

3 ALIGNMENT OF AID WITH COUNTRY PRIORITIES AND SYSTEMS

Alignment – one of the five principles of the Paris Declaration on Aid Effectiveness – refers to the provision of aid by donors in ways that respond to partner countries’ development priorities, supporting and using partner countries’ own systems and institutions. The Accra Agenda for Action placed greater emphasis on the systematic use of country systems by donors and the provision of support to partner countries in strengthening these systems. This chapter reviews the progress made and challenges encountered in implementing the Paris and Accra commitments that relate to alignment. Drawing on evidence from the 2011 Survey on Monitoring the Paris Declaration and other relevant evidence, it documents progress and challenges in the alignment of aid to partner countries’ policies and strategies; the alignment of conditions associated with aid; the extent to which partner countries’ own systems have improved since 2005, and in turn whether donors are implementing their commitments on the use of country systems, as well as efforts towards aid untying.

For aid to be most effective, it needs to respond to partner countries’ priorities and be provided in a way that uses and strengthens partner countries’ own institutions and systems. Experience shows that setting up parallel institutions to implement projects that do not reflect country needs and priorities leads to high transaction costs and can ultimately undermine the sustainability of development efforts. When aligned to partner countries’ priorities and systems, aid can provide incentives and momentum to help strengthen capacity, enhance domestic accountability and contribute to more sustainable institutions.

Through the Paris Declaration on Aid Effectiveness and Accra Agenda for Action, donors and partner countries committed to strengthen national policy-making processes and systems for managing aid and other development resources, and to review the performance, transparency and accountability of country systems jointly. Donors agreed to align with partner strategies, draw any conditions from partners’ own strategies, and use national systems for managing aid. In addition, in Paris, partner countries agreed to integrate capacity strengthening objectives in their national strategic plans and donors committed to align to these priorities. Donors also agreed to continue making progress on untying aid as encouraged by the 2001 DAC Recommendation on Untying.

The results of the 2008 Survey on Monitoring the Paris Declaration showed that progress in implementing many of these commitments in the two years following the Paris Declaration had been mixed. For example, while progress had been made in strengthening public financial management (PFM) systems in a number of countries, less progress had been made by donors in using those systems. In some instances, donors’ use of a country system declined while the quality of that system increased. These findings informed the Accra Agenda for Action, which placed greater emphasis on the systematic use of country systems (“using country systems as a first option”) and on the provision of support to partner countries in strengthening these systems, whether for financial management, procurement, statistics or in the management of technical assistance. For their part, partner countries committed to strengthen their own systems further to encourage donors to use them. Donors committed to begin immediate work on plans for using country systems.

Aid can provide incentives and momentum to help strengthen capacity, enhance domestic accountability and contribute to more sustainable institutions.

LIMITED EVIDENCE OF PROGRESS IN ALIGNING TO PARTNERS' POLICY PRIORITIES AND STRATEGIES

It is difficult to assess the degree to which donors align the aid they provide to partner countries' development priorities articulated in their policies and strategies. While most donors consider a country's policies and strategies when developing co-operation programmes – and some have placed increasing emphasis on ensuring that national development strategies are at the centre of the aid programming process – it is not possible to determine whether alignment has improved at this level.

The Paris Declaration indicator 9 on programme-based approaches considers – alongside criteria on harmonising and aligning processes for aid delivery – whether aid is provided in the context of a development programme defined by the partner country. Although limited progress was made against this indicator over the period 2005 to 2010, the target set for 2010 was not met (Chapter 4).

Evidence gathered from the 13 countries participating in the 2011 Survey on Monitoring the Fragile States Principles (Chapter 1) points to situations in which donors have sought to draw more systematically on national development strategies as a broad starting point for their engagement (*e.g.* Central African Republic, Guinea-Bissau, Haiti, Liberia, Sierra Leone, Togo, Timor-Leste). In many of these countries, however, stakeholders noted that national plans and strategies lacked prioritisation and that the absence of this leads donors to design their support based on their own preferences. It was also noted that some donors face challenges in aligning with countries' sectoral priorities, often prioritising support to sectors with more direct or attributable impact on the attainment of the Millennium Development Goals (MDGs) at the expense of cross-cutting priorities (*e.g.* security and justice) more closely linked with peacebuilding and statebuilding objectives.

