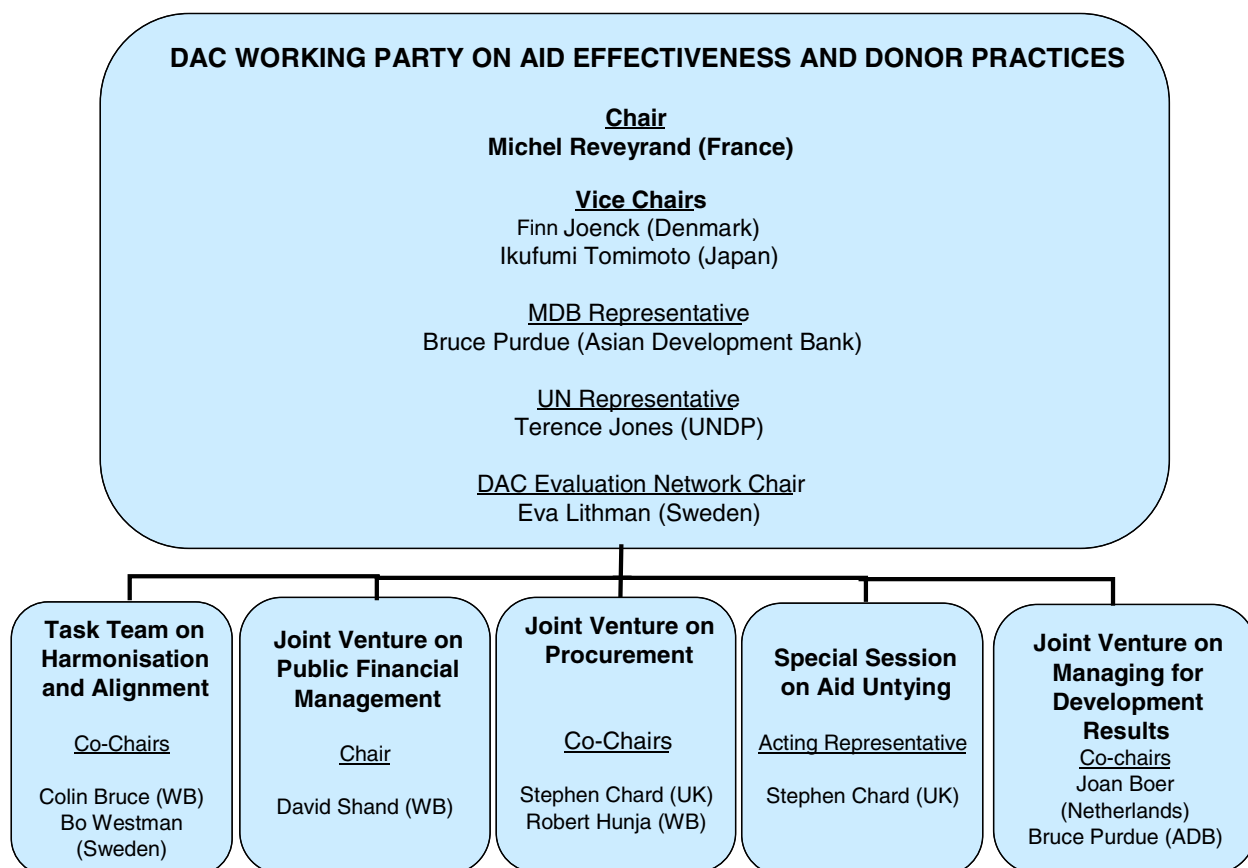
As one instrument for reporting on progress in implementing the Rome commitments on harmonisation and alignment, the 2004 Peer Reviews have shown that they can:

- Gather information from DAC member countries reviewed and from some partner countries in a structured way.
- Provide feedback on the progress of the country reviewed in H&A through Peer Review reports and DAC meetings, as well as through annual synopsis reports on progress toward H&A.

ANNEX 4

DAC WORKING PARTY ON AID EFFECTIVENESS AND DONOR PRACTICES

ORGANISATION CHART (as of March 2005)



ANNEX 5

PARIS DECLARATION ON AID EFFECTIVENESS

Ownership, Harmonisation, Alignment, Results and Mutual Accountability

I. STATEMENT OF RESOLVE

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

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

SCALE UP FOR MORE EFFECTIVE AID

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

- Strengthening partner countries' national development strategies and associated operational frameworks (e.g. planning, budget, and performance assessment frameworks).
- Increasing alignment of aid with partner countries' priorities, systems and procedures and helping to strengthen their capacities.
- Enhancing donors' and partner countries' respective accountability to their citizens and parliaments for their development policies, strategies and performance.

- Eliminating duplication of efforts and rationalising donor activities to make them as cost-effective as possible.
- Reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner countries' priorities, systems and procedures.
- Defining measures and standards of performance and accountability of partner country systems in public financial management, procurement, fiduciary safeguards and environmental assessments, in line with broadly accepted good practices and their quick and widespread application.

We commit ourselves to taking concrete and effective action to address the remaining challenges, including:

- i. Weaknesses in partner countries' institutional capacities to develop and implement results-driven national development strategies.
- ii. Failure to provide more predictable and multi-year commitments on aid flows to committed partner countries.
- iii. Insufficient delegation of authority to donors' field staff, and inadequate attention to incentives for effective development partnerships between donors and partner countries.
- iv. Insufficient integration of global programmes and initiatives into partner countries' broader development agendas, including in critical areas such as HIV/AIDS.
- v. Corruption and lack of transparency, which erode public support, impede effective resource mobilisation and allocation and divert resources away from activities that are vital for poverty reduction and sustainable economic development. Where corruption exists, it inhibits donors from relying on partner country systems.

We acknowledge that enhancing the effectiveness of aid is feasible and necessary across all aid modalities. In determining the most effective modalities of aid delivery, we will be guided by development strategies and priorities established by partner countries. Individually and collectively, we will choose and design appropriate and complementary modalities so as to maximise their combined effectiveness.

In following up the Declaration, we will intensify our efforts to provide and use development assistance, including the increased flows as promised at Monterrey, in ways that rationalise the often excessive fragmentation of donor activities at the country and sector levels.

ADAPT AND APPLY TO DIFFERING COUNTRY SITUATIONS

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

SPECIFY INDICATORS, TIMETABLE AND TARGETS

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

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

MONITOR AND EVALUATE IMPLEMENTATION

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

At the international level, we call on the partnership of donors and partner countries hosted by the DAC to broaden partner country participation and, by the end of 2005, to propose arrangements for the medium term monitoring of the commitments in this Declaration. In the meantime, we ask the partnership to co-ordinate the international monitoring of the Indicators of Progress included in Section III; to refine targets as necessary; to provide appropriate guidance to establish baselines; and to enable consistent aggregation of information across a range of countries to be summed up in a periodic report. We will also use existing peer review mechanisms and regional reviews to support progress in this agenda. We will, in addition, explore independent cross-country monitoring and evaluation processes – which should be applied without imposing additional burdens on partners – to provide a

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

more comprehensive understanding of how increased aid effectiveness contributes to meeting development objectives.

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

II. PARTNERSHIP COMMITMENTS

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

OWNERSHIP

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

Partner countries commit to:

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

Donors commit to:

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

ALIGNMENT

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

DONORS ALIGN WITH PARTNERS' STRATEGIES

Donors commit to:

- Base their overall support — country strategies, policy dialogues and development co-operation programmes — on partners' national development strategies and periodic reviews of progress in implementing these strategies³ (**Indicator 3**).

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

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

- Draw conditions, whenever possible, from a partner's national development strategy or its annual review of progress in implementing this strategy. Other conditions would be included only when a sound justification exists and would be undertaken transparently and in close consultation with other donors and stakeholders.
- Link funding to a single framework of conditions and/or a manageable set of indicators derived from the national development strategy. This does not mean that all donors have identical conditions, but that each donor's conditions should be derived from a common streamlined framework aimed at achieving lasting results.

DONORS USE STRENGTHENED COUNTRY SYSTEMS

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

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

Partner countries and donors jointly commit to:

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

Partner countries commit to:

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

Donors commit to:

- Use country systems and procedures to the maximum extent possible. Where use of country systems is not feasible, establish additional safeguards and measures in ways that strengthen rather than undermine country systems and procedures (**Indicator 5**).
- Avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes (**Indicator 6**).

- Adopt harmonised performance assessment frameworks for country systems so as to avoid presenting partner countries with an excessive number of potentially conflicting targets.

PARTNER COUNTRIES STRENGTHEN DEVELOPMENT CAPACITY WITH SUPPORT FROM DONORS

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

Partner countries commit to:

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

Donors commit to:

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

STRENGTHEN PUBLIC FINANCIAL MANAGEMENT CAPACITY

Partner countries commit to:

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

Donors commit to:

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

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

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

STRENGTHEN NATIONAL PROCUREMENT SYSTEMS

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

- Use mutually agreed standards and processes⁴ to carry out diagnostics, develop sustainable reforms and monitor implementation.
- Commit sufficient resources to support and sustain medium and long-term procurement reforms and capacity development.
- Share feedback at the country level on recommended approaches so they can be improved over time.

Partner countries commit to take leadership and implement the procurement reform process.

Donors commit to:

- Progressively rely on partner country systems for procurement when the country has implemented mutually agreed standards and processes (**Indicator 5**).
- Adopt harmonised approaches when national systems do not meet mutually agreed levels of performance or donors do not use them.

UNTIE AID: GETTING BETTER VALUE FOR MONEY

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

HARMONISATION

Donors' actions are more harmonised, transparent and collectively effective

DONORS IMPLEMENT COMMON ARRANGEMENTS AND SIMPLIFY PROCEDURES

Donors commit to:

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

COMPLEMENTARITY: MORE EFFECTIVE DIVISION OF LABOUR

Excessive fragmentation of aid at global, country or sector level impairs aid effectiveness. A pragmatic approach to the division of labour and burden sharing increases complementarity and can reduce transaction costs.

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

Partner countries commit to:

- Provide clear views on donors' comparative advantage and on how to achieve donor complementarity at country or sector level.

Donors commit to:

- Make full use of their respective comparative advantage at sector or country level by delegating, where appropriate, authority to lead donors for the execution of programmes, activities and tasks.
- Work together to harmonise separate procedures.

INCENTIVES FOR COLLABORATIVE BEHAVIOUR

Donors and partner countries jointly commit to:

- Reform procedures and strengthen incentives - including for recruitment, appraisal and training - for management and staff to work towards harmonisation, alignment and results.

DELIVERING EFFECTIVE AID IN FRAGILE STATES⁵

The long-term vision for international engagement in fragile states is to build legitimate, effective and resilient state and other country institutions. While the guiding principles of effective aid apply equally to fragile states, they need to be adapted to environments of weak ownership and capacity and to immediate needs for basic service delivery.

Partner countries commit to:

- Make progress towards building institutions and establishing governance structures that deliver effective governance, public safety, security, and equitable access to basic social services for their citizens.
- Engage in dialogue with donors on developing simple planning tools, such as the transitional results matrix, where national development strategies are not yet in place.
- Encourage broad participation of a range of national actors in setting development priorities.

Donors commit to:

- Harmonise their activities. Harmonisation is all the more crucial in the absence of strong government leadership. It should focus on upstream analysis, joint assessments, joint strategies, co-ordination of political engagement; and practical initiatives such as the establishment of joint donor offices.
- Align to the maximum extent possible behind central government-led strategies or, if that is not possible, donors should make maximum use of country, regional, sector or non-government systems.

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

- Avoid activities that undermine national institution building, such as bypassing national budget processes or setting high salaries for local staff.
- Use an appropriate mix of aid instruments, including support for recurrent financing, particularly for countries in promising but high-risk transitions.

PROMOTING A HARMONISED APPROACH TO ENVIRONMENTAL ASSESSMENTS

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

Donors and partner countries jointly commit to:

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

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

MANAGING FOR RESULTS

MANAGING RESOURCES AND IMPROVING DECISION-MAKING FOR RESULTS

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

Partner countries commit to:

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

Donors commit to:

- Link country programming and resources to results and align them with effective partner country performance assessment frameworks, refraining from requesting the introduction of performance indicators that are not consistent with partners’ national development strategies.
- Work with partner countries to rely, as far as possible, on partner countries’ results-oriented reporting and monitoring frameworks.
- Harmonise their monitoring and reporting requirements, and, until they can rely more extensively on partner countries’ statistical, monitoring and evaluation systems, with partner countries to the maximum extent possible on joint formats for periodic reporting.

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

- Work together in a participatory approach to strengthen country capacities and demand for results based management.

MUTUAL ACCOUNTABILITY

DONORS AND PARTNERS ARE ACCOUNTABLE FOR DEVELOPMENT RESULTS

A major priority for partner countries and donors is to enhance mutual accountability and transparency in the use of development resources. This also helps strengthen public support for national policies and development assistance.

Partner countries commit to:

- Strengthen as appropriate the parliamentary role in national development strategies and/or budgets.
- Reinforce participatory approaches by systematically involving a broad range of development partners when formulating and assessing progress in implementing national development strategies.

Donors commit to:

- Provide timely, transparent and comprehensive information on aid flows so as to enable partner authorities to present comprehensive budget reports to their legislatures and citizens.

Partner countries and **donors** commit to:

- Jointly assess through existing and increasingly objective country level mechanisms mutual progress in implementing agreed commitments on aid effectiveness, including the Partnership Commitments. (**Indicator 12**).

III. INDICATORS OF PROGRESS

To be measured nationally and monitored internationally

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

Indicators of Progress, continued.

		PERCENT OF DONORS	
		Score*	Target
5b	<i>Use of country public financial management systems</i> —Percent of donors and of aid flows that use public financial management systems in partner countries, which either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	5+	All donors use partner countries' PFM systems.
		3.5 to 4.5	90% of donors use partner countries' PFM systems.
		PERCENT OF AID FLOWS	
		Score*	Target
		5+	A two-thirds reduction in the % of aid to the public sector not using partner countries' PFM systems.
3.5 to 4.5	A one-third reduction in the % of aid to the public sector not using partner countries' PFM systems.		
6	<i>Strengthen capacity by avoiding parallel implementation structures</i> — Number of parallel project implementation units (PIUs) per country.	Reduce by two-thirds the stock of parallel project implementation units (PIUs).	
7	<i>Aid is more predictable</i> — Percent of aid disbursements released according to agreed schedules in annual or multi-year frameworks.	Halve the gap — halve the proportion of aid not disbursed within the fiscal year for which it was scheduled.	
8	<i>Aid is untied</i> — Percent of bilateral aid that is untied.	Continued progress over time.	
HARMONISATION		TARGETS FOR 2010	
9	<i>Use of common arrangements or procedures</i> — Percent of aid provided as programme-based approaches ⁶	66% of aid flows are provided in the context of programme-based approaches.	
10	<i>Encourage shared analysis</i> — Percent of (a) field missions and/or (b) country analytic work, including diagnostic reviews that are joint.	(a) 40% of donor missions to the field are joint.	
		(b) 66% of country analytic work is joint.	
MANAGING FOR RESULTS		TARGET FOR 2010	
11	<i>Results-oriented frameworks</i> — Number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategies and (b) sector programmes.	Reduce the gap by one-third — Reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third.	
MUTUAL ACCOUNTABILITY		TARGET FOR 2010	
12	<i>Mutual accountability</i> — Number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in this Declaration.	All partner countries have mutual assessment reviews in place.	

⁶ See methodological notes for a definition of programme based approaches.

Important Note: In accordance with paragraph 9 of the Declaration, the partnership of donors and partner countries hosted by the DAC (Working Party on Aid Effectiveness) comprising OECD/DAC members, partner countries and multilateral institutions, met twice, on 30-31 May 2005 and on 7-8 July 2005 to adopt, and review where appropriate, the targets for the twelve Indicators of Progress. At these meetings an agreement was reached on the targets presented under Section III of the present Declaration. This agreement is subject to reservations by one donor on (a) the methodology for assessing the quality of locally-managed procurement systems (relating to targets 2b and 5b) and (b) the acceptable quality of public financial management reform programmes (relating to target 5a.ii). Further discussions are underway to address these issues. The targets, including the reservation, have been notified to the Chairs of the High-level Plenary Meeting of the 60th General Assembly of the United Nations in a letter of 9 September 2005 by Mr. Richard Manning, Chair of the OECD Development Assistance Committee (DAC).

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

APPENDIX A:

METHODOLOGICAL NOTES ON THE INDICATORS OF PROGRESS

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

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

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

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

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

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

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

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

**APPENDIX B:
LIST OF PARTICIPATING COUNTRIES AND ORGANISATIONS**

PARTICIPATING COUNTRIES

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

* TO BE CONFIRMED.

PARTICIPATING ORGANISATIONS

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

CIVIL SOCIETY ORGANISATIONS

Africa Humanitarian Action	AFRODAD
Bill and Melinda Gates Foundations	Canadian Council for International Cooperation (CCIC)
Comité Catholique contre la Faim et pour le Développement (CCFD)	Coopération Internationale pour le Développement et la Solidarité (CIDSE)
Comisión Económica (Nicaragua)	ENDA Tiers Monde
EURODAD	International Union for Conservation of Nature and Natural Resources (IUCN)
Japan NGO Center for International Cooperation (JANIC)	Reality of Aid Network
Tanzania Social and Economic Trust (TASOET)	UK Aid Network

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- Joint Venture on Public Financial Management, chaired in sequence by Paul Bermingham and David Shand (World Bank).
- Joint Venture on Managing for Development Results, co-chaired by Bruce Purdue (Asian Development Bank) and Joan Boer (Netherlands).
- Joint Venture on Procurement, co-chaired by Stephen Chard (United Kingdom) and Robert Hunja (World Bank).
- Special Session on Aid Untying.

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ABBREVIATIONS AND ACRONYMS

AFD	Agence française de développement
AsDB	Asian Development Bank
AusAID	Australian Agency for International Development
CIDA	Canadian International Development Agency
CPIA	Country Policy and Institutional Assessment (World Bank)
CSO	Civil society organisation
DAC	Development Assistance Committee (OECD)
DFID	Department for International Development (United Kingdom)
EFA-FTI	Education for All-Fast Track Initiative
EIB	European Investment Bank
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EU	European Union
GFATM	Global Fund to Fight Aids, Tuberculosis and Malaria
GDLN	Global Development Learning Network
GTZ	Gesellschaft für Technische Zusammenarbeit (Germany)
HLF	High-Level Forum
HOAP	Harmonisation in Overseas Audit Practices
IDA	International Development Association
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JCLA	Joint country learning and assessment
JICA	Japan International Cooperation Agency
JSA	Joint Staff Assessment
KfW	Kreditanstalt für Wiederaufbau (Germany)
LICUS	Low-Income Country Under Stress
MDB	Multilateral development bank
MDG	Millennium Development Goal
MFI	Multilateral financial institution
MOU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
NFD	National Development Framework
NGO	Non-governmental organisation
NORAD	Norwegian Agency for International Development
NZAID	New Zealand Agency for International Development
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development

PAF	Performance Assessment Framework
PEFA	Public Expenditure and Financial Accountability
PFM	Public financial management
PGAE	Partnership Group on Aid Effectiveness
PIU	Project Implementation Unit
PRS	Poverty reduction strategy
PRSP	Poverty Reduction Strategy Paper
PRSC	Poverty reduction support credit
PSCAP	Public Sector Capacity Building Program
SIDA	Swedish International Development Agency
SPA	Strategic Partnership with Africa
SWAp	Sector-wide approach
TRM	Transitional Results Matrix
UN	United Nations
UNDP	United Nations Development Programme
UNDG	United Nations Development Group
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WFP	World Food Programme
WHO	World Health Organisation
WP-EFF	OECD/DAC Working Party on Aid Effectiveness and Donor Practices

BACKGROUND

In the Monterrey Consensus (March 2002), the global community affirmed the importance of development to the world's well-being. The Consensus called on developing countries to strengthen their commitment to policies and institutions that can stimulate growth, reduce poverty, and achieve the Millennium Development Goals (MDGs). It called on developed countries to provide more and better aid, as well as improved trade and debt policies. As part of the follow-up to Monterrey, at the High-Level Forum on Harmonisation in Rome (February 2003), donors further committed to align development assistance with partners' strategies and improve systems, harmonise donors' policies and procedures, and implement principles of good practice in development cooperation.¹ A year later in Marrakech (February 2004), the Heads of the multilateral development banks (MDBs) and the Chairman of the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD-DAC) affirmed their commitment to foster a global partnership on managing for results.² Together, these international agreements define key goals and objectives for the aid effectiveness agenda.

A Continuum of Efforts. Attention to harmonisation, alignment, and managing for results had begun before these agreements.³ By focusing heightened attention on these areas, the Monterrey, Rome, agreements spurred a vast expansion in activities aimed at improving aid effectiveness, to which the Marrakech agreement is also beginning to contribute. Even as the development community worked on implementing those commitments, the ground continued to shift: for example, new donors emerged, the number and importance of global programmes expanded, and increased attention was turned to fragile states as a specific challenge in efforts to increase aid effectiveness. This report looks

¹ To increase readability, this report uses “donors” to refer to bilateral donors and to international institutions providing development financing, concessional and non-concessional. Similarly while “development co-operation” better conveys a spirit of partnership and co-operation, the term “aid” is also frequently used in this report for purposes of brevity, to refer to both concessional and non-concessional assistance.

² The OECD-DAC endorsed the Marrakech Memorandum, including the Core Principles for Managing for Development Results, at the DAC High-Level meeting later in 2004. They agreed to aligning cooperation programmes with desired development results, to defining how aid is expected to contribute to them and to relying on and strengthening partner countries' monitoring and evaluation systems in order to track progress.

³ Various agencies had begun to explore the area in a range of countries: for example, the Strategic Partnership for Africa, launched in 1987, has provided a framework for the donor community to cooperate with African countries in pursuing development progress and reform; and the Utstein Group (comprising the ministers of international development from Germany, Netherlands, Norway, Sweden, and the United Kingdom) has collaborated for improved development effectiveness. The European Union committed at the Barcelona Summit in March 2002 to “reach concrete steps in the coordination of policies and the harmonisation of procedures before 2004”. The MDBs and the DAC established technical groups—including technical experts and representatives of partner countries—to work on issues such as donor cooperation, country analytic work, financial management, procurement, and environmental assessment. This work became increasingly coordinated as the bilateral and multilateral groups began working together. For the UN, the United Nations Development Group (UNDG) has spurred an internal reform process toward more harmonised efforts.

at this large body of activity—and the effects of recent changes—to assess progress in implementing the international commitments of Rome, and Marrakech; it draws some lessons of experience; and it identifies areas and opportunities for further action. The report is intended as an input to the deliberations at a High-Level Forum on Aid Effectiveness to be held in Paris, France on 28 February - 2 March, 2005.⁴ Beyond that, it will feed into the preparations for the United Nations (UN) five-year review of the Millennium Declaration taking place later in the year.

Scope and Structure of the Report. This report, prepared by a group of bilateral and multilateral donors and partner countries associated with the DAC Working Party on Aid Effectiveness,⁵ looks at the issue of aid effectiveness as it is affected by harmonisation, alignment, and managing for results. It recognises that aid effectiveness, important as it is, is only one among many factors that affect growth and poverty reduction. Others factors include the quality of governance in partner countries, their institutions, and their strategic choices; and policy coherence in donor countries in areas such as trade, migration, debt reduction, investment promotion, and security (areas that usually lie outside the policy remit of aid agencies and that are not addressed in this report). The report is organised into six chapters. Chapter 1 describes a framework for assessing progress on four levels—country ownership, alignment, harmonisation, and results. Chapters 2, 3, 4, and 5 assess progress in each of these areas in turn. Chapter 6 draws conclusions and provides a basis for monitorable commitments based on mutual accountability of donors and partner countries that will be submitted for endorsement at the Paris Forum.

Sources. This report draws on multiple sources of information. Those originating from the DAC Working Party on Aid Effectiveness include:

- Technical material prepared by the groups under the Working Party and guidance provided by donors and partners associated with the Working Party.⁶
- In-depth survey of the Working Party's 14 partner countries, conducted in 2004 (referred to in this report as the 14-country survey).
- Self-reporting by members of the DAC Task Team on Harmonisation and Alignment.
- 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 Working Party by the World Bank.
- Discussions at preparatory events, along with the background documentation and more than 36 case studies prepared for those events: Regional workshops on harmonisation, alignment, and results⁷ held in October and November 2004 in Asia (Bangkok, Thailand), Latin America (Tegucigalpa, Honduras), Central Asia (Bishkek, Kyrgyz Republic), Africa (Dar es Salaam, Tanzania), and in February 2005 in the Middle East (Jeddah, Saudi Arabia); a meeting of a number of partner countries participating in the Working Party in October 2004 in Managua, Nicaragua; and a CSO Forum on Aid Effectiveness (Paris, France, in February 2005).

⁴ See the Paris Declaration on Aid Effectiveness in Annex 5.

⁵ The DAC Working Party on Aid Effectiveness and Donor Practices (WP-EFF) and its subgroups include a broad range of bilateral and multilateral donors and partner countries. See details on page 3.

⁶ See Annex 4.

⁷ See Annex 2.

- Synopsis of the 2004 Peer Review findings regarding Harmonisation and Alignment.⁸
- A first test case in Nicaragua of a potential country-based instrument—the Joint Country Learning Assessment (JCLA) —involving donors from both headquarter and field offices working with the partner country and including both joint learning, assessment and facilitation elements.
- Discussions at the Senior-Level Meeting of the Development Assistance Committee in December 2004.

⁸

See Annex 3.

EXECUTIVE SUMMARY

Background. As part of the follow-up to Monterrey, the international development community committed in Rome (February 2003) to align development assistance with partner country strategies, harmonise donor policies and procedures, and implement principles of good practice in development co-operation. A year later in Marrakech (February 2004), the Heads of the multilateral development banks (MDBs) and the Chair of the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD-DAC) affirmed their commitment to fostering a global partnership on managing for results by aligning cooperation programmes with desired development results, and relying on-and strengthening-partner countries' monitoring and evaluation systems to track progress and assess outcomes. Against this background, this report assesses progress and issues in implementing the commitments of Rome and Marrakech. It identifies lessons of experience, positive and negative, as well as implications for the Second High-Level Forum on Aid Effectiveness (HLF-2), to be held in Paris, France on 28 February-2 March 2005.

A. KEY FINDINGS

The report draws on a range of sources to gauge progress on the Rome and Marrakech commitments. Key findings include the following:

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. In that effort, some of these countries as well as others have participated, along with bilateral and multilateral donors, in the OECD-DAC Working Party on 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 harmonisation, 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.

Progress in Harmonisation and Alignment to Strategies. *On harmonisation*, donors have made a start in using simplified procedures and practices, joint analytical work, enhanced focus on delivery of development results, delegated cooperation, common procurement and financial management procedures, and common arrangements for sector wide approaches and budget support. *On alignment*, as of October 2004, 43 countries had prepared poverty reduction strategies (PRSs), and many other low- and middle-income countries had nationally owned development strategies. Information from the survey of the 14 countries of the DAC Working Party on Aid Effectiveness and other sources suggests that there is a promising trend toward increased donor alignment behind country strategies. There is a small but growing list of examples of joint strategies among donors in support of these strategies. More donors are using programmatic, or budget, financing to provide overall support for country strategies and programmes at the national and sectoral levels. There has been a surge in interest in sector-wide approaches (SWAs) to align around sectoral priorities, and a growing number of SWAs include use of countries' existing frameworks for channelling and accounting for funds. But further progress is hampered by several factors: insufficient clarity of country policy and investment priorities; the absence of a robust medium-term framework that links country priorities to their budget decisions and timetables; and difficulty in agreeing on indicators that can serve as triggers for disbursement. More use of arrangements such as delegated cooperation (where one donor manages aid on behalf of another) and joint financing would also increase

harmonisation and alignment. 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 integration of global programmes and partnerships with country strategies and programmes.

Limited Use of Country Systems. A limited start has been made on the use of country systems as indicated by the DAC 14 country survey (see Figure 3). However, not a single donor in these countries reports using country systems across the board (for financial reporting, disbursement, procurement, audit, monitoring and evaluation). To address this donors and partners have been collaborating to develop commonly accepted international criteria for assessing and strengthening country systems and for harmonising donor requirements around them. There are associated multi-donor efforts in several countries to simplify and harmonise fiduciary, monitoring, and reporting arrangements.

Mixed Picture of Progress. Overall, while the scope and geographical coverage of activities to meet the Rome commitments 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, there is not yet sufficient momentum in applying good practice deeply and systematically. Intensified efforts are needed by bilateral and multilateral donors, working closely with country partners, to scale up aid effectiveness collectively.

Addressing Constraints. As recognised at Rome and Marrakech, sustained top-level attention is essential to address remaining constraints and ensure that momentum for these ambitious global change agendas does not stall. The up-front cost for both donors and partner countries of achieving harmonisation, alignment, and managing for results is high. Donors and partners need to allocate staff and financing in the short term in order to reap the benefits in the medium term of increased aid effectiveness and, subsequently, reduced costs (already achieved, for example, in Tanzania). Few donors have yet to put in place effective training programmes, procedures, resources, and incentives to support and encourage needed changes in staff behaviour. For example, there are generally no systems of incentives yet in place at either the institutional or individual level, to encourage initiating and sustaining meaningful action. Rather, many aid agencies still have in place arrangements that discourage, often unintentionally, the approaches and behaviours necessary to meet the Rome and Marrakech commitments. There is a need to review these arrangements, including codified requirements, in order to provide operational flexibility and delegated authority, especially to field-based staff, for harmonisation and alignment. These factors might help to explain why in the 14 country survey, only 8 per cent of donor missions in 2003 were conducted jointly and only 35 per cent said that donors were streamlining conditionality.

B. TOWARD MORE SELECTIVE, “HIGHER-VALUE” GOALS

While the overall picture on progress is mixed, it is promising, with upside potential and immediate opportunities. It also presents risks with significant remaining obstacles in donor and partner institutions. A particular risk is that the “clutter” of multiple processes on harmonisation, alignment, and results may generate more “noise”, consuming more and more time, rather than a sharp focus on progress in impact at the country level. Progress is vital in order to improve and increase public confidence in the effectiveness of development cooperation. The challenge going forward is to find ways to direct the building momentum for change to a few select “high-value” operational goals. These goals should have a significant impact on aid effectiveness; be seen as meaningful and constructive by development institutions and partner countries; respect the need for country ownership and for mutual accountability; motivate staff; and lend themselves to measurement and monitoring. The goals should be translated into operational commitments in the areas of ownership, alignment, harmonisation, and results. Monitorable indicators with selected time-bound quantitative targets should be developed to measure progress in meeting those commitments.

I. FRAMEWORK FOR ASSESSING IMPROVEMENTS IN AID PRACTICES

Summary. Too often, large unproductive costs and misalignment of aid have resulted in missed opportunities to improve people's lives by using all resources better. The effective use of aid, the case for more aid, and demonstrable results on the ground are intertwined, with key roles for both partner countries and donors. At Monterrey in 2002, partner countries were called upon to stimulate growth and poverty reduction by strengthening policies and institutions. The Rome and Marrakech meetings confirmed that 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 includes greatly increased reliance on partners' own administrative systems, as well as common approaches, simpler procedures, and shared information.

Aid effectiveness has always been fundamental to the case for higher aid volume. However, while aid has brought many benefits to partner countries, it has also brought unintended burdens. For example, policies and requirements of donors are usually different from each other and from those of the partner country. This has often led to priorities that are not aligned with country needs, misdirection of efforts, inconsistent systems and programmes, information gaps, avoidable duplication and waste. Donor practices have often served to undermine, rather than bolster the effectiveness of, countries' own systems and institutions. In addition, the sheer numbers of procedures, reports, and visiting missions that partner countries have to handle every year entail severe costs, particularly the opportunity cost of tying up scarce national managerial and political talent that could have been used to plan and implement development programmes.⁹ All of this represents resources that could have been used to reduce poverty, educate children, save lives, and promote growth.

Toward More Effective Aid. As the world has become more aware of the serious—and growing—dimensions of the development challenge, it has realised that more and better aid is needed for 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 reducing 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 focusing on the results to be achieved. Beyond this is a broader concern to help partner countries develop their systems and institutions so that they can use all their

⁹ In one survey, 11 countries representing different geographical regions and levels of development (Bangladesh, Cambodia, Egypt, Fiji, Mozambique, Romania, Samoa, Senegal, Uganda, Vanuatu, and Vietnam) ranked the burdens imposed by donor aid and suggested initiatives to improve aid management: see *Harmonising Donor Practices for Effective Aid Delivery* in the DAC Guidelines and Reference series, OECD, 2003.

resources—not just the relatively small external aid component—more effectively to the benefit of their people.

A. BACKGROUND

In the late 1990s, awareness of the 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 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.¹⁰ The aim was for donors and partner countries alike to use these good practices as a basis for harmonising their own policies and procedures.

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 (UN), 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 compels 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.

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 Harmonisation (Rome HLF) to 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 High-Level Forum on Aid Effectiveness will be convened in Paris (HLF-2) to assess progress on the commitments made in Rome and Marrakech. Participants will include ministers and senior officials from partner and donor countries, heads of multilateral organisations, and representatives of civil society. They will assess progress in harmonisation and alignment and in managing for results, and identify factors that contribute to and hinder progress. And they are expected to commit to specific high-impact actions to accelerate implementation.

B. COMMITMENTS

In the Rome Declaration, the international development community attached high importance to a country-based approach, emphasising country ownership and government leadership and engaging civil society, including the private sector. The Declaration recognised the diversity of aid modalities and committed donors and partner countries to an ambitious programme of actions in five broad areas: (a) aligning development assistance on partner countries' national development strategies, priorities,

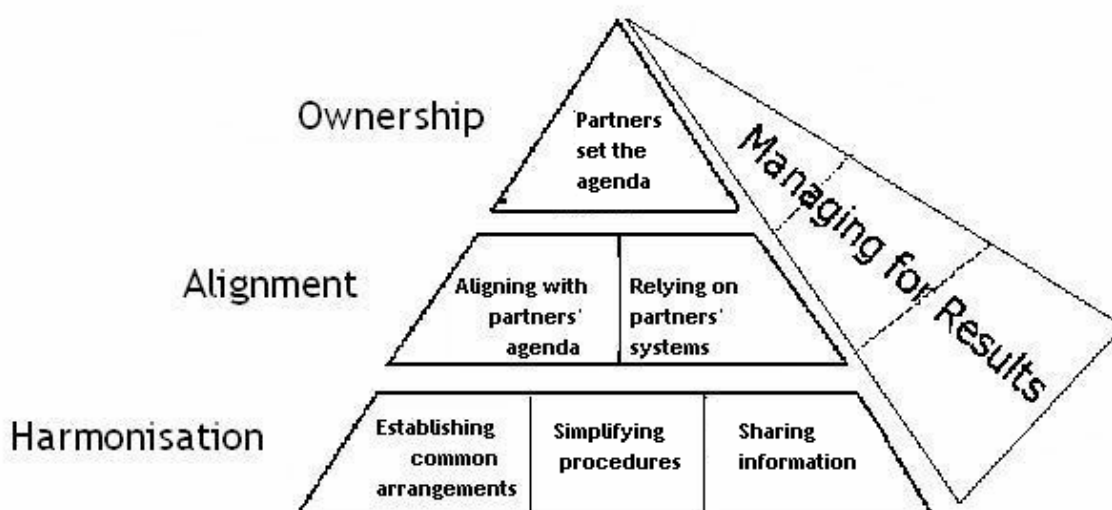
¹⁰ See *Harmonising Donor Practices for Effective Aid Delivery*, OECD, 2003.

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.

Together, the Rome and Marrakech commitments can be summarised in four 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.
- **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 that would 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 projects more effectively; and develop incentives within their agencies to foster management and staff recognition of the benefits of harmonisation.
- **Managing for Results.** The Marrakech principles emphasise that 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. Donors should rely on and support partner countries' own priorities, objectives, and results, and work in coordination with other donors to strengthen partner countries' institutions, systems, and capabilities to plan and implement projects and programmes, report on results, and evaluate their development processes and outcomes (avoiding parallel donor-driven mechanisms).

Figure 1. Partnership for Greater Aid Effectiveness



C. FRAMEWORK

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

Interpreting the Pyramid. Whether read top-down or bottom-up, the pyramid provides insights about the harmonisation/alignment/managing for results agenda.

- **Top-down.** Partners begin by setting the agenda for achieving development results (such as the MDGs), and donors respond to this lead by aligning their support with the countries' results-oriented strategies and relying on partners' systems. At both of these levels, capacity strengthening and institutional development are essential. At the base of the pyramid, donors initiate the complementary actions of establishing common arrangements, simplifying procedures, and sharing information. At all levels of the pyramid, a focus on results is essential: the country's development agenda must be oriented toward the growth and poverty reduction results it expects to achieve.
- **Bottom-up.** Read from bottom to top, the pyramid illustrates the stages of maturity in the aid relationship and the separable, but reinforcing, gains expected at each stage. In almost any circumstance, 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 join this common effort, the partner nation may decide to forgo that source of aid.

II. 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. 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 and better in partner country capacity to build feasible strategies; embed these strategies more firmly in national processes such as the budget; and draw the legislature and other stakeholders further into the consultative process.

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

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 institutions¹¹ have required a PRS or equivalent national development framework as a prerequisite to access to debt relief and concessional funds. UN agencies and, increasingly, bilateral donors have also made such strategies central to their development cooperation,¹² 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 mobilising domestic and external resources that are needed to achieve those priorities. Ideally, in developing such a document a country clarifies its development goals, carries out broad-based domestic consultations to generate ideas and support for them, and specifies how it expects to achieve its goals as well as its plans for monitoring and evaluating progress.