Aligning with countries' priorities effectively can also be challenging in environments in which these priorities are poorly articulated, or do not reflect the needs of intended beneficiaries. Some donors recognise this explicitly in their programming processes and seek to involve other stakeholders (government, other donors, CSOs) in discussions and decision-making.

■ Aligning conditions with partner countries' development policies

One specific area in which donors committed to improve alignment of their aid programmes was in drawing conditions, whenever possible, from developing countries' own policies. When donors impose conditions on the provision of aid that are not aligned with partner countries' priorities, these can undermine efforts to implement domestic policies and hinder effective prioritisation of activities. Through the Accra Agenda for Action, donors and partner countries committed to work together to “agree on a limited set of mutually agreed conditions based on national development strategies”. They also committed to specific actions to improve transparency around conditions (see Chapter 5).

While there is no single indicator that captures progress in drawing conditions from national development strategies, evidence gathered through various sources indicates overall progress in implementing at least some aspects of these commitments:

- Although partner country governments have not developed policies on conditionality, aid effectiveness strategies developed by some have laid the foundation for influencing the nature of conditionality in the future. Certain approaches – for example, sector-wide approaches – have improved the likelihood of country ownership, mutually agreed conditions, fewer conditions, and improved coordination between donors and partner countries (Smith, 2011).
- When asked to report on their own progress towards aligning conditions with partner country policies and strategies, a number of donors confirmed that they generally agree on conditions with partner countries drawn from their national development strategies (OECD, 2010a).

- Donors see themselves as deriving their conditionality or performance assessment frameworks from a government-led plan or strategy they are supporting. A recent evaluation of budget support undertaken for the World Bank suggests that donors are drawing conditions from a single joint framework in about three-quarters of budget support countries. Multilateral development banks still link their programme aid to policy reforms, but leave space for national decision-making processes by using more flexible arrangements (Mokoro, 2010).
- It is less clear to what extent performance frameworks agreed between donors and partner countries reflect government leadership. There is some evidence to suggest that these have been expanded to include policy actions advocated by each donor. Lengthy and complex performance frameworks make it harder for governments to prioritise and focus their efforts. Larger performance frameworks do not, however, always translate into more conditions attached to aid (Mokoro, 2010).

GLOBAL PROGRESS IN STRENGTHENING COUNTRY SYSTEMS HIDES WIDE VARIATIONS ACROSS COUNTRIES

In both the Paris and Accra agreements, the definition of country systems and procedures included national arrangements and procedures for public financial management, accounting, auditing, procurement, monitoring and evaluation. This section outlines the available evidence of progress on commitments to strengthen these systems.

■ Reliable public financial management systems (indicator 2a)

One of the Paris Declaration indicators – indicator 2a – looks at the quality of partner countries' PFM systems. The global target associated with this indicator foresees that by 2010, half of all partner countries taking part in the Survey on Monitoring the Paris Declaration should move up at least one measure (*i.e.* 0.5 points) in their score for budget and financial management as measured through the World Bank's Country Policy and Institutional Assessment (CPIA) framework (World Bank, 2010).

More than one-third of the countries have improved the quality of their PFM systems while a quarter of them saw setbacks

Table 3.1 Quality of country public financial management systems Indicator 2a (2005-10)

Score	2005		2007		2010	
	No. of countries	%	No. of countries	%	No. of countries	%
Strong 4.5	1	2%	0	0%	2	4%
4	10	19%	12	22%	8	14%
Moderate 3.5	19	35%	18	33%	25	45%
3	11	20%	14	26%	12	21%
2.5	9	17%	5	9%	6	11%
2	4	7%	4	7%	3	5%
Weak 1.5	0	0%	1	2%	0	0%
<i>Number of countries assessed</i>	54		54		56	

This score captures three elements: (i) whether a country has a comprehensive and credible budget linked to policy priorities; (ii) the effectiveness of financial management systems, ensuring that the budget is implemented as intended; and (iii) the extent to which accounting is accurate and financial reporting is timely. A higher score denotes more reliable budget and financial management systems. The CPIA draws on a more PFM-focused assessment, the Public Expenditure and Financial Accountability framework (PEFA).