Progress. Partner countries have made appreciable progress in providing an overarching framework for aid management by setting and leading their development agenda.¹³ As of 30 September 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

¹¹ The Bretton Woods institutions are the World Bank and the International Monetary Fund (IMF).

¹² 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. OECD-DAC *Shaping the 21st Century Strategy: the Contribution of Development Co-operation* (OECD, 1996); DAC Poverty Reduction Guidelines (OECD, 2001); and the World Bank's Comprehensive Development Framework (www.worldbank.org/cdf/).

¹³ See, for example, The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank's Support Through 2003, IEO/OED, July 2004.

alignment¹⁴ have prepared at least one PRSP. Because these PRS processes involve widespread consultation, they have fostered often unprecedented engagement with civil society (especially in the initial stages of strategy formulation) and thus have contributed to expanding 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 (Bangladesh, 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 effect on the availability and forms of donor financing, and planned time-bound actions going forward.
- The annual PRS progress reports of Burkina Faso, Mozambique, and Tanzania refer to the Memoranda of Understanding (MOU) between the government and donor groups; and Mozambique's annual PRS progress report presents the reduced indicator set by which donors will monitor performance.

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 the resources of both donors and the partner country 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. An effective MTEF requires both political endorsement of strategic spending priorities and linkage to a budget process capable of executing those decisions. It also assesses the feasibility of meeting commitments for investment and recurrent costs over time. Institutional reforms to develop an MTEF are being implemented in at least 41 partner countries, including most of those using a PRSP. A review of experience suggests that the main challenges in using the MTEF for resource allocation are: the absence of a modern functional budget classification, laws that establish a disciplined budget preparation calendar, and budget controls that provide some assurance of plans being executed. 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.

Results Focus. The emphasis on including a results framework in PRSs is relatively new. Until recently, the emphasis was simply on providing monitorable indicators, which tended to focus on inputs/outputs rather than on results and impacts. It is therefore understandable that at present the results focus of many PRSs and other development plans is inadequate. However, some systematic movement has begun on two fronts:

¹⁴ At the time of the Rome Declaration, 17 countries volunteered to be part of early work to expand country-led harmonisation efforts: Bangladesh, Bolivia, Cambodia, Ethiopia, Honduras, Kenya, Jamaica, Kyrgyz Republic, Morocco, Niger, Nicaragua, Pacific Islands (Fiji and Tonga), Philippines, Senegal, Vietnam, and Zambia. Tanzania, which was closely associated with the Rome process, was already a leader in these efforts. Of the 18 countries, 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.

- Some partner countries are beginning to develop results-based frameworks, although a particular challenge is to make analytically sound results chains that link the statement of a desired goal with implementation capacity and available resources.
- More donors, both multilaterals and bilaterals, are developing frameworks for managing their own operations for results.

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.

B. OTHER OWNERSHIP AND LEADERSHIP PROCESSES

Beyond PRSs and similar development strategies, there are other indications that partner countries—including difficult partnerships or fragile states—are making progress in laying out specific proposals for addressing aid management issues.

Harmonisation Action Plans. Some partner countries are developing harmonisation action plans (see Table 1) that are set out in time-bound format, with responsibilities assigned to specific government agencies and donors or clusters of donors.¹⁵ 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 to have fewer donors interacting with government, and greater pooling of both funding and other activities. In Vietnam, the government and its development partners have formed a Partnership Group on Aid Effectiveness (PGAE) and is working on implementing the Harmonisation Action Plan with its own monitoring framework. The PGAE submitted a joint report on aid effectiveness to the Consultative Group (CG) Meeting in December, 2004.

Table 1. Harmonisation Action Plans since Rome

Action plan	Draft plan	Under preparation
Cambodia (November 2004)	Bangladesh	Bolivia
Nepal (May 2004)	Dominican Republic	Fiji
Kyrgyz Republic (November 2004)	Ethiopia	Kenya
Nicaragua (October 2004)	Serbia	Mongolia
Niger (June 2003)		
Rwanda (December 2003)		
Tanzania (January 2003)		
Vietnam (May 2004)		
Zambia (April 2004)		

¹⁵ The Rome Declaration (see Annex 1) 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 OECD-DAC Task Force and the MDB technical working groups as reference points." Of the countries listed in Table 1, 10 are members of the WP-EFF: Bangladesh, Bolivia, Cambodia, Ethiopia, Kyrgyz Republic, Nicaragua, Niger, Tanzania, Vietnam, and Zambia. The dissemination of the Rome harmonisation and alignment agenda through regional workshops and the efforts of bilateral and multilateral agencies have encouraged non-members of the WP-EFF to articulate harmonisation action plans on their own.

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 that started in the mid-1990s has continued to evolve (see Box 1). In Bangladesh, harmonisation efforts were mutually agreed and supported through participation in the UN Aid Accountability Project (1992-1994), the implementation of a health sector SWAp (1998-2003), and the formation of a joint Government/donor group on aid governance (January 2003). Other partners, especially middle-income countries,¹⁶ have not elaborated an approach labelled “harmonisation and alignment” but, as part of their efforts to modernise their relationship with key development agencies, have simply pursued relevant aspects of the agenda. Some examples:

- 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 centred on SWApS and approaches to the delivery of development assistance that rely increasingly on the use of country systems for financial management, disbursements, and procurement.
- In 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.

Box 1. Mozambique Performance Assessment Framework

In 2000, six donors began supporting Mozambique’s development by providing coordinated and untied support to the state budget. The programme expanded rapidly: by 2004, 15 donors signed a Memorandum of Understanding with the Government, committing to align their support with the priorities the Government set out in the PRS, harmonise their procedures to reduce the transaction costs of aid, and enhance capacity. Specifically, the donors agreed to have no conditionality outside the common performance assessment, strongly enhance the predictability of their aid, and align the provision of that aid to the Government’s budget cycle and documents.

The cornerstone of PRS implementation is the common performance assessment framework (PAF). 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. For example, to achieve the PRS education objectives of increasing access and retention and reducing gender disparities, the agreed actions include carrying out low-cost classroom construction and following through on specific plans for teacher training; and the education indicators set targets for, and track, enrollment and completion rates for all children and for girls.

The PAF matrix also monitors donor 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 programme implementation, and total suspension of aid disbursement could take place only if the underlying principles were violated.

¹⁶ Middle-income countries (MIC) 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 USD1/day or less). Although these countries typically do not follow the PRS process, they are all seeking to achieve sustainable and equitable growth, and they have potential to accelerate progress in meeting development needs of the kind incorporated in the MDGs.

The Joint Country Learning and Assessment process (JCLA). This is an experimental instrument initiated by the DAC Task Team on Harmonisation and Alignment. The objective is to develop a joint government-donor instrument for learning, assessing and facilitating a country-led harmonisation and alignment process. 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, supported by the DAC Secretariat, and representatives of Japan and Netherlands in Managua, actively participated and contributed. The JCLA involved two technical missions, assistance with the completion of the DAC country survey, a draft JCLA report, and an action plan for harmonisation and alignment. This was followed by a high level mission, led by the DAC chair, and including senior level bilateral and multilateral representatives. The government valued the JCLA for its role in catalysing the internal dialogue and consensus building process within Nicaragua on the actions needed to be taken by the government and stakeholders and by donors to improve aid effectiveness, accelerating progress towards the drafting of the Nicaragua action plan on harmonisation. Experience with this instrument strongly suggested that 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. As well, actors and stakeholders at field level would benefit from facilitation assistance. A preliminary conclusion drawn from the process is that the JCLA is an interesting instrument that needs to be further developed and refined before it could be applied more widely in different country contexts. The main lessons learnt from the JCLA are elaborated in Box 2.

Box 2. Nicaragua JCLA: Main Lessons Learnt

A willingness on the part of the government to take leadership in aid coordination with a designated senior level focal point in the government provides purpose and direction to the harmonisation and alignment process. Broader ownership and commitment to the process through involving a wide range of government entities and stakeholders in the harmonisation and alignment 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.

The international support provided by the JCLA High Level Mission to the internal harmonisation and alignment process was seen as timely and provided needed impetus to reinforce the government's own efforts.

Further progress will depend on whether sectoral roundtables operate on the basis of explicit sectoral plans and strategies; and strengthen policies on transparency, fiduciary responsibility, as well as those combating corruption.

Exercising Stronger Aid Management Leadership. A partner country's leadership of aid management is about style or tone, as well as substance and capacity. 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 judgment, and sometimes, political courage. Countries that are relatively less dependent on aid tend to be more willing to set firm ground rules for donors to follow. 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 3 on Afghanistan).

Box 3. 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 (CG), which replaced all previous donor fora. The CG 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 programmes that duplicate rather than support the NDF and draw valuable capacity away from government.

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 (see Box 4), and helps to point the way forward for other countries.

Box 4. 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 CG, 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

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, and facilitated.

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. Another issue is that ownership of many PRSs is limited to a small circle of political or technical staff. Some key national institutions — for example, line ministries and local authorities which are responsible for service delivery may not be sufficiently involved. Moreover, parliament and other elected bodies are often left out of the process in many countries which has serious implications for country ownership and accountability. To involve these institutions as well as civil society, including the private sector, is therefore a key challenge.

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 may include political conditionality. Over time, the layering of conditions, their complexity, and in many cases, the inconsistency among them have become problematic. In addition, there is a tension between country ownership and donor accountability. Conditionality imposed by donors is not consistent with real country ownership of the development process and has a relatively low chance of sustained implementation. To address this issue, donors need to be more disciplined in (a) limiting the number of conditions to those that are essential; (b) focusing the conditions on key priorities in the PRS or equivalent processes; (c) being transparent in presenting the conditions and refraining from introducing new conditions during an ongoing programme that is on track; and (d) developing the conditions in close dialogue and collaboration with the government.

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, coverage, timeliness, and disclosure of public financial reports on the use of both domestic and foreign resources. In areas such as timely disbursement, donors should agree on an assessment framework covering their own performance (in line with the performance framework used to judge partner performance in the PRS or equivalent process); on a process for conducting this assessment; and on accepting accountability for assessment results. Donors and partners together may consider establishing an independent monitoring mechanism to ensure mutual accountability. There are several examples of accountability arrangements:

- The Tanzania Assistance Strategy outlines principles governing the relationship between donors and the government. The parties' adherence to their commitments is evaluated by an Independent Monitoring Group—a team of six Tanzanian and international experts—whose report is presented at Consultative Group meetings of Government, donors, and civil society.
- Government and donors collaborate in such social accountability initiatives as participatory monitoring and evaluation processes in several countries: Argentina, Armenia, Bangladesh, Benin, Ghana, Honduras, India, Malawi, Peru, Philippines, Russia, Senegal, Sri Lanka, Uganda, and Vietnam. In Philippines, for example, the citizens' report card, which is based on a national client satisfaction survey, provides client assessments of pro-poor services in

five areas—health care, elementary education, water supply, housing, and subsidised rice distribution.

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 large numbers of donors. For partners to feel encouraged to make the necessary commitments, donors need to support national capacity to frame, implement, and monitor development strategies and adopt effective aid management practices (see Box 5).

Box 5. Aid Effectiveness and Capacity Development

Capacity development is about enhancing partner countries' ability to formulate suitable policies, establish and maintain effective institutions, and acquire and use the human skills they need. When done correctly, these three aspects of capacity development complement and reinforce one another. Technical co-operation is an important vehicle for supporting such capacity development: each year the international donor community spends approximately USD 7 billion for technical co-operation to partner countries. The 2002 DAC Needs Assessment suggested that there is considerable scope for donors to improve the effectiveness of their support for capacity development—including technical assistance, much of which is still tied—by better alignment and harmonisation.

The 2003 UNDP-led multi-stakeholder research on technical cooperation has identified the following 10 principles for capacity development that can help policymakers and practitioners pursue effective capacity building:

1. Don't rush.
2. Respect the value system and foster self-esteem.
3. Scan locally and globally; reinvent locally.
4. Challenge mind-sets and power differentials.
5. Think and act in terms of sustainable capacity outcomes.
6. Establish positive incentives.
7. Integrate external inputs into national priorities, processes, and systems.
8. Build on existing capacities rather than creating new ones.
9. Stay engaged under difficult circumstances.
10. Remain accountable to ultimate beneficiaries.

Improving Aid Predictability. When aid is unpredictable, it is harder for governments to exercise effective leadership in countries' development processes; the result may be missed opportunities and stop-and-go policies that hinder growth and poverty reduction.¹⁷ This means that it is important for donors to 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 multi-year framework, aligned with partners' financial horizon. They should fully disclose expected flows (all aid, without exception, should be captured on the partner budget, even where not channelled through

¹⁷ 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, the authors recommended that donors make more cautious budget predictions and develop systems to make aid less procyclical.

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.

III. 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 in which aid does not accord with partner countries' stated priorities. Special challenges are alignment in countries where ownership is contested or absent, particularly in fragile states, and reconciling alignment to partner choices with global vertical programmes. Despite demonstrating increasing willingness to align with countries' strategy and policies, however, donors have been much slower to rely on partner administrative systems, including those for procurement—although there have been recent efforts in developing common standards and benchmarking systems against them. Moving forward will require agreement on satisfactory common standards that encourage transparency and improvements in public financial management, responsibilities for benchmarking, and transitional arrangements linked to capacity building.

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

Do donors use partner strategies - national development plans, PRSs, or equivalent frameworks - as the main springboard for their programmes? As recently as five years ago this practice was the exception rather than the rule, but now all donors (including bilateral and multilateral donors and the UN system) strive to base their programmes on partners' strategies. In the 14-country survey, donors and governments agreed that donors rely on the national framework for programming their own assistance; only a fifth of donors expressed some qualifications about their 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.¹⁸

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 equivalent processes), 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 programmes with the country's policy priorities and coordinate these programmes with each other. Together with the government, these groups also often establish a formal common performance assessment framework based on a limited set of indicators derived directly from the PRS, as in the Mozambique example cited in Box 1.

¹⁸ Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality: Progress Report, February 24, 2004.

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 country-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 that common strategy development may be more challenging, but it is also more important.

1. 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 according to good practice principles, and that it is integrated into and aligned with countries' sector programmes and MTEF (including regarding projected recurrent costs). In addition, some donors in several countries are increasingly shifting from stand-alone project aid to participation in sector-wide programmes and budget support.

Sector-wide Approaches. A SWAp is an approach to providing support that has the following characteristics: 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, disbursing and financial management). The instrument facilitates implementing projects and programmes in a coordinated manner using both project and budget support. 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 such as roads or water—and as a way to support streamlining and strengthening 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 6 briefly describes some recent SWAps.

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 economywide or sectoral level (usually as part of a SWAp), to the government's own budget and priorities. This fosters institutional development, particularly in public financial management and increases accountability by underscoring the budget's role as the statement and tool of government policy. The credibility of this role depends on transparency of both revenues and expenditures as well as establishment of effective internal control systems. Budget support is often structured around a matrix of performance measures developed by concerned donors with the partner government (as in Bangladesh, 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. Afghanistan, Bosnia-Herzegovina, Timor Leste, and in West Bank/Gaza), budget support is being provided through multidonor trust funds. In some fragile states with inadequate capacity to mobilise domestic resources, budget support has been found important to pay salaries of civil service, with appropriate safeguards where governance is not yet sufficiently strong.

Challenges. Although the SWAp and budget support approaches have advantages, they also present challenges. For both SWAps and budget support, 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. Budget support entails the risk of more demanding and extensive conditionality and the likelihood of heavy reporting requirements, especially in the fiduciary area; in addition, the possibility of suspension means the risk of significant volatility in aid flows.¹⁹ While partner governments appreciate that with harmonisation donors speak with “one voice,” they are also concerned that if donors herd around a common position linked to their assistance whether budget support or other disbursements could be totally suspended when things go wrong. In addition, both instruments tend to require continuous dialogue and monitoring during implementation.

Box 6. 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 AsDB, 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 and 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 programmes to support the poor into one comprehensive programme identifying synergies in health, education, and nutrition. Programme 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 contributing basket funds and others providing direct project/programme input.

2. 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 about the partner government’s commitment to poverty reduction. In some cases, a donor may approve of the broad direction of the strategy, but disagree substantially over the proposed 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.²⁰ This, unfortunately keeps the door open for donors to continue to decide “unilaterally” on the parts of the strategy (sectors, institutions) on which they prefer to focus their support, and in what timeframe, and it reinforces donors’ tendency to adapt country problems to fit their own sectoral or policy preferences. It also encourages comparable entrepreneurial behaviour by partner ministries that seek to use aid to get around budget priorities of

¹⁹ See *Harmonising Donor Practices for Effective Aid Delivery Volume 2: Budget Support, Sector Wide Approaches and Capacity Development in Public Financial Management*, OECD-DAC, 2005.

²⁰ In turn, the failure of many PRSs to prioritise has a variety of causes, including to avoid offending donors who champion favourite areas.

central authorities. In other cases, donors' reluctance derives from scepticism over the nature of national leadership, its commitment to poverty reduction relative to non-development objectives, or, even where this is not the case, the depth of its ownership and capacity to implement its PRS. As an example of the latter case, Bolivia submitted a detailed harmonisation and alignment plan for consideration at its CG meeting in October 2003. However, donors who were concerned about the unstable political situation and Bolivia's overall PRS considered that harmonisation and alignment may not have been the top priority at that juncture. As it turned out, the instability was such that the government fell shortly thereafter.²¹ Representatives of donors and partner countries have frequently pointed out that lags in information between donor headquarters and field offices—including insufficient guidance on what to support and what not to support on issues that arise at the country level, and inadequate delegation of authority to field offices—hamper proactive participation in country-level harmonisation and alignment initiatives.

3. FRAGILE STATES

As work on harmonisation and alignment has gone forward, donors have become increasingly concerned about issues surrounding aid effectiveness in fragile states²²—countries with the weakest commitment, and usually capacity, for growth and poverty reduction. Donors have been considering the special needs of these countries, reviewing alignment and harmonisation practices with a view to identifying appropriate ways to address their conditions.²³ In these countries the government's limited capacity and legitimacy mean that it is unable to play an effective co-ordinating or balancing role among a plethora of parallel donor approaches. The result is lack of coherence and sustainability, and the undermining of limited state capacity. Therefore, harmonisation and alignment are even more critical in difficult partnerships. Because many fragile states are particularly vulnerable to, or are emerging from, conflict, donor responses frequently include security sector activity (for example, peacekeeping or civil policing) and diplomatic efforts. In addition, firms from donor countries may have trade or investment interests that in some occasions may be contrary to donor development objectives and in some cases have even fueled conflict. Thus all government approaches are needed to assure that policies in different areas are coherent with objectives of addressing key development and governance issues. One tool to address this need is the transitional results matrix (see Box 7). Emerging approaches on how to engage in harmonisation and alignment in fragile states was a key theme of discussions at the January 2005 Senior-Level Forum on Development Effectiveness in Fragile States, held in London. An update from that forum will be presented at the Paris Forum.

²¹ 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 JSA Note. 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.