The Survey on Monitoring the Paris Declaration draws on the most recent CPIA scores published by the World Bank for participating countries. In the 2011 Survey, this means scores for indicator 2a relate to the state of play in 2010 (Table 3.1). The 2011 Survey results show progress in a notable number of countries. However, the overall target set for 2010 has not been met yet. Of the 52 survey countries for which scores were available in both 2005 and 2010, 20 countries (38%) have moved up by at least one measure since 2005. Seven of those countries (Cambodia, Central African Republic, Gambia, Laos, Mauritania, Togo and Tonga) have moved up by two full measures (1 point in the CPIA).

The quality of PFM systems varies across countries and is not necessarily higher in middle income countries: 10 survey countries in 2010 had a score of 4.0 and above including Kosovo, Moldova, Mozambique and Viet Nam. Two countries (Armenia and Burkina Faso) reached a score of 4.5 on the CPIA scale. Over half of the countries participating in the 2011 Survey for which CPIA results were available had a score of 3.5 or above.

Over one third of the countries for which scores are available have seen neither an increase nor a decline in their score for indicator 2a since 2005: 19 remained at the same level as in 2005 (three countries - Ethiopia, Ghana and Madagascar - showed improvements over the period 2005-07 followed by a reverse in these gains). A quarter of the countries (13) saw the quality of their PFM systems decline since 2005 (3 countries - Chad, Nepal and Tanzania - retreated by two full measures on the CPIA scale).

Qualitative evidence gathered through the 2011 Survey highlights the existence of detailed PFM reform plans, and it is clear that in many countries there are strong and robust PFM laws and regulations. However, some countries continue to face challenges in the compliance and implementation of those regulations (e.g. Uganda). In some cases (e.g. Bangladesh), improvements in PFM remain confined to central government agencies and ministries rather than being shared by line ministries and other government entities with whom donors cooperate. In Cambodia - which showed a substantial increase in the quality of its PFM since 2005 - sequencing was seen as one of the main drivers of progress alongside improving financial management at sub-national levels. Evidence also highlights that *de jure* implementation of PFM reforms (e.g. regulatory frameworks in place and governing systems and procedures) are far more often reported than *de facto* implementation (OECD, forthcoming a). However, less attention has been paid to the political economy implications of implementing PFM reform programmes and, in particular, issues relating to change management.

There is some evidence that donors have played a role in contributing to the quality of public financial management in partner countries. For example, a recent evaluation of donor support for PFM shows that it is positively and significantly associated with the quality of PFM systems. On average, countries that receive more PFM-related technical assistance have better PFM systems. However, the association is weak: an additional USD 40 to 50 million per year would correspond to a half-point increase in the average PEFA score. A longer period of donor engagement is also associated with better performance in upstream, *de jure* and concentrated processes (de Renzio *et al.*, 2010).

Evidence on efforts to improve public financial management is not limited to DAC donors. Case studies on south-south co-operation show that mutual learning contributes to better quality and usability of partner country systems. For example, southern-led capacity development around aid management platforms can help improve the incentives for donors to use country systems. Costa Rica's public financial management efforts have drawn on Chile's experiences in the institutional capacity to evaluate budget management (TT-SSC, 2010).

■ Reliable procurement systems (indicator 2b)

Indicator 2b considers the quality of partner country procurement systems – another dimension of country systems around which partner countries committed to make improvements. Indicator 2b offers a score that identifies the quality of a country procurement system on a four-point scale from A (high) to D (low). Measurement is based on the OECD-DAC Methodology for Assessing Procurement Systems – an in-depth diagnostic tool developed to assess strengths and challenges in public procurement (OECD, 2009). Through the Paris Declaration, it was agreed that by 2010 one-third of partner countries should move up at least one measure (*i.e.* from D to C, C to B or B to A). The methodology was first published in 2006, and as such no scoring was undertaken in 2005 – the baseline year used for the other Paris Declaration indicators.