²² There is no agreed global list of fragile states but a proxy for state fragility using those countries in the two lowest categories of the World Bank's Country Policy and Institutional Assessments (CPIA) five categories and including a separate group of unranked countries also deemed fragile provides a list of 46 fragile states. Middle-income countries are not included in this list: they account for 870 million people or 14 percent of the world's population but nearly a third of the world's poor people and 41 percent of all child deaths.

²³ There is a multi-donor initiative on fragile states, the DAC “Learning and Advisory Process on Difficult Partnerships (LAP)”, as well as associated initiatives and policies by donors, including particularly the Low-Income Countries Under Stress (LICUS) initiative of the World Bank.

Box 7. Transitional Results Matrix

Transitional results matrices (TRMs) help apply an important principle of PRSs—a unified, country-driven plan—to fragile settings. TRMs are based on five principles, derived from the Rome Declaration and its harmonisation agenda, but adapted to the circumstances of fragile states in transition: they are simplicity; selectivity; integration across the political, security, economic, and social aspects of recovery; national ownership; and donor buy-in. TRMs promote the use of outcome indicators and monitorable targets, including intermediate indicators to track the progress of recovery programmes. They function as a management tool for strategic planning and implementation monitoring, and as an umbrella for donor coordination. The framework is intended to become a compact of joint responsibilities between country authorities and the donor community. By enhancing transparency across the board, TRMs can create strong incentives to achieve more visible results in post-conflict reconstruction, and provide a basis for participation and domestic scrutiny by civil society organisations.

Alignment in Fragile States. In some states that are fragile but with commitment and growing capacity, more or less full alignment may still be feasible. Where it is not possible to align with country systems—perhaps because of concerns about legitimising a particular government, or a significant and prolonged humanitarian presence, it is important for donors to harmonise their approaches to alignment. (“harmonise to align”). Donors should focus their harmonisation efforts on the creation of mechanisms that enhance, not undermine, the emergence of country leadership and ownership—for example, joint diagnostic work and strategies, efforts to minimise transaction costs, and joint planning, financing and implementation of programmes.

Partial and Shadow Alignment. Where feasible, donors should use (harmonised) “partial alignment”. This refers to aligning behind programmes in areas that have sufficient commitment and capacity - whether in ministries, agencies, or regional governments. Even where partial alignment is not feasible, shadow alignment can be useful. Shadow alignment refers to (harmonised) donor programmes that are as consistent as feasible with existing state institutions - *e.g.* administrative boundaries, systems and organisations. It should start with joint donor assessments of the current formal and informal policies and systems; there is invariably something in place. Shadow alignment is a state-avoiding approach, but one that to the extent feasible builds on what exists in a way that will lead to future full government ownership and capacity. A central element of this approach is providing information in a compatible format (*e.g.* respecting existing budget years and classifications) and using the same or at least compatible administrative layers or boundaries (*e.g.* the same administrative districts); planning and budgeting cycles; budget classifications; accounting, procurement, and audit systems; and staffing structures and hierarchies.

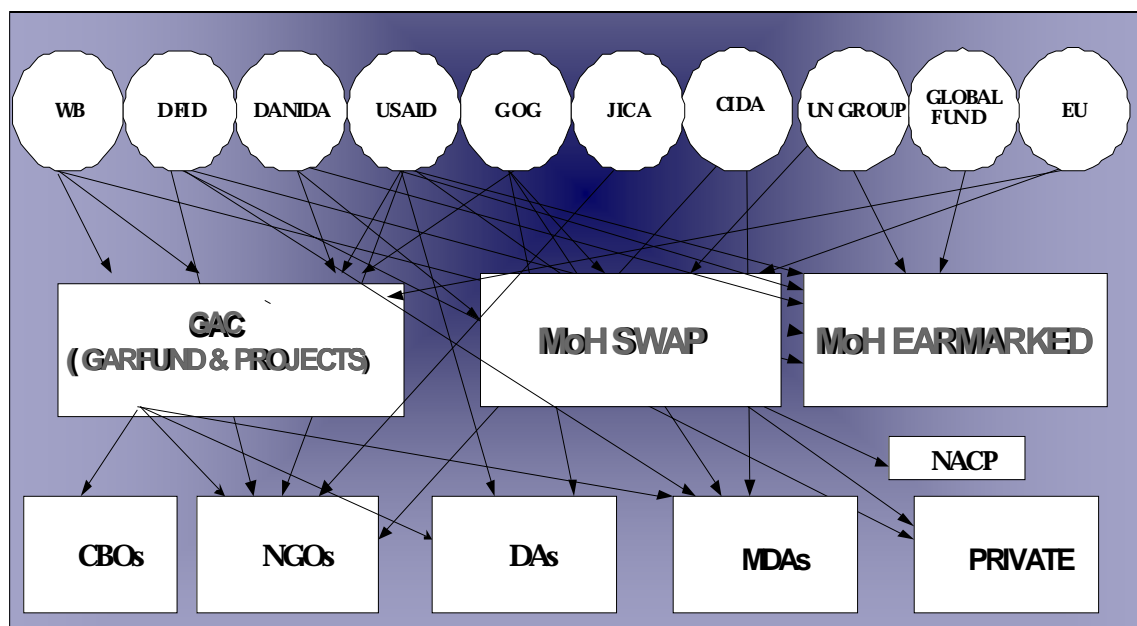
4. GLOBAL PROGRAMMES

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 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. Each of these initiatives is valuable in its own right, but from a recipient’s standpoint each may come with its own political priorities, its own systems, and incentives that may not align with national priorities. The urgency of a global programme’s mission and the need to achieve specific outcomes often are perceived to take precedence over, and even interfere with, 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.²⁴ Global programmes are increasingly incorporating policies and measures to address these problems.

- HIV/AIDS.** Following 10 years of global advocacy and campaigning, the world has made an unprecedented response to the HIV/AIDS issue: funding rose from USD 2.1 billion in 2001 to USD 6.1 billion in 2004. A series of global and vertical initiatives have been responsible for the lion's share of the increase in funding: among others, WHO's "Three by Five"; the World Bank's Multicountry HIV/AIDS Program (MAP); the United States. President's Emergency Plan for Aids Relief (PEPFAR) initiative; the Global Fund to Fight AIDS, Tuberculosis and Malaria; and US President Clinton's HIV/AIDS Initiative (CHAI). At the country level, governments are facing an increasingly complex situation. Development partners are challenged to harmonise large but separate and distinct inflows of new resources to HIV/AIDS within broader development priorities and national systems of implementation and accountability (Figure 2 captures the harmonisation and alignment challenges in Ghana, but the same challenges may be seen in many countries with a large number of donors). To address this problem, in April 2004 UNAIDS launched the "Three Ones" agreement, setting out a framework by which donors agree to harmonise their funding for tackling the HIV epidemic, with explicit reference to the post-Rome agreements on harmonisation (see Box 8).

Figure 2. Funding for HIV/AIDS in Ghana



²⁴ See Addressing the Challenges of Globalization: An Independent Evaluation of the World Bank's Approach to Global Programs, Operations Evaluation Department, World Bank, December 2004.

Box 8. UNAIDS “Three Ones” Approach

The “Three Ones” principles help align all HIV/AIDS work in a country, ensuring that the core national system is linked to the national-level HIV/AIDS framework, and encouraging investment in strategies to build data quality and national-level capacity:

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

- **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, to be most effective its programme funding needs to be supportive of the government’s macroeconomic programme, 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 has become a participant in the DAC Working Party on Aid Effectiveness to this effect. It also subscribes to the “Three Ones” principles. And it is reinforcing its efforts to work within existing pooled- funding mechanisms. In Mozambique, for example, Global Fund grants are being integrated into a SWAp for health care activities. Under the SWAp, 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. Global Fund processes are supported by a range of bilateral and technical partners.
- **The Education For All-Fast Track Initiative (EFA-FTI).** EFA-FTI is a partnership among partner countries and 30 donors to focus global commitments and local implementation around a set of reciprocal obligations to achieve the MDGs on education. While the partnership’s major work is undertaken at the country level, its work is guided by specific reference to the principles of the Monterrey Consensus and the Rome agenda for harmonisation and alignment. In line with this direction, the EFA-FTI has evolved from a vertical programme with decisions at the global level and a focus on parallel funding to become a more country-based and country-led process of programme development with donors supporting the same programme. Countries such as Bangladesh, Mozambique, Niger, and Nicaragua have developed sound education programmes, and donors support these programmes with coordinated, harmonised efforts to accelerate progress. The global partnership serves as a platform to support country-level processes, innovation, and resource mobilisation, and steps in where traditional donor funding channels do not meet the country’s needs. 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

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. Therefore, it follows that rather than seeking to improve only the institutions needed to manage aid flows, 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.

1. PROGRESS IN USE OF COUNTRY 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 9). The creation of specific project units for donor projects or programmes, 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 involves most of the drivers of aid effectiveness: ownership, capacity development, 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, alignment is strengthened when donors do 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, and when they disburse budget support in line with the domestic budget schedule, accept financial and other progress reports in the format normally used by the administration, and rely on the country's monitoring and evaluation systems, strengthening them as necessary.²⁵ As in several countries that have developed systems for aid management (*e.g.* Tanzania and Uganda), donor support and encouragement build confidence.

Box 9. 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; MTEFs and related management and monitoring systems.
- Accounting, financial reporting, and auditing arrangements.
- Public procurement rules.
- Project and programme planning, management, monitoring and evaluation systems.

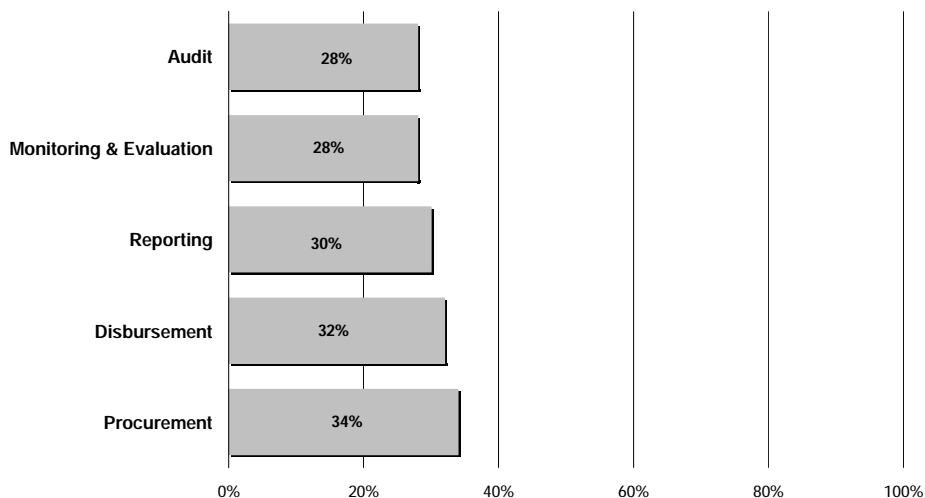
Progress: Project Funding. Progress in the use of country systems since Rome has been generally slow, lagging behind most other components of the harmonisation and alignment agenda and with few exceptions even in the 14 countries surveyed by the DAC Working Party on Aid Effectiveness, which are among the more active test cases for alignment. This survey, attempts to capture the extent to which donors are relying on country systems along five dimensions — procurement, disbursement, reporting, evaluation and audits — as a percentage of their portfolio of projects. As can be seen from Figure 3, the average is around 30 percent across the 14 countries. In some partner countries (country level data is not shown), the average was as high as 56 percent for Bangladesh and 59 percent for Morocco, which is encouraging. On the other hand, in Nicaragua,

²⁵

In the area of statistics systems, 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.

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. For the major categories surveyed—procurement, disbursement, reporting, evaluation, audit—no single donor reported using national systems in all five, and most said they use national systems in less than 50 percent of their projects (see Figure 3). 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 10). The use of 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.

Figure 3. Percentage of Donor-Financed Projects Using Partner Country Systems



Box 10. Lao PDR Roads Sector: New Approach to Implementation

For many years, major donors—the AsDB, Japan International Cooperation Agency (JICA), Swedish International Development Agency (SIDA), and the World Bank—had been financing projects in the Laotian roads sector. Multiple project implementation units (PIUs) inside and outside the responsible ministry were established, many 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.

- 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.

Progress: Budget Support. 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 synchronised with the budget cycle, most said yes or a qualified yes (see Table 2).

2. MOVING TOWARD GREATER USE OF COUNTRY SYSTEMS

To address the slow progress in using country systems, it will be important to develop a robust overall regulatory framework, at either the institutional or the country level that is acceptable to all or at least most donors and partners. Such a framework would facilitate defining acceptable standards and indicators to assess compliance with them. The goal is not to “harmonise upwards” to include the most stringent or specialised norms required by any donor around the table, but to base the framework on reasonable norms that are widely applied in the donor world.

Possible Approach. The best way forward would be for donors, in close consultation with partner countries, to agree on standards, changes in policies and legislation needed on both sides, and a roadmap for capacity development. Piloting and experimentation would be necessary. This process would then be followed 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 and apply the standards. Such actions would focus attention on those parties - 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 determine more specifically what the issues are and work out practical solutions.

Table 2. DAC Survey Responses: Extent to Which Budget Support is Predictable

	<i>Multiannual commitments</i>	<i>Timely commitments</i>	<i>Timely disbursements</i>	<i>DBS programmed/ disbursed in accordance with budget cycle</i>
Bangladesh	●	■	□	□
Bolivia	●	■	□	□
Cambodia	●	●	●	■
Ethiopia	■	■	□	□
Fiji	□	□	□	□
Kyrgyz Republic	■	□	■	□
Morocco	■	●	□	□
Mozambique	■	■	■	●
Nicaragua	■	■	■	■
Niger	□	■	●	○
Senegal	●	●	●	□
Tanzania	□	□	○	□
Vietnam	■	■	■	■
Zambia	●	■	■	■
Key: ■ Yes, but (qualified yes) ● No, but (qualified no) □ Yes ○ No				
DBS = Direct budget support				
Source: DAC Survey on Harmonisation and Alignment, 2004.				

Progress in Setting Criteria. Wider use of country systems would require agreement on criteria against which systems should be assessed. There has been some notable progress in three areas of the work on country systems—financial management, procurement, and environment.

- **Financial management.** 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 PEFA²⁶ secretariat has 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:
 - PFM 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.
 - Medium-term planning and budget formulation.
 - 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, including follow-up.
 - External accountability, audit, and scrutiny.
- **Procurement.** The Joint Venture on Procurement, which involves both donors and partner countries, has developed an integrated set of strategies and tools for strengthening partner country procurement systems. The indicators were designed specifically to feed into and support the PEFA and PFM indicators described above.
 - 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 indicators.²⁷
 - 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 emphasises 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

²⁶ PEFA (Public Expenditure and Financial Accountability) is a joint effort of the EU, World Bank, IMF and several bilateral donors, to reach common approaches to strengthening PFM.

²⁷ 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.

processes, looking at the linkages between procurement operations and the government's PFM and other activities.

- These strategies and tools are now ready to be moved into implementation. To this end participants in the Joint Venture have adopted a number of commitments that are aimed at bringing the issues of procurement and the need for effective reform more into the mainstream of development in their countries and agencies; expanding the number and network of donor and partner country participants; optimizing use of the strategies and tools over time; and progressively moving toward greater use of national systems.²⁸ They have agreed to maintain the network of professionals created by the Joint Venture process, and to meet in late 2005 to assess progress in meeting these commitments.
- **Environment.** The Multilateral Financial Institution (MFI) Working Group on Environment has worked to disseminate the Rome Declaration and identifying follow-up actions. This includes, in particular, formulating “*A Common Framework for Environmental Assessment: A Good Practice Note*”, which reflects good practice in multilateral and bilateral agencies.²⁹ Work is also underway to update the *Pollution Prevention and Abatement Sourcebook*, which has become an international reference in the field³⁰ and prepare an *Indigenous Peoples Policy Handbook Guidebook*.³¹ In future, the World Bank will work with the OECD-DAC to develop Environmental Guidelines for Small and Medium-Scale Infrastructure for MFIs and Bilateral Donors. Other activities underway include a *Joint training work program for environmental and social review of intermediate credit operations*³² and a *Joint Work Program for the Use of Country Systems*.³³

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:

- Does the country claim to have a viable system, which it proposes that donors rely on instead of their stand-alone procedures?
- Are international standards already agreed for that system, and are they generally accepted as appropriate and relevant?
- If yes, has there been satisfactory assessment of compliance with the standards, fully involving both the partner and donors?
- If yes, did it certify the national system as fully, or only partially, meeting the standard?
- If fully, how many donors are now relying on it, or propose to rely on it?

²⁸ See the Johannesburg Declaration, endorsed at the Third Roundtable of the World Bank /DAC Joint Venture initiative on strengthening procurement capacities in developing countries, Johannesburg, South Africa, on 2 December 2004.

²⁹ This work has been coordinated by Inter-American Development Bank and the World Bank. English and French versions were distributed at Paris HLF (March 2005).

³⁰ This work is co-ordinated by the International Finance Corporation.

³¹ This involves collaboration between the AsDB, Inter-American Development Bank, and World Bank.

³² This is coordinated by the European Bank for Reconstruction and Development.

³³ This is coordinated by the African Development Bank and the World Bank.

- If only partially, are harmonised interim systems in place to address major fiduciary risks?
- Are there capacity development programmes in place to address these weaknesses and which provide for a shift to use the national system when improvements occur? Do donors support these programmes?

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. 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.

Capacity Development. Clearly, many countries (and especially fragile states) have systems whose quality is inadequate for donors to rely on them. In these cases, collective donor action will be needed 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 11).

Box 11. Coordinated Donor Support to Ethiopia's Strategic Capacity-Building Programme

The Government of Ethiopia recognised that efforts to build public sector capacity were largely supported by fragmented donor projects and financed in an ad hoc manner. In addition, it was concerned about the degree of transparency in implementing capacity building, problems in effectively leveraging global knowledge, and the bias toward intensive off-site training activities.

To address these issues, in May 2003, the Government launched a consolidated five-year federal programme called the Public Sector Capacity Building Program (PSCAP), under which Ethiopia would scale up its capacity-building and institutional transformation efforts in six priority areas: civil service and expenditure management, district-level decentralization, urban management, tax systems, justice systems, and information and communications technology. Program features include:

- Incorporation of donor commitments under PSCAP within the Government's overall macroeconomic fiscal framework.
- Alignment of donor procedures with the 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 a SWAp, and alignment of nonpooled support with the Government's planning, budgeting, and M&E system.
- Explicit identification of rules governing access, allocation, and execution, including an established vertical division of resources between federal and regional levels, and a simple formula for 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.

CIDA, DFID, EC, IDA, Ireland, and SIDA 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, Italy, and USAID, are also supporting this programme but without pooling, and Netherlands participated in the appraisal mission.

C. CHALLENGES AND THE WAY FORWARD

The goal of alignment 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 PRSs and equivalent national development frameworks) 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 programme conditionality from the strategies; and they should use partners' performance assessment frameworks to monitor progress against the strategies, and adjust their aid accordingly.

Relying on Country Systems. The agreed aim is for donors to commit to use the partner country's national systems, as soon as they jointly assess those systems 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 they should support effective capacity development to help partners 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.