Table 3.2
Quality of country procurement systems
Indicator 2b (2007-10)

Score	2007 No. of countries	2010 No. of countries
Very strong A	--	--
B	7	1
C	9	4
Weak D	1	--
Number of countries scored	17	5

In the 2011 Survey, 5 countries undertook an assessment of procurement systems and provided the results of these, in addition to the 17 countries who did it for the 2008 Survey (Table 3.2). Given the small sample size and the one-off nature of the assessment for most of the countries, it is difficult to draw any conclusions about trends. Evidence indicates that areas where reforms are furthest ahead in strengthening procurement systems include those related to procurement laws, regulations, procedures and standard bidding documents; the establishment of a normative and regulatory body; procurement education and training; procurement audit, internal

control systems, public access to information; and provisions for anti-corruption, anti-fraud or conflict of interest (OECD, forthcoming b). Qualitative evidence gathered through the survey indicates that most countries have adopted or modernised legal frameworks for procurement since 2005 in line with international standards. Accompanying reform programmes have often led to the establishment of a national procurement agency and several countries have introduced e-procurement. Strengthening regulatory frameworks to ensure greater transparency, accountability and efficiency in procurement remain common challenges. Some countries now have commissions mandated to investigate corruption in public procurement (*e.g.* Jordan, Lesotho, Namibia, Nepal, Nigeria, Uganda).

■ Strategic environmental assessment

Through the Paris Declaration, donors and partner countries committed to work together to develop and apply common approaches for “strategic environmental assessment” at the sector and national levels. It also called for both donors and partner countries to commit jointly to “continue to develop the specialised technical and policy capacity necessary for environmental analysis and for enforcement of legislation”.

Evidence suggests that joint efforts have been made to adopt such common approaches for strategic environmental assessment. 2006 saw the finalisation of guidelines for applying strategic environmental assessment (OECD, 2006), and more than 50 assessments have since been implemented based on these guidelines. A review of case studies in this area suggests that there remains a need for further harmonisation of approaches to strategic environmental assessment, including by strengthening linkages with budget support (OECD, forthcoming c).

Efforts to enhance capacities in the area of environmental governance vary significantly across donors and partner countries. Activities in this area typically range from the provision of environmental training and advocacy activities on a variety of relatively narrow topics, to broader support in the implementation of multilateral environmental agreements at national level. Donor support for

environment-related capacity development is now more easily measured through the use of a specific policy marker used in donor reporting to the DAC's Creditor Reporting System (Chapter 5). Evidence also suggests that some donors are now applying longer-term programmatic approaches to supporting capacity development for sound environmental governance, either bilaterally or through support provided through multilateral channels.

DONORS ARE NOT RELYING ON PARTNER COUNTRY FIDUCIARY SYSTEMS TO THE EXTENT FORESEEN IN PARIS AND ACCRA

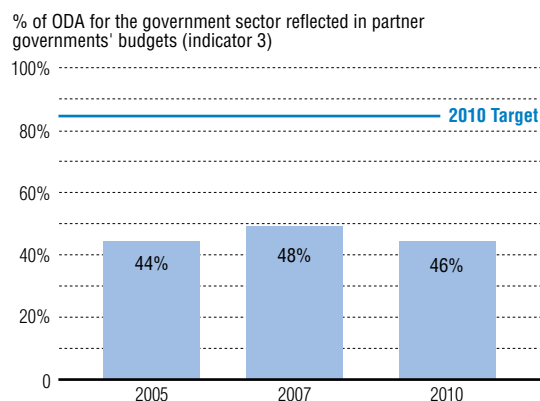
The Paris Declaration committed donors to make greater use of partner countries' own fiduciary systems in the delivery of aid. This means that donors should provide aid in ways that use the financial management procedures, processes and institutions of partner countries, rather than bypassing them. Alignment of donor practices at this level is assessed through several Paris Declaration indicators. Although many donors are making efforts to use country fiduciary systems in a number of ways, most are not relying on them to the extent foreseen by the Paris Declaration and Accra Agenda for Action, even where the quality of those systems has improved. Moreover, improvements in aligning aid with countries' priorities do not necessarily translate into progress in the use of country systems. This section outlines the degree to which aid flows are *reflected* in country systems and, secondly, the degree to which they are *integrated* into their budget execution, financial reporting, auditing and procurement systems.