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 of capacity development. Some of this funding should be pooled, with the partner freely selecting among sources of expertise. Donors and partners together should prioritise funding of joint diagnostic work, carried out transparently. Donors 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. As part of doing so, they should promote joint training at country level. Where it is advisable to break the link between funding and control of external staff in sensitive positions, donors should increase recourse to third-party managers of technical support, including local and international civil society.

IV. 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.*

This chapter reviews donors' progress in adopting harmonised approaches in the three broad areas at the base of the partnership and aid effectiveness pyramid: (a) common arrangements, (b) simplifying procedures, and (c) sharing information. While harmonisation is treated separately here, and can proceed at a different pace from alignment, the two are closely related, as shown in the preceding section on alignment. Similarly, much of what follows on harmonisation, for example on incentives, applies to alignment as well.

A. COMMON ARRANGEMENTS

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.

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 environments.³⁴ Partner countries report a substantial and growing number of common diagnostic reviews in certain areas. In the 14-country survey, 9 of the countries reported more than one donor involved in assessing both financial reporting and procurement

³⁴ Chapter 3 on "Measuring Performance in Public Financial Management" of the DAC Reference Document "*Harmonising Donor Practices for Effective Aid Delivery*" (OECD, 2003) provides guidance on diagnostic work stressing the importance of full involvement of development partners and collaboration among donors. This approach reduces transaction costs, particularly to partner countries, and improves the overall quality and acceptance of the analysis. While different donors have different criteria or thresholds to use in deciding on the amount and nature of financial assistance, the principle is that they draw from a common body of information concerning the PFM system. For fragile states, see *Guide to Post-conflict Needs Assessment*, prepared by the World Bank and UNDG.

systems.³⁵ Within the UN system each agency's independent diagnostic reviews have been replaced by the Common Country Assessment.

Joint and Harmonised Assistance Strategies. Donors and partner countries are increasingly defining joint and harmonised assistance strategies and programming to support the partner country's development priorities (see Table 3). These strategies differ in many ways—the number of donors involved the role of the partner country government, and specific content and approach. (Clearly, the range of actors in fragile states—humanitarian, diplomatic, and military, each with different objectives and approaches—makes the development of joint assistance strategies there more difficult.) Among the agencies of the UN system, joint assessments and assistance strategies are now 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. Meanwhile, in May 2004, the EU Council of Ministers approved a report defining the Union's contribution to advancing coordination, harmonisation, and alignment in five areas: a Road Map for country-level harmonisation, joint assistance strategies, complementarity, coordination of policies, and a common framework for aid implementation procedures (see Box 12).

Table 3. Examples of Harmonised Assistance Strategies

Countries	Type of strategy/programming	Donor agency
Bangladesh	Joint task force on PFM to review harmonisation and alignment of aid modalities with country system. Coordinated country assistance strategy Joint review of aid governance studies	AsDB, DFID, Japan, WB UNDP, Canada, Netherlands
Cambodia	Coordinated country assistance strategy with Government of Cambodia Collaboration in preparation of assistance strategies	AsDB, DFID, WB
Mediterranean Region (MEDA countries)	MOU establishing joint strategies, a joint financial instrument, joint offices and staff exchanges	EC, EIB, WB
Nepal	Donors have agreed on common outcomes for their country assistance programmes	DFID, WB
Papua New Guinea	Coordinated country assistance strategy under consideration	AsDB, AusAid, WB
Rwanda	Donors preparing assistance strategies in consultation with others	DFID, EC, SIDA, UN system
Tajikistan	Linkages among donors working on poverty reduction programmes	EC, WB
Tanzania	Government finalising concept paper on joint assistance strategy in consultation with donors	CIDA, Denmark, DFID, EU, Finland, Ireland, Netherlands, Norway, Sweden, WB
Uganda	Ongoing process to develop a joint country assistance strategy	DFID, Germany, Netherlands, Norway, SIDA, WB
Vietnam	Action Plan for closer coordination and harmonisation among EU donors in support of the Vietnamese action plan on harmonisation	Austria, Belgium, Czech republic, Denmark, EC, Finland, France, Germany, Hungary, Italy, Luxemburg, Netherlands, Poland, Slovak republic, Spain, Sweden, UK
Zambia	A joint multiyear strategic plan is expected to be completed by end-2005	Canada, Denmark, Finland, Germany, Ireland, Japan, Netherlands, Norway, Sweden, UK, UN, WB

³⁵ Joint financial management assessment mirrors the intent of PEFA 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.

Box 12. Road Map of the EU Ad Hoc Working Party on Harmonisation

The EU Ad Hoc Working Party on Harmonisation, established in April 2004,^a focuses on enhancing EU coordination and harmonisation at the country level. It is working to develop 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. The Road Map will be country-specific and will consist of a menu of possible options: for example, 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 work to elaborate common development policies in specific sectors or circumstances. Given the strong implementation focus, the Working Party encourages member states and the Commission to further decentralise competencies, responsibilities, and decision making to facilitate a country-led approach to harmonisation.

^a The EU Council of Ministers established the Ad Hoc Working Party on Harmonisation as a follow-up to the Monterrey Consensus and the Barcelona Commitments, adopted in 2002 by the EU Heads of States, "to take concrete steps on coordination of policies and harmonisation of procedures before 2004, both at European Commission and Member States Levels, in line with internationally agreed best practices including by implementing recommendations from the OECD-DAC Task Force on Donor Practices."

Harmonised Operational Approaches. Considerable progress is being made toward the use of harmonised approaches to budget support, although this has not necessarily resulted (yet) in reducing transaction costs for donors or (more importantly) for government.³⁶ However, as noted above, there have been cost reductions in Tanzania, as well as increases in aid effectiveness. Among the agencies of the UN system, for example, new policies and procedures facilitate joint programmes, with a lead agency and pooled financing arrangements. A recent study conducted by the Strategic Partnership with Africa (SPA)³⁷ concluded that sector programmes on procurement arrangements, disbursement mechanisms, financial management, technical assistance, and capacity building had very low levels of harmonisation.

Joint Financing Arrangements for EU Donors. The EU Council of Ministers recently approved increased use of joint financing arrangements (JFAs), which help EU donors harmonise their aid modalities and the procedural requirements, as well as facilitate harmonisation with non-EU donors.³⁸ JFAs establish a framework for coordinating donor support and cooperation with a partner government. Under these arrangements, signatories agree to undertake support jointly, work within one set of procedures, monitor and measure results at the end, and 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. JFAs could apply to budget support, sector-wide approaches, and related basket funding, or jointly financed programmes and projects;³⁹ they have been used, for instance, for multidonor budget support operations in Bolivia, Mozambique, and

³⁶ "Progress in Harmonisation and Alignment at the Country Level," Note by the SPA Working Group, DAC Meeting 2-3 July, 2004.

³⁷ SPA Secretariat, SPA-2003 Sector Program Tracking Report Based on SPA Partners' Inputs, January 2004.

³⁸ 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.

³⁹ JFAs could cover goals of the program supported; responsibilities and representation; financial contributions; consultation; decisionmaking; organisational structure; disbursements; procurement; reporting, review, and evaluation (missions); audit; noncompliance, and force-majeure; corruption; modifications; withdrawal; dispute settlements; and technical assistance.

Nicaragua. It is expected that increased use of JFAs will lead to a decrease in the number of stand-alone projects and programmes funded by individual EU donors.

Bilateral/Multilateral Harmonisation. In a number of Asian countries, where JBIC, the AsDB, and the World Bank provide a dominant share of the external development assistance, the three institutions 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 Bangladesh, Cambodia, Indonesia, Kyrgyz Republic, the Philippines, and Vietnam (see Box 13). In Vietnam, two other bilateral agencies—Germany’s Kreditanstalt für Wiederaufbau (KfW) and France’s Agence Française de Développement (AFD)—have joined the efforts of the three banks. In the Pacific Islands, Australia is working with AsDB, the World Bank, and NZAID as part of the Pacific Poverty program to harmonise the activities of donors and to enhance the capacity, both within government and civil society, for the collection and analysis of poverty and hardship related data. However, simply developing such common documents and procedures is not enough—they must also be used. 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.

Box 13. Cooperation in East Asia

Guided by strategic partnerships supported at high management levels, JBIC, the AsDB, and the World Bank are involved in a host of harmonisation and coordination activities in East Asia:

- To *harmonise processes*, the three organisations have established working groups and taken action in several areas, including fiduciary issues, capacity building, governance, and evaluations. For example, in Vietnam, the three banks, joined by KfW and AFD, are implementing activities in support of the partner’s harmonisation action plan, giving priority to aligning operational processes in fiduciary work, project preparation, and portfolio management.
- The three organisations are cooperating closely on *coordinating strategies and operational activities*, including country strategies, normally under a PRSP umbrella (for example, joint strategy and CAS formulation in Cambodia, cofinancing of PRSCs in Vietnam, and coordination of aid efforts in Timor Leste).
- The three banks are *jointly strategising* on analytic work (such as joint portfolio reviews in Indonesia, Philippines, and Vietnam), regional studies (Regional Infrastructure Study) and allocation of concessional resources (collaboration on Nam Theun 2 in Lao PDR).
- Global issues, including global and regional public goods, are also emerging as an important cooperation arena for all three institutions. The objectives of the three institutions regarding *dissemination of global development knowledge* (last year in Tokyo JBIC and AsDB co-hosted, with IDB, a forum in which the World Bank also participated) are strongly aligned with those of the GDLN. In June 2004, AsDB participated in the launching of the Tokyo Development Learning Center, which JBIC is now using for its operational work and other activities.

The three institutions’ joint efforts to improve aid effectiveness are working well at the country level, but some of the country-level work could be shared with other countries in the region—for example, a standard bidding document is a harmonised product that other countries can use. At the country level, the key challenges are going to be rationalising the use of project management units and working to move forward on the results agenda. And an immediate challenge for the three agencies will be to help coordinate the recovery and reconstruction efforts in areas affected by the tsunami.

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 development 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.⁴⁰ 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 Government (see Box 14). It will be important to continue developing common procedures for projects. In addition, as many donors shift from project-based support to SWAps and budget support, appropriate environmental assessment approaches - commonly known as “strategic environmental assessment” - will be needed.

Box 14. Harmonisation of Environmental Safeguards in Vietnam

In Vietnam, a rapidly growing economy with aid flows increasing in infrastructure financing, five major donors—the AsDB, France’s Agence française de développement (AFD), the Japan 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.

Untied Aid. It is widely acknowledged that tied aid - that is, aid that must be used to purchase goods or services from a particular donor country - undermines aid effectiveness. It has been clearly documented that tying aid raises the cost of many goods, services, and works by 15-30 percent,⁴¹ and the cost of food by 40 percent.⁴² If we consider 20-30 percent to be an approximate average of the direct cost of tying aid, then tying aid reduced the actual value of total bilateral aid by USD 5-7 billion in 2002. Put in another way, tying significantly reduces the de facto grant element of aid because of the rents captured by exporters in donor countries. But beyond these financial aspects, tied aid hinders developing country ownership of programmes and requires procurement procedures that often circumvent local procurement systems. This not only results in higher transaction costs, but also limits incentives and efforts to harmonise donor procedures and co-ordinate their activities. Over time, many donors have increased the relative share of untied aid in their bilateral programmes. Annual reviews of DAC’s 2001 recommendation to untie aid to the least developed countries have concluded that overall,

⁴⁰ 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).

⁴¹ Jepma, C. (1991), *The Untying of Aid*. Paris, OECD.

⁴² The Developmental Effectiveness of Food Aid and the Effects of its Tying Status, DCD/DAC/EFF(2004)9.

implementation is progressing well, but that the actual impact on aid effectiveness is modest because the focus and coverage of the recommendation were limited. DAC donors will maintain their efforts to implement the 2001 DAC Recommendation on Untying ODA to the Least Developed Countries and consider how to extend its benefits.

B. HARMONISING AND SIMPLIFYING PROCEDURES

Over 90 per cent 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. In 2003 the members of the United Nations Development Group approved and began applying a fully harmonised and simplified programming and implementation process. The World Bank has introduced reforms enabling pooling of resources under SWAps and other modernisation and simplification actions supporting greater harmonisation. In addition, in 2003 and 2004 the World Bank (a) required that all new country assistance strategies for countries that are eligible to borrow from IDA be based on the country's PRSP and issued new guidance on such results-based strategies, (b) amended its audit policy to align with international auditing standards and increasingly rely on country audit processes, (c) liberalised its expenditure eligibility requirements to better align financing with needs, (d) adopted new procurement guidelines opening up eligibility to bidders from all countries of the world and allowing harmonisation based on best practice recommended by the MDB heads of procurement, and (e) revised its development policy (formerly adjustment) lending policies in a way that further recognises the importance of country ownership and collaboration among donors. The IDB has recently adopted similar policies for SWAps and expenditure eligibility, and work in some of the same areas is in progress at the AsDB. Among bilateral agencies, the most progress was reported among Nordic Plus members.⁴³ Several 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 with its main partner countries and normally also with other partner countries 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. In 2004 the members of the United Nations Development Group approved and began applying a fully harmonised and simplified programming and implementation process. The World Bank has undertaken a series of policy changes that would enable it to harmonise and align at the country level. The IDB recently adopted a similar policy and work is in progress at the AsDB.

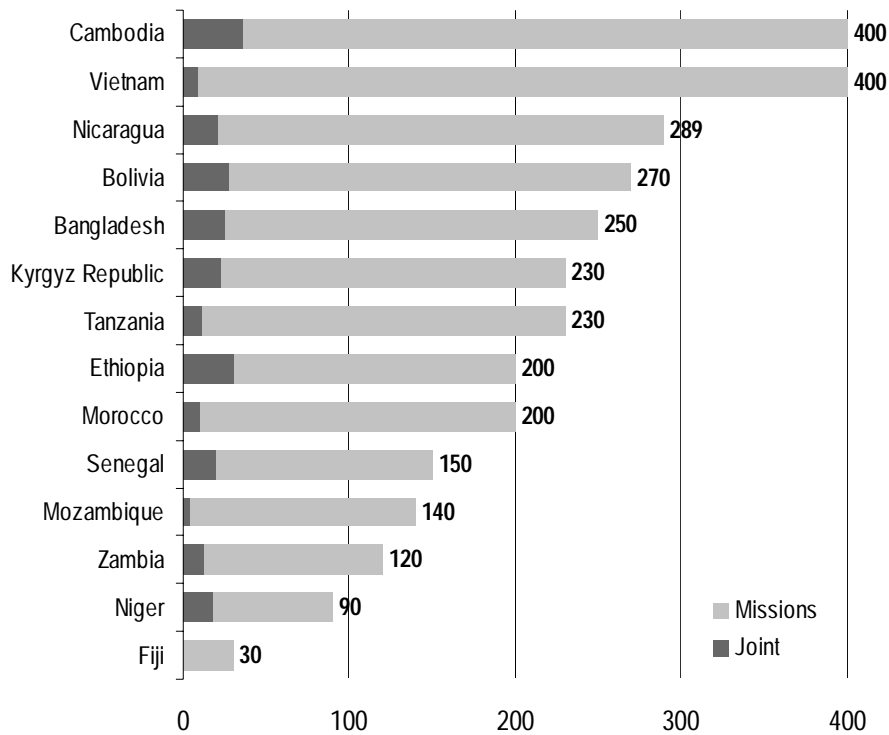
⁴³ The original Nordic Plus group of countries included Denmark, Finland, Ireland, Netherlands, Norway, Sweden, and the United Kingdom.

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 Executive Committee of the undg (UNDP, UNFPA, UNICEF, and WFP), 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 harmonisation activities have included efforts by the MDBs to create harmonised standard bidding documents for goods, works, and services contracts on projects they finance, and to simplify 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 of countries jointly developed a set of procurement policies and guidelines on harmonisation that explicitly encourage use of the strategies and tools developed by the Procurement Joint Venture and that aim to maximise use of partner country procurement systems. Where full use of these systems is not possible because of the risks involved, the guidelines provide 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 information technology 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.

Audit Requirements. Over the past two years, a working group (Harmonisation in Overseas Audit Practices, or HOAP) has been working to develop a common approach to the audit of multidonor SWAp and donor budget support operations. HOAP tested the approach by mounting a pilot audit of the 2003 Zambia Education SWAp expenditure, conducted jointly by the audit offices of Netherlands, Norway, and United Kingdom. The results of the pilot audit showed that a group of independent-minded supreme audit institutions could work together and form a common audit report. This experience should be useful in supporting the design of new funding agreements to help anticipate and avoid potential problems with ensuring appropriate audit.

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 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 high number of missions is a clear symptom of weak progress toward alignment and harmonisation. To reduce the burden for partner countries, donors need to more effectively decentralise 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 4. Number of Donor Missions



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 behalf.⁴⁴ 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, 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; and the UN has introduced guidance notes on joint programming that allow for partnerships between UN agencies. Box 15 provides some examples of delegated cooperation initiatives.

⁴⁴ The extent and nature of delegated cooperation can take many forms and vary according to the type of aid (project, sector, or budget support), as described in Chapter 6 of the DAC Reference Document *Harmonising Donor Practices for Effective Aid Delivery* (OECD, 2003).

Box 15. Delegated Cooperation

- In *Malawi*, Sweden has delegated the administration of its entire bilateral aid programme, except budget support, to Norway. The two countries are also planning a similar arrangement in *Mali*, with Sweden as the lead donor.
- In 2002, under a delegated cooperation agreement for the *India* health sector, CIDA delegated its role to DFID. CIDA and DFID also have a delegated cooperation agreement in *Bangladesh's* Financial Management Reform Programme.
- 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 Cook Islands, Australia has a delegated cooperation programme with New Zealand whereby NZAID delivers the total Australian and New Zealand combined program.
- In energy programs in *Malawi*, *Uganda*, *Tanzania*, and *Zambia*, 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

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.

Analytic Work. Not all donors are rising to the challenge of transparency in country analytic work (CAW), even though it can help them to develop a common basis for interacting with partner countries and each other, without compromising their institutional independence. In the countries surveyed, a majority of donors were candid in saying they posted only some of their output, or none at all; their reasons included the lack of a centralised unit that can quickly identify and approve material for public disclosure, or the lack of decentralised units, such as country offices, that could quickly post relevant documents. When it is not feasible to do analytic work jointly with other actors in the first place, it is good to give them immediate access to the analysis and results, since knowledge sharing is key to improving development impact and cost-effectiveness. In addition, sharing information about upcoming or planned analytic work allows donors and partner governments to identify possibilities for joint work at an early stage and can provide an opportunity for capacity building. 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 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 participate in this 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 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. Overall, donors should step-up their efforts to increase dissemination of both published and planned analytic work through the CAW Joint Website and individual institutional websites.

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 programme design purposes have little or no reliability as a basis for projecting disbursements, even in the relatively short term. The DAC Working Party on Aid Effectiveness is carrying out work on the complex reasons for unpredictability in donor disbursements, looking ahead over the medium term.

Multi-year Aid Predictability and Programming. 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 is seen as the main deterrent to moving toward multi-year 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 arrangements 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

Although donors have made great strides in their work on harmonisation, they will need to continue their efforts and, in many ways, deepen it. Given that this work involves both operational and investment elements and is costly, they should place a high premium on disciplined engagement that leads to productive outcomes and monitorable improvements in business practices. They should carry out more joint diagnostic work, share information systematically, simplify procedures and make them transparent, and 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 (limiting sector/budget working groups to efficient numbers) and through subcontracting arrangements (delegated cooperation) that reduce the burden on partners. Each donor can identify and analyse the areas in which to take further action through self-assessments (see Box 16).

Increasing Donor Complementarity. Partners and donors will need to work together to reduce the burden on partners that arises from excessive fragmentation of donors at global, country, and sector levels.⁴⁵ 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

⁴⁵ See EU Donor Atlas, Mapping Official Development Assistance, May 2004. The increased need for enhancing the effectiveness of aid and reducing transaction costs requires a qualitative jump in terms of operational complementarity. The EU Donor Atlas presents updated information on each of the 26 EU donor's strategic framework and activities. It shows current trends and directions of development and takes stock of related activities over the last decades. It highlights areas and scope for further improvements, and intends to trigger further discussions on donor complementarity. The Atlas is available online at: <http://europa.eu.int/comm/development>

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 coordination groups and in the context of Consultative Group meetings, for making informed decisions on better division of labour and rationalising the role of donors in a way that reflects the size and the strengths and weaknesses of each one, focusing most on what each can best bring to the collective effort to improve aid effectiveness.

Box 16. Donor Self-Assessment of Progress in Implementing the Rome Agenda: Selected Findings

Bilateral and multilateral donor members of the DAC Task Team on Harmonisation and Alignment are undertaking self-assessments of their progress toward greater harmonisation and alignment since Rome. Initial findings indicate that communication and dissemination of the Rome agenda is well under way, 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 harmonisation and alignment agenda in their work with partner countries—for example, joint diagnostic reviews, joint assistance strategies, and 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 the partner's policies and systems. Several donors state that they use partner systems when they can, but most find 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.

Early lessons:

- Agencies, particularly smaller ones with limited time and staff, need assistance in achieving harmonisation and alignment 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 harmonisation and alignment initiative began: concepts such as “multiyear budgeting” and “procedural flexibility” seem to mean different things to different donors. Establishing some common definitions may be useful.
- 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 coordination and harmonisation at the country level among member states and with the EC. As part of the wider UN reform, the UN agencies coming together in the UNDG have made considerable progress in simplifying and harmonizing programming and operational procedures and in linking their activities with national priorities through the UN Development Assistance Framework.
- In the future, some donors wish to further strengthen monitoring using a methodology for reporting that focuses on concrete results and monitorable indicators.

Creating Incentives for Harmonisation. 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, are emerging as a critical variable on which more thought and action are urgently needed. (Box 17 discusses incentives in greater detail). The relationship between field and headquarters signals is also complex; field office staff often complain that they are asked to make progress that can realistically happen only through administrative changes at headquarters or through increased delegation to the field. In some cases, promising country-based initiatives, which often call for exceptions to established norms, must be seen to receive vigorous, tie-breaking support from senior managers. In others, in-country staff may be bound by the priorities and procedures that flow from headquarters, leaving them little flexibility to align with the country's priorities.

In addition, there is a risk that establishing multiple memoranda of understanding and other local group procedures, or creating a number of delegated cooperation arrangements, important as such activities 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.

Box 17. Incentives for Harmonisation and Alignment

A September 2004 study^a examined how internal incentive systems in both bilateral and multilateral aid agencies influence harmonisation and alignment efforts.

At the *political* level, the efforts and commitment of 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, 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 as well as alignment more difficult on the ground; and insufficient human and financial resources have been devoted to the harmonisation cause. At the *individual* level, although agencies are providing increasing levels of training as well as informal incentives (mainly peer recognition), harmonisation and alignment criteria hardly ever feature in recruitment policies, staff performance assessments, and promotion systems. Therefore, the overall picture shows a certain degree of disconnect between high-level declarations and the challenges of providing adequate additional incentives to bring individual behaviour in line with harmonisation and alignment objectives. Staff members often face conflicting signals that can undermine harmonisation and alignment efforts.

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

- Enhancing positive incentives and removing negative incentives at all three levels—political, institutional, and individual. An example would be building harmonisation into criteria for promotion or recruitment.
- Strengthening the link between headquarters and field offices so that the organisation as a whole can effectively use the wealth of country-level experience on harmonisation.
- Strengthening existing international mechanisms to make them more effective in the adoption and monitoring of common approaches for harmonisation.
- Ensuring that the high short-run costs of harmonisation and alignment are fully funded.

^a *Incentives for Harmonisation in Aid Agencies*, issued by the DAC Working Party on Aid Effectiveness, was prepared by the Overseas Development Institute, financed by UK-DFID, Swiss Development Cooperation, and the World Bank, November 2004.

V. 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 programmes 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 harmonisation 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.

When the Monterrey Consensus established a shared responsibility to achieve better development results,⁴⁶ many in the development community may have been a little surprised. After all, donors had always been concerned with the performance of their projects, and consistently evaluated the outputs of the funding they provided. However, what the Monterrey participants meant was a broader and deeper kind of results: not so much how many clinics are built, but whether mortality rates are falling; not how many schools are built, but how many children receive an education; not how many dollars are loaned to a country, but whether the country has less poverty. For many in the development community, thinking about aid in this way meant a profound shift in orientation.

Managing for Results. This shift in orientation was the genesis of the agenda on managing for results—which simply means managing and implementing aid in a way that focuses on the desired results and uses information to improve decision making. The aid effectiveness pyramid in Chapter 1 showed 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 harmonisation and alignment are not ends in themselves; rather, they are tools to help achieve sustainable results on the ground, and a focus on results must be integral to them. Previous chapters have mentioned many aspects of managing for results in the context of ownership, alignment, and harmonisation. This chapter looks separately at the managing for results agenda, providing a consolidated summary of what has been achieved, what challenges lie ahead, and where improvements in the focus on results are needed.

A. THE GLOBAL AGENDA ON MANAGING FOR DEVELOPMENT RESULTS

Because the managing for results movement is somewhat more recent than the harmonisation and alignment movement, it has fewer concrete achievements to record. Nonetheless, something of

⁴⁶ 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>.

tremendous importance has been accomplished: since Monterrey a community of practice on managing for development results has emerged that has worked through international roundtables,⁴⁷ discussions, and exchanges of ideas to lay the conceptual foundations for the agenda (see Box 18). In addition, bilateral and multilateral donors have formed the Joint Venture on Managing for Development Results, under the DAC Working Party on Aid Effectiveness, to continue efforts in this area. Partner countries and donors are converging around these core principles as they increase their results focus.

Areas for Action. The global results agenda calls for actions at three levels. Countries need to strengthen their capacity to manage for, and achieve, development results; donors need to work internally to use their assistance programmes to more effectively support countries in achieving results; and the donor community needs to work together to share knowledge, harmonise policies and reporting requirements, and coordinate support for country capacity to manage for results.

Box 18. Promoting a Harmonised Approach: Principles on Managing for Results

The Joint Marrakech Memorandum outlined a set of principles for a harmonised as well as aligned 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 donors and partner countries on how best to manage for results, and ultimately get better results for sustainable improvements in the lives of poor people.

The principles:

- Focusing the dialogue on results at all phases of the development process—from strategic planning through implementation to completion and beyond.
- Aligning actual programming and monitoring and evaluation activities with the agreed expected results.
- Keeping the results reporting system simple, cost-effective, and user-friendly.
- Managing for, not by, results.
- Using results information for management learning and decisionmaking, as well as for reporting and accountability.

B. EARLY PROGRESS IN MANAGING FOR DEVELOPMENT RESULTS

Having laid the conceptual foundation for the global results agenda, over the past two years the development community has moved into the implementation phase. Progress has been made in all three areas.

1. COUNTRY PROGRESS

Today it is widely understood that countries, and their policies and institutions, are the key drivers of development outcomes—that is, that unless countries themselves lead development efforts, external assistance will prove ineffective. Thus the first area of action in the global results agenda is at the country level. As short as the agenda's implementation phase has been, there is evidence that managing for development results is taking hold in partner countries.

⁴⁷ See proceedings of the First Roundtable on Better Measuring, Monitoring, and Managing for Development Results, Washington, D.C., June 5-6, 2002; and the Second Roundtable on Managing for Development Results, Marrakech, Morocco, February 4-6, 2004: <http://www.managingfordevelopmentresults.org>.

Strategy and Planning. For countries, managing for development results begins with identifying national goals and developing the strategies to achieve them. For low-income countries, the PRS is a common platform for defining the outcomes they want to achieve and the strategies to attain these results. Middle-income countries have no common platform, but most set out national development strategies. It is true that the results orientation of many of these strategies is still weak. However, countries such as Bangladesh, Nepal, Sudan, Timor Leste, and Vietnam are making progress in linking the PRS or development strategy to results-based expenditure management and performance orientation in public administration, and central and line ministries are developing more results-focused strategies accompanied by results frameworks to monitor progress. As another example, in Ethiopia, strong sector strategies in health and education have helped in setting a well prioritized and costed PRS programme.

Public Expenditure Management. Governments use the budget to reconcile competing policy objectives and their implementation in concrete terms. As governments move toward a results focus, they need to implement a budget strategy that ties annual budgets to national plans or poverty reduction strategies. Some more advanced countries (Brazil, Philippines, South Africa, Thailand, Uganda, Vietnam) are forging increasingly strong links between expected results and budget and medium-term expenditure processes. In all countries, though, there are pockets of innovation where the principles of managing for results are being applied—perhaps in a line ministry, in a programme, or in cross-cutting themes.

Results-Based Monitoring and Evaluation Systems. Results-based monitoring and evaluation (M&E) is a public management tool—it yields information that can be used both to manage ongoing policies, programmes and projects better and to demonstrate progress to citizens. It links actions with desired country outcomes, showing the extent to which one contributes to achieving the other. M&E systems depend on careful definition of objectives and identification of indicators. As countries recognise the critical role of M&E in informing sound policy and programme decisions, they are developing strategies to improve their M&E systems (for example, Philippines and Vietnam).

Statistical Capacity. One of the most crucial aspects of managing for results is the ability to collect and use statistics. If countries cannot measure their baseline—for example, the number of people living in poverty, or the number of girls in school—and if they cannot measure the outcomes of interventions, they cannot manage for or demonstrate results. More importantly, they have no information on which to base the management of resources to achieve results. Thus developing the ability to collect and use statistics and data empowers countries as they seek to exercise stronger aid management leadership. Two kinds of data are needed: aggregate country statistics and indicators are important for international comparisons and for assessing country development performance over time; and more disaggregated and timely information is needed for ongoing management of ministries and programmes, and for accountability. The increased resources needed to help countries strengthen their statistical systems and reporting mechanisms will only happen through effective international partnership. At Marrakech the statistical community set out an Action Plan on Better Data for Better Results, focusing at the national level on mainstreaming strategic planning of statistical systems, preparing for the 2010 census round, and increasing financing for statistical capacity building.⁴⁸ Since then, programmes for statistical capacity development have started in Burkina Faso and Ukraine, and other countries—Albania, China, India, Kenya, Nigeria, and Yemen, for example—are finalising strategic plans.

⁴⁸ The Action Plan also has an international focus: setting up an International Household Survey Network, improving MDG monitoring, and increasing accountability for the international statistical system.

2. DONOR PROGRESS

Donors do not achieve development outcomes directly through their individual actions; for them, success depends on effectively deploying assistance in countries and in programmes that deliver, and on influencing country policies and programmes—often at a distance. This means that it is inherently hard to assess a donor’s contribution to the achievement of country outcomes—and, indeed, to design assistance programmes to maximise that impact. Thus donors are working to be more relevant and effective partners by strengthening the focus on results in their strategies, instruments, incentives, and reporting systems.

Results-Based Country Programming. Many donors are using results-based country programming to improve their alignment to country strategies—deriving country programming directly from the results specified in the partner country’s PRS (or equivalent process), and linking their support to the partner’s MTEF. The MDB/OECD-DAC Joint Venture on Managing for Development Results is analysing emerging practices for future dissemination. (Box 19 presents the general principles for results-based country programming.)

Operational Products and Services. Important as strategies and programming are, by themselves they do not achieve results. But if the individual operations that donors fund are to achieve results, they must be of high quality, relate to the country strategy, and have synergies with other operations. Many donors, including the MDBs, are giving greater attention to the quality and impact of their operations through enhanced monitoring and evaluation and portfolio management.

Results-based Aid Allocation. Another results-related issue for donors is taking account of results in aid allocations. The Joint Venture on Managing for Development Results commissioned a study of how donors are approaching this issue. A few are experimenting with formal models to inform their aid allocation, with a performance-based approach that also takes account of factors such as poverty and population. The objective is not that allocation decisions should be made according to these models but that those making allocation decisions should be informed by the norms that emerge from the models. In a co-ordinated effort, the Learning and Advisory Process on Difficult Partnerships of the DAC commissioned studies on allocations of aid to fragile states in the context of the same overall performance-based approach. One common finding from these studies is that some partner countries with strong performance have attracted so much aid from so many donors that the aggregate far exceeds what performance-based norms would suggest. At the other extreme, some fragile states with weak performance attract so little aid from so few donors that they become “donor orphans”, with aggregate aid falling well below the performance norms. This then raises a related issue of how these apparent imbalances should be addressed, whether at the level of individual donors or the overall system of aid architecture. However, the findings, and others that have emerged, are preliminary and require verification through further analysis and debate.

Incentives. The lessons of change management programmes suggest that when management systematically focuses its attention on an issue—for example, through corporate reporting—the signals to staff follow. In most donor agencies, management is demonstrating its interest in and commitment to the results agenda. At the same time, as in the case of harmonisation and alignment, donors need to identify and correct disincentives that staff may perceive in human resources and budget policies, ensure that there is adequate capacity for staff to draw on in implementing the results focus at the country level, and provide appropriate incentives and support, including effective staff guidance and training and supportive information technology systems. As one incentive approach, DFID has introduced links between senior management’s pay and certain results.

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 donors have been upgrading their aid effectiveness work and strengthening their corporate reporting; for example, both the African Development Bank and the Asian Development Bank are building on the recently developed IDA14 Results Measurement System to guide their own corporate reporting.⁴⁹

Box 19. Results-Based Country Programming

Results-based country programming can be a powerful tool to improve strategic selectivity, enable a 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 programme can improve teams multi-sectoral 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:

- 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.
- 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.
- 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.
- Support strengthening country capacity to measure, monitor, and manage for results.
- Within aid agencies and governments, strengthen the internal incentives for moving toward results-based country strategies, including performance incentives, skills upgrading, and team working, 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. These principles 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).

⁴⁹

The IDA14 Results Measurement System will assess results at two levels. Tier 1, which consists of 14 outcome indicators that are closely related to the MDGs and outcomes identified in MDGs, will monitor trends in "big picture" outcomes to which IDA14 contributes. Tier 2 will monitor measures of operational performance that are under the direct control of IDA staff and management. See *IDA Results Measurement System: Recommendations for IDA14*, June 2004, available at <http://web.worldbank.org/>.

3. PROGRESS TOWARD A GLOBAL PARTNERSHIP

The Monterrey Consensus spurred a global partnership for results that has been changing the way partner countries and donors work together. Fostering this global partnership is an important element of the donors' commitment to manage for development results, and has become a key part of each donor's results agenda. As a result, donors are making a more systematic effort to identify actions that produce results, scale up support for what works, ensure the availability of basic data to steer toward shared goals, and converge in their approaches to managing for development results. Global dialogue on country outcome monitoring is leading to harmonisation of donors' and partners' approaches, policies, and procedures, thus reducing the costs to partner countries of dealing with the aid agencies. Donors are addressing the challenge of coordinated support for capacity building and collaborative design, monitoring, and evaluation of operations.

Sharing Knowledge on What Works. Donors recognise the importance of drawing international lessons from what works and what doesn't, and disseminating this information broadly. The MDB/OECD-DAC Joint Venture on Managing for Development Results provides one forum in which participants share emerging practices and learn from each other and from partner countries, to help them harmonise their operational policies and procedures and coordinate their support for country capacity building. A Sourcebook on Emerging Good Practice in Managing for Development Results is being prepared to capture this experience and make it available worldwide. Another valuable opportunity for discussing experiences was the four regional workshops that took place in October/November 2004.⁵⁰

Harmonisation around Results Reporting. As aid agencies align their cooperation strategies to country priorities, they must also harmonise their results reporting requirements around national monitoring and evaluation systems that help countries to manage for results. For example, in countries such as Mozambique donors are using the country's performance monitoring frameworks to report on budget support, or are using agreed results frameworks for reporting on programme support, especially in SWApS. Such efforts allow donors to evaluate the feasibility of relying on a country's M&E systems and assess what capacity building efforts are needed. Through the Evaluation Cooperation Group,⁵¹ the MDBs have worked to harmonise 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. If partner countries are to strengthen their strategic planning, analytic, statistical, and M&E capacity, they will need more, and better coordinated, support. Donors increasingly recognise that strengthening capacity in these essential areas should not be an afterthought, but rather a central component of their cooperation strategies. Donors are beginning to work together to assess the monitoring and evaluation setting in country and align their capacity-building support to a national strategy on M&E—but this work is in its infancy.

C. CHALLENGES AND THE WAY FORWARD

Despite some good progress in managing for results, a complex and demanding implementation agenda lies ahead that requires medium-term institutional development at the country level, systems development and a continuing evolution in mind-set within donors, and an easing of constraints to

⁵⁰ See Annex 2: Summary Note on Regional Workshops on Harmonisation, Alignment and Results.

⁵¹ The Evaluation Cooperation Group was set up in 1996 to strengthen collaboration on and harmonisation of evaluation work among the MDBs' evaluation units.

harmonised action among agencies. A number of challenges need to be addressed to fully implement the results agenda.

Partner Countries. The success of the global results agenda depends on partner countries' willingness and ability to manage for results. This in turn is determined by countries' institutional capacity—which in many cases is still insufficient. In the area of strategy, PRSs and equivalent documents are not always adequately focused on results: they often fail to prioritise; they inadequately assess trade-offs among development options; they lack cost-benefit analysis for making strategic decisions on investments; and they are not always aligned to a public expenditure review or to the capacity of the budget to deliver resources to finance proposed programmes and projects. Finally, there are many weaknesses in countries' statistical systems, so results cannot be adequately monitored and evaluated and lessons drawn for the allocation of resources to future programmes to achieve better results. Donors will need to intensify their support for strengthening countries' capacity to integrate a focus on results into their own strategy formulation and public sector management. In addition, civil society will need to participate in the development process and continue its demand for greater accountability for results.