Less than half of all aid is recorded in partner countries' national budgets. This arises from poor reporting of disbursement intentions by donors and limited information captured by budget authorities

■ Aligning aid flows on national budgets (indicator 3)

Indicator 3 measures the proportion of aid for the government sector recorded in the annual budgets of partner countries. Budget formulation is a central feature of the formal policy process in all countries. There are a number of interrelated benefits to be had from ensuring that aid is reflected in partner countries' budgets, including incentives for stronger budget processes, better alignment to country priorities, and greater accountability to legislatures and citizens.

Figure 3.1 Is aid for the government sector reflected in partners' budgets? (32 countries, 2005-10)



While indicator 3 is not a perfect measure of the degree to which aid responds to partner countries' policy priorities, it does offer a helpful indication of whether efforts have been made to connect aid programmes with countries' own policies and processes. As explained in the results of the 2008 Survey, indicator 3 measures budget realism – *i.e.* the extent to which partner governments' budgets reflect the aid that is made available to them. This is a shared responsibility between partners and donors.

The 2010 target of ensuring that 85% of aid flows for the government sector were captured in partner government budgets was not met.¹ Progress has been challenging: 44% of aid flows were recorded in partner governments' budgets in 2005, whereas by 2010 this figure was 46% for those countries participating in both rounds of the survey (Figure 3.1). When all 78 countries participating in 2011 are considered, only 41% of aid was captured in 2010 – well below the target of 85%.

Qualitative evidence provided through the 2011 Survey suggests that there are a number of reasons for the low coverage of aid in budgets. First, the ability or willingness of donors to provide meaningful and complete information on aid flows in time to inform the budget preparation process varies across countries. Second, even when donors do make information available, this may not be reflected in governments' budgets for a number of reasons:

- A government may choose not to include certain types of aid flows in its budget depending on its assessment of how well aligned the aid is. For example, Rwanda’s legislation on state finances means that the budget law approved by Parliament does not include resources over which departments, ministries and agencies have no control. In Cambodia, government excludes grant-financed technical cooperation from its budget as it feels it has little control in the allocation, disbursement or management of these funds.
- Some governments revise estimates provided by donors (*e.g.* by applying discount factors to anticipate delays in disbursement).
- Differences in the fiscal years used by donors and partner governments may make it difficult to estimate when funds are likely to be disbursed.
- Institutional challenges and weak information management systems may hinder effective collaboration across government departments involved in budget preparation.

Despite these challenges, some stakeholders participating in the 2011 Survey have noted the usefulness of indicator 3 as a proxy for alignment. For example, in Malawi, this measure is used to assess where most aid is allocated according to specific areas of the national development strategy. This includes assistance provided by non-DAC and small donors.

■ Using country public financial management systems (indicator 5a)

Evidence shows that providing aid in a manner that uses and is integrated with partner countries’ fiduciary systems can yield benefits ranging from better availability of information on aid flows, improved inter- and intra-sectoral resource allocation and strengthened control and accountability. In aid-dependent countries, it can also have a catalytic effect on the strengthening of institutions, systems and capacities for sound public financial management (OECD, 2011a).

Acknowledging the slow progress highlighted by the 2008 Survey, donors committed through the Accra Agenda for Action to use country systems as “the first option for aid in support of activities managed

by the public sector”. There is relatively little by way of systematic evidence on whether this commitment has been met. There are indications that almost all donors already have, or are preparing, an operational policy that encourages the use of country systems. However, while some donors require the full use of country systems as the default procedure or encourage the maximum use of country systems – conditional on the results of a specific fiduciary risk analysis – others leave the decision to operational teams or recommend the use of country systems only in relation to budget support (OECD, forthcoming d). Data from the 2011 Survey show that the use of donor systems continues to be prevalent amongst donors, and less than half of all aid reported in the Survey uses countries’ PFM and procurement systems. Comments provided by stakeholders through the 2011 Survey suggest that a limited number of partner countries have engaged in dialogue specifically around this Accra commitment with the donors present in their country (*e.g.* Cambodia, Ghana, Kenya, Laos, Mali).