Donors. Donors need to continue, and expand, their efforts to align their country programmes to the results frameworks and medium-term budget frameworks set out in country strategies. All donors need to fully incorporate results frameworks in their country assistance programmes and strengthen the associated M&E systems. They will also need to move beyond country strategies and programmes to focus on results in global, regional, and sectoral programmes. If donors are to become more effective institutions for delivering development services to partner countries, they need to strengthen their results-based thinking. The essential change is a change in mind-set—from focusing on programming inputs and then analysing their likely impacts, to focusing on the desired outcomes and then identifying what inputs and actions are needed to achieve them.

Global Development Community. Donors as a group need to understand that fragmented and uncoordinated assistance to partners that is not focused on a careful assessment of likely results is counterproductive. If donors are to rely on the capacity of partner countries to monitor and assess progress toward results, they will need to provide coordinated support for strengthening national monitoring mechanisms and statistical institutions. The progress in harmonising evaluation methodologies and engaging in joint design, supervision, and evaluation should be widened to encompass harmonisation of results reporting around national monitoring and evaluation systems, as well as a better understanding of what works and what doesn't in the focus on results. In all this, partner countries and donors need to work together.

Priorities. Going forward, donors' and partners' first priority should be to continue emphasising the need for partners and donors to focus on results in planning and implementing development programmes. The second should be to agree that the documentation for all assistance programmes should include a results framework that sets out the anticipated results and the pathway to those results. Third, partners and donors should commit to strong support for building statistical and M&E capacity in partner countries.

VI. CONCLUSION AND WAY FORWARD

The emerging picture shows progress in implementing the commitments made in Rome and Marrakech. In the past several years, many development agencies and partner countries—low-income countries, middle-income countries, and fragile states—have begun to give high priority to improving the management of aid. As this report reflects, they have made progress in focusing aid more on the goals and activities set forth by partner countries, and they are continuing their efforts to reduce duplication and conflicts in the policies, procedures and processes by which such assistance is programmed, delivered, assessed, monitored, and evaluated. There has also been progress in defining broadly acceptable international criteria in areas such as public financial management and procurement, which will contribute to mutual accountability for the use and outcomes of donors' and partners' development funds.

Continuing Efforts Needed. Compared to just two years ago, the scope and geographic coverage of activities to meet the Rome and Marrakech commitments are impressive. However, it is clear that much more needs to be done to sustain the momentum and apply the developing good practices more deeply and systematically. Bilateral and multilateral donors, working with country partners, still need to make a considerable and collective effort to scale up harmonisation and alignment and managing for development results to maximise aid effectiveness. At the same time, partner countries still need to exercise leadership by improving transparency and good governance, accelerating progress on reforms, and strengthening capacities of public systems of fiduciary management and of monitoring and evaluation.

A. HIGH-LEVEL ATTENTION

As participants in the Rome and Marrakech meetings recognised, sustained high-level attention is essential to ensure that the momentum for these ambitious global change agendas does not stall.

Partner Countries. In each partner country, the highest levels of officials must take concrete action to exercise real leadership of its development process—set goals, develop a results-based strategy for growth and poverty reduction, secure broad buy-in by stakeholders in the country, and then coordinate the efforts of donors to support the strategy. These officials will also need to lead the hard work of reforming or strengthening their country's systems for financial management, procurement, and environmental and social assessment so that they will meet common acceptable standards; donors—and more importantly, the countries themselves—will then be able to rely on these systems to use development funds appropriately. To pursue harmonisation, alignment, and results implementation, countries and donors will need a deepened knowledge of their mutual aid relationship, the costs and benefits of the work, and the approaches and sequences that would be most effective.

Donors. Among donor institutions, few have put in place effective training programmes, procedures, resources, and incentives to support and encourage needed changes in staff behaviour. For example, there are generally no systems of incentives yet in place at either the institutional or individual level, to encourage initiating and sustaining meaningful action. Rather, many aid agencies still have in place arrangements that discourage, often unintentionally, the approaches and behaviours

necessary to meet Rome and Marrakech commitments. There is a need to update these arrangements, including codified requirements, in order to provide operational flexibility and delegated authority, especially to field-based staff for harmonisation and alignment. To deepen implementation of these agendas, donors' senior officials will need to lead their institutions in a range of areas:

- Narrowing the communication gap between the headquarters policy managers, agency operations staff, and field-level staff, and improving the feedback loop between and among them. Progress cannot be deepened unless the emphasis on country-level implementation is matched with clarity of policy, provision of policy guidance, delegation of authority to act, and establishment of clear lines of communication within the agencies so that field-level staff are empowered to be proactive within the full limits of their agency mandates and policy frameworks.
- Deepening the understanding and learning of headquarters, regional, technical and field-level operations staff. This will require additional investment in training, knowledge management, and dissemination.
- Deepening the change management agenda promoting supportive behavioural and cultural change, setting appropriate monitoring indicators and carrying out follow-up action.
- Deepening the partnership between donors in both bilateral and multilateral agencies working on these issues, building on the relationships and experience developed in recent years, and sharing it with emerging donors as they embrace these international agendas in their programmes.

Both Partners and Donors. Senior development officials in partner countries and donors must share an understanding that this work is not easy. On all sides it requires nothing less than a change in mind-set, a revolution in many of the old ways of doing business. Achieving harmonisation, alignment, and managing for results will continue to require intensive work among participants - in the donor community and in partner countries - that typically is costly and unfunded in the short run, yielding benefits and rewards only in the medium to long term. Ultimately, sustained action is influenced by a complex set of incentives operating at the political, institutional, and individual levels. For donors, for example, incentives operate on their relations with partners and other donors; and among and within different parts of their agencies, especially field offices and headquarters; and with their environment (parliaments, audit bodies, advocacy lobbies, and so on). For partner countries, incentives operate within governments and in their relations with other national stakeholders. Making substantive progress after the Paris High-Level Forum will depend very much on whether efforts are appropriately funded and on whether these incentives work for the aid effectiveness agenda and not against it. And finally, accountability: partners will need to deepen their accountability to the people and to their legislative authorities, and donors will need to deepen their accountability to support and not undermine this process through their assistance programs.

B. ACTIONS GOING FORWARD

Overall, then, the picture on progress is mixed, with both promising immediate and potential opportunities and given the remaining obstacles in donor and partner institutions, significant risks. Indeed, one particular risk is that the “clutter” of multiple processes on harmonisation, alignment, and managing for results may generate a growing number of discussion groups, consuming more and more time and generating more “noise” rather than positive impact at the country level. Progress is vital in order to improve and increase public confidence in the effectiveness of development cooperation. The challenge going forward is to find ways to direct the building momentum for change to a few “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.

Paris Declaration. The participants in the Paris High-Level Forum have indicated their commitment to further the work of harmonisation, alignment, and managing for results, and they expect to signal this commitment in a major statement, the Paris Declaration. An integral part of the Paris Declaration will be a series of Partnership Commitments and Objectives - the high-value operational goals called for in the previous paragraph. These operational commitments and goals will be set out under four general headings: ownership, alignment, harmonisation, results and mutual accountability. The Declaration will also set a date for the next high-level forum, to be held in a developing country to take stock of implementation progress.

Monitorable Actions and Indicators. When work on the harmonisation and alignment agenda began to be “globalised” through the increasingly collaborative MDB and DAC processes around 2000/2001, the goals were less precise, the consensus more fragile, and instruments and modalities for implementation more limited than they are today. Since the Rome High-Level Forum, substantial work has been undertaken to develop, test, and undertake the initial survey work for a set of country-level indicators of progress in implementing harmonisation and alignment actions. Given the centrality of country-level implementation, the importance of that work should be recognised - particularly as the country-level indicators have not only measured progress but have also served, in a number of countries, as a framework for government and local donor groups to consider what actions are important. A major advance expected from the Paris Forum is endorsement of a set of monitorable actions for which there will be indicators that are measured at country level and monitored at global level, including those that are specific to individual donor agencies. Indicators would be proposed to monitor implementation progress, with time-bound quantitative targets, and with qualitative ones measuring progress over time. Indeed this in itself will be a concrete measure of the progress made over recent years. The donor and partner country representatives that endorse the Paris Declaration are expected to commit to develop and use both the existing country-level indicators and additional country and global/agency-level indicators that capture more precisely the expected behaviour, processes and outcomes improving aid effectiveness, at all levels of the aid system, and encourage and measure progress toward them.

C. INSTITUTIONAL FRAMEWORK

Looking forward to the serious work that will need to be carried forward after the Paris Forum, it is important to consider what appropriate institutional framework will have the capacity to promote, facilitate, and monitor implementation. Following the Rome Forum, the DAC Working Party on Aid Effectiveness—including the traditional DAC members, the Bretton Woods institutions (IMF and World Bank), the regional development banks, UNDP and members of the UNDG, and 14 partner countries - was set up with a mandate to promote, facilitate, and reporting on progress. The bilateral/regional/multilateral/and national participation on this scale was a critical institutional innovation and set the stage for a strong and evolving partnership that served several aspects of the post Rome agenda well; therefore, there are compelling arguments for maintaining its basic elements and building others within the Working Party that can help to support a monitorable action-oriented implementation agenda after Paris and achieve greater and faster progress before the next HLF. This framework will need to be flexible and adaptable to deal with a much larger and varied group of countries—which could include all those countries where harmonisation, alignment, and results work is taking place, the nearly 50 countries that come under the rubric of fragile states, and, further down the road, emerging donors—as well as increasing involvement of global programmes. Most importantly, the institutional framework for implementation will need to recognise and encourage the power of country-led initiatives supported by well-functioning government/donor mechanisms,

informed and empowered by clear directives from headquarters and knowledge of cross-country lessons learned, and motivated by appropriate incentives.

Coalitions and Communities of Practice. Besides the formal institutional framework, there is a need for coalitions of champions - communities of practitioners - to help facilitate and deepen the agenda. Since the Rome Forum, a few communities of development practitioners have made harmonisation a centrepiece and have aligned key pillars of their pragmatic efforts to improve the impact of their development work. Most of these communities are informal, international groupings of professionals from bilateral and multilateral agencies - joined voluntarily by common interests rather than institutional compulsion - in areas such as education, rural development, financial management,⁵² and procurement, and program-based approaches. They represent a largely untapped reservoir of potential change agents with considerable motivation, valuable skills, and close proximity to front line service delivery.

D. CONCLUSION: A UNIQUE OPPORTUNITY

The preface to this report placed the harmonisation, alignment, and managing for results agenda in the broader context of aid effectiveness, the Monterrey Consensus, and international work to achieve the MDGs. Five years ago, following the Millennium Summit, the international community planned to reconvene in 2005 to look at progress in the MDGs. At Monterrey, an understanding was also reached that the timing and modalities for the review of its consensus would be determined in 2005. The Rome Forum agreed to have a follow-up stocktaking meeting in 2005. In Marrakech, participants were encouraged to seek their agencies' and governments' support for the action plan in 2005. Thus the year 2005 has been planned to focus international high-level attention on these issues in an interconnected way—what progress is being made on meeting explicit targets for MDGs; how much more aid is needed; how it should be delivered; and how it can be managed for better development results.

Time to Act. Nobody could have predicted that the Paris Forum discussions would take place against the backdrop of a tsunami and the global effort to deal with its aftermath. But the unprecedented scale of global humanitarian assistance being provided in the wake of the disaster, the need to address immediately issues relating to the restoration of livelihoods, plan for the likely large-scale reconstruction assistance to come and for broader development, serve to underline the critical importance of effective delivery and management of aid with a focus on results, even under crisis conditions,⁵³ The uniqueness of 2005 therefore makes it a time for action. History will not be kind if, despite the consistency of political support, solid analytic work, global consensus on what needs to be done, and a ready-made and functioning international institutional framework, the international community fails to deepen the harmonisation, alignment, and results implementation process and make its mark in contributing to the achievement of the MDGs.

⁵² Harmonisation in Overseas Audit Practices led by several Supreme Audit Institutions mentioned in para. 64 is a good example of such a group; others are SPA and the learning networks for program approaches (LENPA) and capacity development (LENCDD).

⁵³ The general principles of harmonisation, alignment and results dealt with here and in the other background papers for the Paris High Level Forum contain much that applies directly to both humanitarian assistance and long-term development co-operation in disaster-stricken areas. Also, the 1994 DAC "Guidelines for Aid Agencies on Disaster Mitigation" remain highly relevant. The DAC has recently begun to include humanitarian relief in its Peer Review Process based on the Principles of Good Humanitarian Donorship approved in Stockholm in 2003. The DAC will also consider, jointly with the UN, ways to improve the tracking of aid pledges made in response to disasters.

ANNEX 1

INTERNATIONAL COMMITMENTS

- Excerpt from the Monterrey Consensus
- Rome Declaration on Harmonisation
- Joint Marrakech Memorandum

MONTERREY CONSENSUS

INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT (MARCH 2002)

EXCERPT ON MAKING AID MORE EFFECTIVE (paragraph 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.

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).

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

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.

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 emphasises 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

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

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 incountry 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.

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.

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.

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

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.

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.

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)

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.

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.

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.

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.

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.

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.

ANNEX 2

SUMMARY NOTE ON REGIONAL WORKSHOPS ON HARMONISATION, ALIGNMENT AND RESULTS

In preparation for the Second High-Level Forum in Paris, four Regional Workshops were held on Harmonisation, Alignment and Results. Workshops were planned in order to ensure a balance between harmonisation, 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 harmonisation 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).
- Africa - Dar-es-Salaam, Tanzania (9-11 November 2004).
- Middle-East – Jeddah, Saudi Arabia (8-9 February 2005).⁵⁴

A brief summary on each of these workshops is provided below:

ASIA REGIONAL WORKSHOP - BANGKOK, THAILAND

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 countries,⁵⁵ 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 programme in Vietnam.

⁵⁴ A summary will be available after the workshop.

⁵⁵ Countries invited included Afghanistan, Bangladesh, Cambodia, Fiji, Indonesia, Lao PDR, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Sri Lanka, Thailand, Timor Leste, and Vietnam.

The workshop, was well received by partner government officials, and deepened the involvement of partner countries' officials in the international harmonisation 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.

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

The LAC Regional Workshop on Harmonisation, 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 countries,⁵⁶ 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.

Subsequent sessions on the following days included country case presentations on harmonisation 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.

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 harmonisation 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.

⁵⁶ Member countries included: Bolivia, Chile, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, and Peru.

CENTRAL ASIA REGIONAL WORKSHOP - BISHKEK, KYRGYZ REPUBLIC

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, Kyrgyz Republic. 85 participants attended the workshop from partner countries,⁵⁷ bilateral and multilateral agencies, and civil society.

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.

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 harmonisation 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.

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.

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 organisations.

AFRICA REGIONAL WORKSHOP - DAR ES SALAAM, TANZANIA

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 countries,⁵⁸ 32 multilateral and bilateral aid organizations, and 10 civil society organizations. The 2½ day programme 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

⁵⁷ Member countries included: Azerbaijan, Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, and Uzbekistan.

⁵⁸ 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.

subnational levels with cases from Uganda, Malawi, Kenya, Mozambique; and achieving PRSP results in the region. Participants emphasized that they do not consider harmonisation, alignment, and managing for results as ends in themselves, but rather as important tools for achieving an enhancement of aid 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.

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 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

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.

ANNEX 3

DAC PEER REVIEWS AND HARMONISATION AND ALIGNMENT - OVERVIEW AND FINDINGS IN 2004 -

I. INTRODUCTION

As agreed by the Working Party on Aid Effectiveness and Donor Practices and its Task Team on Harmonisation and Alignment (H&A), DAC Peer Reviews are used as one instrument for reporting on progress in implementing the Rome commitments. A tracking exercise was introduced in 2003 as a first attempt and on-going efforts are being made toward a systematic and structured approach of this issue in Peer Reviews.

Five Peer Reviews of DAC member countries are conducted each year. Since 2004, specific questions on the implementation of H&A principles have been introduced in the questionnaires and reviewed countries are asked to address this issue in their memorandum. During capital visits, extensive discussions on H&A are held with key actors in the national development co-operation system.

Furthermore, as part of the Peer Review process, eight to ten developing countries are visited each year. Discussions with the reviewed DAC member country representation, as well as meetings with donors on harmonisation issues and with partner governments on alignment and co-ordination issues are organised regarding the implementation of the Rome commitments at local level. This generates insight on how the collectivity of donors and the partner government work together and supports an assessment of the performance of the reviewed donor in that context.

II. MAIN FINDINGS IN 2004

These elements inform both Peer Review reports and DAC discussions. In addition, a comparative approach can be built on the basis of the findings of each Peer Review. This annex provides an overview of the main findings on H&A in the Peer Reviews of France, Italy, Austria, Norway and Australia undertaken in the course of 2004. In addition to visits to headquarters for these five Peer Reviews, field missions were conducted to nine countries: Benin, Mauritania, Mozambique, Tunisia, Nicaragua, Bosnia & Herzegovina, Zambia, Papua New Guinea and Cambodia. Four of these countries (Mozambique, Nicaragua, Zambia and Cambodia) belong to the group of 14 partner countries associated to the Task Team on H&A. This overview is structured according to the three principle dimensions of the Rome Declaration, ownership, alignment and harmonisation.

Ownership: Among the nine partner countries visited, the four partners belonging to the group of countries associated to the Task Team on H&A were characterised by higher levels of ownership and thus were more advanced in implementing the Rome commitments as compared to non-Task Team partner countries. At the same time, donors are confronted with very different situations in terms of high/low levels of local ownership in partner countries, leading to very different roles/tasks the former have to take up. All Peer Reviews showed that if the partner country is not assuming responsibility and not taking up a strong leadership role in aid co-ordination and aid management, then the H&A process

becomes very difficult. In situations where partner countries are face low capacity and weak institutions, donors need to actively co-ordinate among themselves and strengthen partner country capacity. However, only a few examples of capacity building were found in the five Peer Reviews.

Alignment: As the five Peer Reviews show, alignment has taken place to varying degrees. While examples of good practice exist, explicit alignment to locally-owned development strategies has taken place in very few cases so far and needs to be strengthened. The Reviews stress the need for aligning all aid modalities, including projects, to national and sector strategies. They also highlight the fact that the adoption of a programme-based approach does not necessarily lighten the administrative burden that aid management poses on partner countries. Donors use different channels at the same time, from SWAPs and budget support to project aid and, as a result, transaction costs for donors and partner countries have not been reduced to a great extent. In addition, the trend towards new modalities means that field office staff increasingly consult with mostly higher level officials from partner countries' ministries and from other donor representatives in-country, with less and less involvement in day to day operations and hence the risk of losing touch with local conditions. Finally, none of the five donor countries has established substantive multi-annual funding commitments. As a consequence, in all five Peer Reviews, the DAC recommended increasing aid predictability through assessing the possibility of multi-year funding commitments consistent with the beneficiary country's programming cycle.

Harmonisation: Four out of five DAC member countries reviewed have produced draft action plans on H&A, which will become effective in 2005 at the latest. However, only one donor had set up formal focal points in order to systematically promote H&A at headquarters and in the field. Delegated or silent partnerships are used by two of the five donors and are considered by a third. Reviews show that a number of conditions are required to improve harmonisation. Adequate decentralisation of authority to the field and enhanced human and financial capacities in field offices appear as key factors to implement harmonisation and ensure aid effectiveness. Furthermore, an organised and responsive system of communication and information sharing between headquarters and the field is required for further progress, and experience from the field should be more systematically taken into account at headquarters and at the international level. The deeper dialogue and closer co-ordination with partners and other donors within the framework of national poverty reduction strategies and programme approaches call for a different set of skills to that required for project implementation. Field offices must therefore be equipped with adequate authority and staff capacity for implementing H&A. However, only two donors have begun to offer staff training which explicitly takes into account H&A issues. Donors should also concentrate their support in a limited number of partner countries and sectors in order to increase results/impact and reduce transaction costs. Finally, DAC member countries should establish monitoring systems in order to measure progress in H&A.

III. FUTURE PROSPECTS

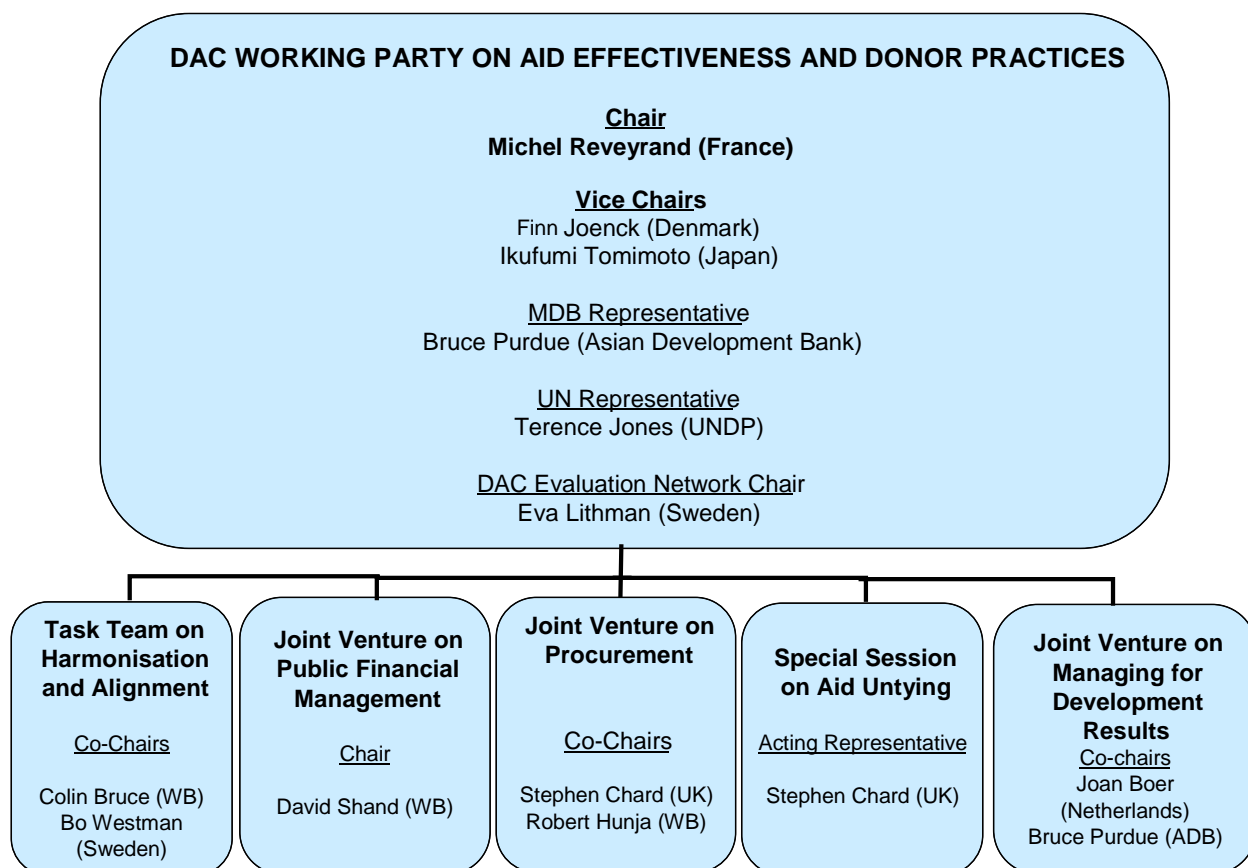
As one instrument for reporting on progress in implementing the Rome commitments on harmonisation and alignment, the 2004 Peer Reviews have shown that they can:

- Gather information from DAC member countries reviewed and from some partner countries in a structured way.
- Provide feedback on the progress of the country reviewed in H&A through Peer Review reports and DAC meetings, as well as through annual synopsis reports on progress toward H&A.

ANNEX 4

DAC WORKING PARTY ON AID EFFECTIVENESS AND DONOR PRACTICES

ORGANISATION CHART (as of March 2005)



ANNEX 5

PARIS DECLARATION ON AID EFFECTIVENESS

Ownership, Harmonisation, Alignment, Results and Mutual Accountability

I. STATEMENT OF RESOLVE

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

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

SCALE UP FOR MORE EFFECTIVE AID

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

- Strengthening partner countries' national development strategies and associated operational frameworks (e.g. planning, budget, and performance assessment frameworks).
- Increasing alignment of aid with partner countries' priorities, systems and procedures and helping to strengthen their capacities.
- Enhancing donors' and partner countries' respective accountability to their citizens and parliaments for their development policies, strategies and performance.

- Eliminating duplication of efforts and rationalising donor activities to make them as cost-effective as possible.
- Reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner countries' priorities, systems and procedures.
- Defining measures and standards of performance and accountability of partner country systems in public financial management, procurement, fiduciary safeguards and environmental assessments, in line with broadly accepted good practices and their quick and widespread application.

We commit ourselves to taking concrete and effective action to address the remaining challenges, including:

- i. Weaknesses in partner countries' institutional capacities to develop and implement results-driven national development strategies.
- ii. Failure to provide more predictable and multi-year commitments on aid flows to committed partner countries.
- iii. Insufficient delegation of authority to donors' field staff, and inadequate attention to incentives for effective development partnerships between donors and partner countries.
- iv. Insufficient integration of global programmes and initiatives into partner countries' broader development agendas, including in critical areas such as HIV/AIDS.
- v. Corruption and lack of transparency, which erode public support, impede effective resource mobilisation and allocation and divert resources away from activities that are vital for poverty reduction and sustainable economic development. Where corruption exists, it inhibits donors from relying on partner country systems.

We acknowledge that enhancing the effectiveness of aid is feasible and necessary across all aid modalities. In determining the most effective modalities of aid delivery, we will be guided by development strategies and priorities established by partner countries. Individually and collectively, we will choose and design appropriate and complementary modalities so as to maximise their combined effectiveness.

In following up the Declaration, we will intensify our efforts to provide and use development assistance, including the increased flows as promised at Monterrey, in ways that rationalise the often excessive fragmentation of donor activities at the country and sector levels.

ADAPT AND APPLY TO DIFFERING COUNTRY SITUATIONS

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

SPECIFY INDICATORS, TIMETABLE AND TARGETS

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

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

MONITOR AND EVALUATE IMPLEMENTATION

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

At the international level, we call on the partnership of donors and partner countries hosted by the DAC to broaden partner country participation and, by the end of 2005, to propose arrangements for the medium term monitoring of the commitments in this Declaration. In the meantime, we ask the partnership to co-ordinate the international monitoring of the Indicators of Progress included in Section III; to refine targets as necessary; to provide appropriate guidance to establish baselines; and to enable consistent aggregation of information across a range of countries to be summed up in a periodic report. We will also use existing peer review mechanisms and regional reviews to support progress in this agenda. We will, in addition, explore independent cross-country monitoring and evaluation processes – which should be applied without imposing additional burdens on partners – to provide a

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

more comprehensive understanding of how increased aid effectiveness contributes to meeting development objectives.

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

II. PARTNERSHIP COMMITMENTS

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

OWNERSHIP

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

Partner countries commit to:

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

Donors commit to:

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

ALIGNMENT

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

DONORS ALIGN WITH PARTNERS' STRATEGIES

Donors commit to:

- Base their overall support — country strategies, policy dialogues and development co-operation programmes — on partners' national development strategies and periodic reviews of progress in implementing these strategies³ (**Indicator 3**).

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

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

- Draw conditions, whenever possible, from a partner's national development strategy or its annual review of progress in implementing this strategy. Other conditions would be included only when a sound justification exists and would be undertaken transparently and in close consultation with other donors and stakeholders.
- Link funding to a single framework of conditions and/or a manageable set of indicators derived from the national development strategy. This does not mean that all donors have identical conditions, but that each donor's conditions should be derived from a common streamlined framework aimed at achieving lasting results.

DONORS USE STRENGTHENED COUNTRY SYSTEMS

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

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

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

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

Partner countries commit to:

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

Donors commit to:

- Use country systems and procedures to the maximum extent possible. Where use of country systems is not feasible, establish additional safeguards and measures in ways that strengthen rather than undermine country systems and procedures (**Indicator 5**).
- Avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes (**Indicator 6**).

- Adopt harmonised performance assessment frameworks for country systems so as to avoid presenting partner countries with an excessive number of potentially conflicting targets.

PARTNER COUNTRIES STRENGTHEN DEVELOPMENT CAPACITY WITH SUPPORT FROM DONORS

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

Partner countries commit to:

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

Donors commit to:

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

STRENGTHEN PUBLIC FINANCIAL MANAGEMENT CAPACITY

Partner countries commit to:

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

Donors commit to:

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

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

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

STRENGTHEN NATIONAL PROCUREMENT SYSTEMS

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

- Use mutually agreed standards and processes⁴ to carry out diagnostics, develop sustainable reforms and monitor implementation.
- Commit sufficient resources to support and sustain medium and long-term procurement reforms and capacity development.
- Share feedback at the country level on recommended approaches so they can be improved over time.

Partner countries commit to take leadership and implement the procurement reform process.

Donors commit to:

- Progressively rely on partner country systems for procurement when the country has implemented mutually agreed standards and processes (**Indicator 5**).
- Adopt harmonised approaches when national systems do not meet mutually agreed levels of performance or donors do not use them.

UNTIE AID: GETTING BETTER VALUE FOR MONEY

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

HARMONISATION

Donors' actions are more harmonised, transparent and collectively effective

DONORS IMPLEMENT COMMON ARRANGEMENTS AND SIMPLIFY PROCEDURES

Donors commit to:

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

COMPLEMENTARITY: MORE EFFECTIVE DIVISION OF LABOUR

Excessive fragmentation of aid at global, country or sector level impairs aid effectiveness. A pragmatic approach to the division of labour and burden sharing increases complementarity and can reduce transaction costs.

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

Partner countries commit to:

- Provide clear views on donors' comparative advantage and on how to achieve donor complementarity at country or sector level.

Donors commit to:

- Make full use of their respective comparative advantage at sector or country level by delegating, where appropriate, authority to lead donors for the execution of programmes, activities and tasks.
- Work together to harmonise separate procedures.

INCENTIVES FOR COLLABORATIVE BEHAVIOUR

Donors and partner countries jointly commit to:

- Reform procedures and strengthen incentives - including for recruitment, appraisal and training - for management and staff to work towards harmonisation, alignment and results.

DELIVERING EFFECTIVE AID IN FRAGILE STATES⁵

The long-term vision for international engagement in fragile states is to build legitimate, effective and resilient state and other country institutions. While the guiding principles of effective aid apply equally to fragile states, they need to be adapted to environments of weak ownership and capacity and to immediate needs for basic service delivery.

Partner countries commit to:

- Make progress towards building institutions and establishing governance structures that deliver effective governance, public safety, security, and equitable access to basic social services for their citizens.
- Engage in dialogue with donors on developing simple planning tools, such as the transitional results matrix, where national development strategies are not yet in place.
- Encourage broad participation of a range of national actors in setting development priorities.

Donors commit to:

- Harmonise their activities. Harmonisation is all the more crucial in the absence of strong government leadership. It should focus on upstream analysis, joint assessments, joint strategies, co-ordination of political engagement; and practical initiatives such as the establishment of joint donor offices.
- Align to the maximum extent possible behind central government-led strategies or, if that is not possible, donors should make maximum use of country, regional, sector or non-government systems.

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

- Avoid activities that undermine national institution building, such as bypassing national budget processes or setting high salaries for local staff.
- Use an appropriate mix of aid instruments, including support for recurrent financing, particularly for countries in promising but high-risk transitions.

PROMOTING A HARMONISED APPROACH TO ENVIRONMENTAL ASSESSMENTS

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

Donors and partner countries jointly commit to:

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

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

MANAGING FOR RESULTS

MANAGING RESOURCES AND IMPROVING DECISION-MAKING FOR RESULTS

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

Partner countries commit to:

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

Donors commit to:

- Link country programming and resources to results and align them with effective partner country performance assessment frameworks, refraining from requesting the introduction of performance indicators that are not consistent with partners’ national development strategies.
- Work with partner countries to rely, as far as possible, on partner countries’ results-oriented reporting and monitoring frameworks.
- Harmonise their monitoring and reporting requirements, and, until they can rely more extensively on partner countries’ statistical, monitoring and evaluation systems, with partner countries to the maximum extent possible on joint formats for periodic reporting.

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

- Work together in a participatory approach to strengthen country capacities and demand for results based management.

MUTUAL ACCOUNTABILITY

DONORS AND PARTNERS ARE ACCOUNTABLE FOR DEVELOPMENT RESULTS

A major priority for partner countries and donors is to enhance mutual accountability and transparency in the use of development resources. This also helps strengthen public support for national policies and development assistance.

Partner countries commit to:

- Strengthen as appropriate the parliamentary role in national development strategies and/or budgets.
- Reinforce participatory approaches by systematically involving a broad range of development partners when formulating and assessing progress in implementing national development strategies.

Donors commit to:

- Provide timely, transparent and comprehensive information on aid flows so as to enable partner authorities to present comprehensive budget reports to their legislatures and citizens.

Partner countries and **donors** commit to:

- Jointly assess through existing and increasingly objective country level mechanisms mutual progress in implementing agreed commitments on aid effectiveness, including the Partnership Commitments. (**Indicator 12**).

III. INDICATORS OF PROGRESS

To be measured nationally and monitored internationally

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

Indicators of Progress, continued.

		PERCENT OF DONORS	
		Score*	Target
5b	<i>Use of country public financial management systems</i> —Percent of donors and of aid flows that use public financial management systems in partner countries, which either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	5+	All donors use partner countries' PFM systems.
		3.5 to 4.5	90% of donors use partner countries' PFM systems.
		PERCENT OF AID FLOWS	
		Score*	Target
		5+	A two-thirds reduction in the % of aid to the public sector not using partner countries' PFM systems.
3.5 to 4.5	A one-third reduction in the % of aid to the public sector not using partner countries' PFM systems.		
6	<i>Strengthen capacity by avoiding parallel implementation structures</i> — Number of parallel project implementation units (PIUs) per country.	Reduce by two-thirds the stock of parallel project implementation units (PIUs).	
7	<i>Aid is more predictable</i> — Percent of aid disbursements released according to agreed schedules in annual or multi-year frameworks.	Halve the gap — halve the proportion of aid not disbursed within the fiscal year for which it was scheduled.	
8	<i>Aid is untied</i> — Percent of bilateral aid that is untied.	Continued progress over time.	
HARMONISATION		TARGETS FOR 2010	
9	<i>Use of common arrangements or procedures</i> — Percent of aid provided as programme-based approaches ⁶	66% of aid flows are provided in the context of programme-based approaches.	
10	<i>Encourage shared analysis</i> — Percent of (a) field missions and/or (b) country analytic work, including diagnostic reviews that are joint.	(a) 40% of donor missions to the field are joint.	
		(b) 66% of country analytic work is joint.	
MANAGING FOR RESULTS		TARGET FOR 2010	
11	<i>Results-oriented frameworks</i> — Number of countries with transparent and monitorable performance assessment frameworks to assess progress against (a) the national development strategies and (b) sector programmes.	Reduce the gap by one-third — Reduce the proportion of countries without transparent and monitorable performance assessment frameworks by one-third.	
MUTUAL ACCOUNTABILITY		TARGET FOR 2010	
12	<i>Mutual accountability</i> — Number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in this Declaration.	All partner countries have mutual assessment reviews in place.	

⁶ See methodological notes for a definition of programme based approaches.

Important Note: In accordance with paragraph 9 of the Declaration, the partnership of donors and partner countries hosted by the DAC (Working Party on Aid Effectiveness) comprising OECD/DAC members, partner countries and multilateral institutions, met twice, on 30-31 May 2005 and on 7-8 July 2005 to adopt, and review where appropriate, the targets for the twelve Indicators of Progress. At these meetings an agreement was reached on the targets presented under Section III of the present Declaration. This agreement is subject to reservations by one donor on (a) the methodology for assessing the quality of locally-managed procurement systems (relating to targets 2b and 5b) and (b) the acceptable quality of public financial management reform programmes (relating to target 5a.ii). Further discussions are underway to address these issues. The targets, including the reservation, have been notified to the Chairs of the High-level Plenary Meeting of the 60th General Assembly of the United Nations in a letter of 9 September 2005 by Mr. Richard Manning, Chair of the OECD Development Assistance Committee (DAC).

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

APPENDIX A:

METHODOLOGICAL NOTES ON THE INDICATORS OF PROGRESS

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

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

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

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

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

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

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

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

**APPENDIX B:
LIST OF PARTICIPATING COUNTRIES AND ORGANISATIONS**

PARTICIPATING COUNTRIES

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

* TO BE CONFIRMED.

PARTICIPATING ORGANISATIONS

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

CIVIL SOCIETY ORGANISATIONS

Africa Humanitarian Action	AFRODAD
Bill and Melinda Gates Foundations	Canadian Council for International Cooperation (CCIC)
Comité Catholique contre la Faim et pour le Développement (CCFD)	Coopération Internationale pour le Développement et la Solidarité (CIDSE)
Comisión Económica (Nicaragua)	ENDA Tiers Monde
EURODAD	International Union for Conservation of Nature and Natural Resources (IUCN)
Japan NGO Center for International Cooperation (JANIC)	Reality of Aid Network
Tanzania Social and Economic Trust (TASOET)	UK Aid Network

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Harmonisation, Alignment, Results

PROGRESS REPORT ON AID EFFECTIVENESS

The international community is committed to helping partner countries meet the Millennium Development Goal of halving global poverty by 2015. Providing more effective aid and increasing its impact on development is one important contribution to this end. This report takes stock of progress made to align donor support with developing country poverty reduction strategies, harmonise donor policies and practices to reduce transaction costs, and manage aid resources with a focus on development results. It has laid the ground for the preparation of the Paris Declaration on Aid Effectiveness endorsed by over 100 donor and developing countries at a High Level Forum in March 2005. In doing so, the signatories subscribed to some 50 specific commitments to do aid better and, for the first time, they agreed to measure progress with a set of indicators and targets. This moved the aid effectiveness agenda beyond the general consensus reached at the Rome High Level Forum in 2003 to what is now a practical blueprint for donors and partners to implement in a spirit of mutual accountability.

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