Indicator 5a looks at the extent to which donors make use of partner countries’ PFM systems. In particular, it measures the percentage of aid provided by donors that makes use of three elements of partner countries’ PFM systems: budget execution, financial reporting and auditing. By looking at the use of several components of partner country PFM systems by donors, this approach stresses that there are different ways in which these systems can be used, depending on country context. Indicator 5a shows the average percentage of aid for the government sector using country PFM systems across these three components.

The Paris Declaration emphasised the need for improved use of country PFM systems by donors and – at the same time – improvements in the quality of those systems by partner countries. With this in mind, the targets agreed for indicator 5a depend on the quality of those systems as measured by indicator 2a (reliable PFM systems – above). Targets are set for countries having reliable PFM systems (*i.e.* a minimum CPIA score of 3.5), and are higher for those scoring above 4.5 on the CPIA scale used by indicator 2a.

Donors are not systematically making greater use of country systems in countries where these systems are more reliable

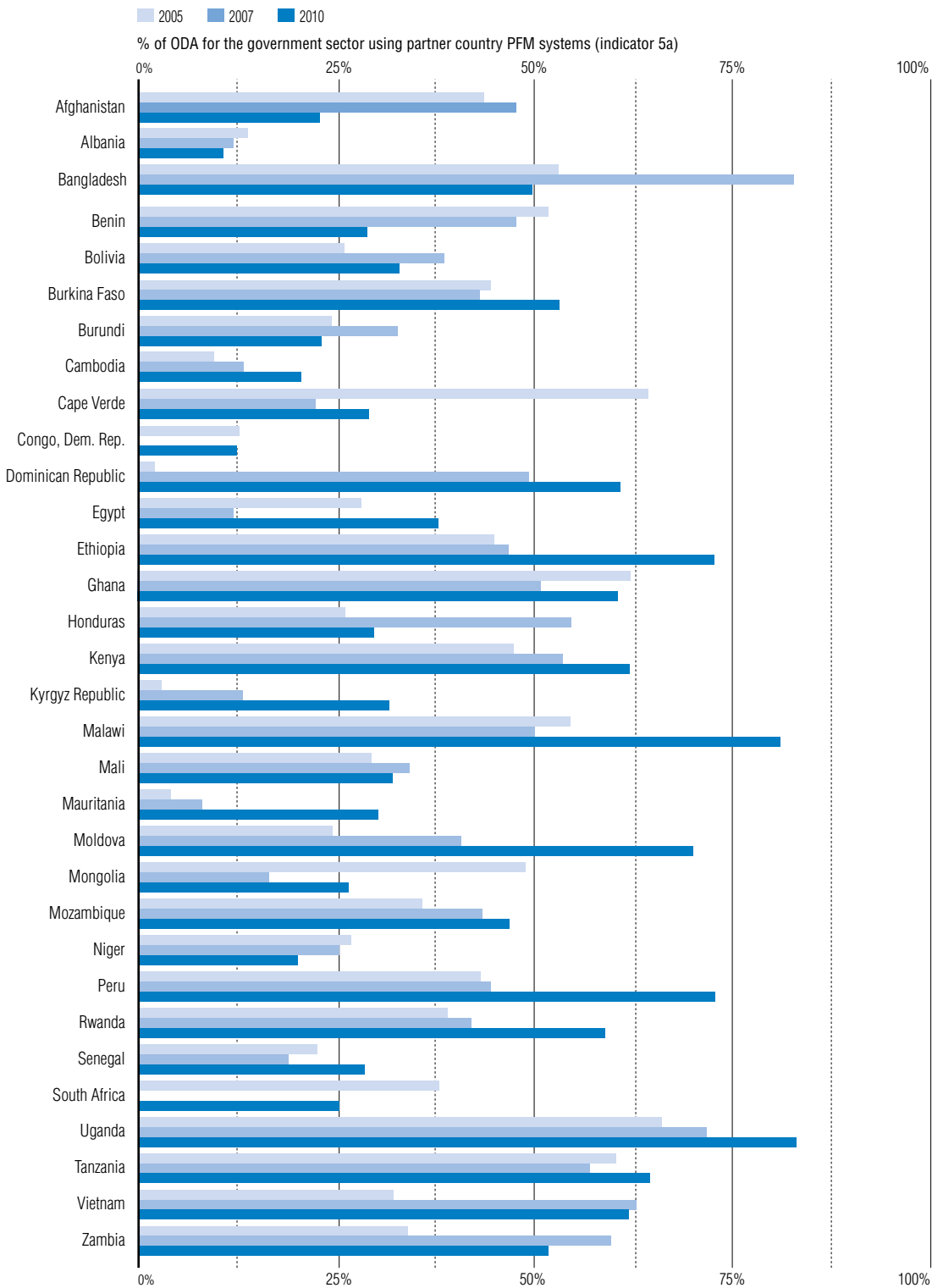
Taking into account the quality of PFM systems shown by indicator 2a, the global target for indicator 5a – for the 32 countries participating in both the 2006 and 2011 Surveys – was for 55% of aid for the government sector to use country PFM systems. This target was not met. Despite this, the Survey highlights some progress over the period 2005 to 2010, where average use of country PFM systems increased from 40% to 48% in the same group of 32 countries. This also hides wide variations in the use of country systems – and improvements and setbacks – across countries since the 2008 Survey (Figure 3.2). Use of country PFM systems was lower – at 27% in 2010 – in the 12 countries also participating in the Survey on Monitoring the Fragile States Principles.

There are notable variations in the use of country PFM systems across donors too. Six bilateral donors (Canada, France, Ireland, Japan, Spain, United Kingdom) now use country PFM systems in the delivery of at least two-thirds of their bilateral aid for the government sector (indicator 5a, 78 countries). Conversely, nine bilateral donors provide less than a third of their aid for the government sector using country PFM systems. While the proportion of total bilateral aid using country systems remained fairly constant over the period 2005-10 (based on the sample of 32 baseline countries), the proportion of aid delivered through multilateral organisations at the country level using country PFM and procurement systems (indicators 5a and 5b) increased over the same period. The EU institutions, IFAD, the World Bank and UN country teams² displayed noteworthy progress in this area. It is possible that bilateral donors have contributed to this change – for example, by channelling funds through programmes or pooled funding mechanisms managed by other donors at the country level – and as such the differences highlighted across donors do not necessarily reflect the efforts of individual donors to implement their commitments on alignment.

The Accra Agenda for Action also saw donors articulate their aim to “channel 50% or more of government-to-government assistance through country fiduciary systems”. Not all donors have interpreted this aim in the same way, and in the absence of an agreed definition, objective assessment of progress against this aim is difficult. The global increases in use of country PFM and procurement systems shown by indicators 5a and 5b (below) would tend to suggest that at least some progress has been made on aggregate.

Furthermore, at the global level the relationship between the quality of a country’s PFM systems and donors’ use of them is at best weak – a finding that is consistent with previous surveys. While the Paris Declaration made the assumption that the quality of a country’s systems would determine donors’ willingness to use them, there is little evidence to suggest that this has been the case in the last five years. This finding hides important variations across partner countries. For example, among the ten countries with high scores for the quality of PFM systems (scores of 4.0 and above on indicator 2a), average use of country PFM systems by donors ranged from 20% (Kosovo) to 70% (Moldova) (Figure 3.3). In percentage terms, a greater proportion of aid for the government sector uses country PFM systems in Nepal than in Burkina Faso, while Burkina Faso has a score of 4.5 (high) on indicator 2a, and Nepal has a score of 2.5 (weaker). While Afghanistan improved its score on indicator 2a by one measure over the period 2007-2010, use of its PFM systems by donors has almost halved in percentage terms over the same period. Evidence sourced from PEFA assessments (PEFA, 2011) tends to confirm these findings, as do specific country studies (EURODAD, 2010a; EURODAD, 2010b).

Figure 3.2 Progress and setbacks in the use of country public financial management systems (32 countries, 2005-10)



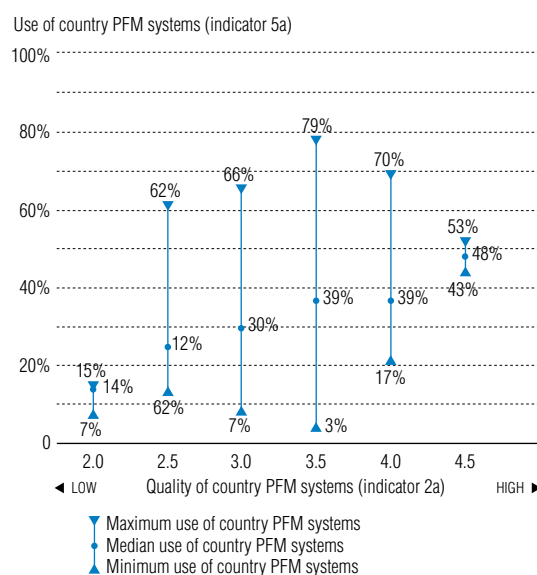
Reasons for donors' limited use of country systems are more political than technical and include fear of financial misuse and lack of faith in partner country systems

There are a number of possible explanations for the slow progress in using partner countries' systems (OECD, forthcoming a), even where these systems have become more reliable:

- Donors' fears of financial misuse, their reluctance to let go of the ability to directly or exclusively attribute development impacts to contributions, and reluctance to lose control of development choices.
- Donor attitudes tend to target risk avoidance rather than risk management, particularly in an environment of tight budgetary frameworks. Different donors have different appetites for risk – a system that is strong enough for one donor may not be so for another donor.
- Corporate policies, legal frameworks, organisational incentives and capacity issues remain persistent bottlenecks within donor organisations. Formal rules on approaches to aid management within donor organisations may not have changed to the extent required, and these changes may not be adequately communicated internally.
- Using partner country PFM systems is often perceived to be the same thing as providing general budget support, and donors have not yet fully assessed and understood the range of ways in which aid provided through different modalities – including project aid – can make use of partner country systems.
- In some cases, the limited use of country PFM systems may reflect the country institutions' own preferences to use parallel structures.

While budget support is not the only way in which donors can make use of country PFM systems, variations in the use of budget support across donors contribute to the overall variations observed on indicator 5a. Evidence sourced from Peer Reviews of OECD-DAC donors shows that practices vary to a large extent. A handful of donors provide major shares of their bilateral aid in the form of budget support (e.g. Canada, Ireland, the Netherlands and the United Kingdom) but the situation continues to evolve (OECD, forthcoming e). At the time of their respective reviews, France (2008) and Italy (2009) were piloting budget support in a limited number of partner countries.

Figure 3.3 Is there a relationship between the quality of country public financial management systems and their use by donors? (56 countries, 2011 Survey)

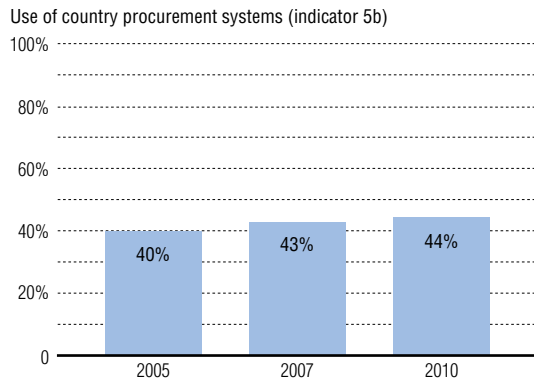


■ Using country procurement systems (indicator 5b)

Procurement is an important element of sound public financial management. The Survey on Monitoring the Paris Declaration measures – alongside the other elements of PFM systems discussed above – the percentage of aid provided in a way that makes full use of country's own procurement systems (indicator 5b).

The results of the 2011 Survey show a moderate increase in the use of partner country's procurement systems by donors over time. For the 32 countries participating in both the 2006 and 2011 Surveys, use of country procurement systems increased from 40% of aid for the government sector in 2005, to 43% in 2007 and 44% in 2010 (Figure 3.4). Use of country procurement systems was lower – at 21% in 2010 – in the 12 countries and territories participating in the Survey on Monitoring the Fragile States Principles.

Figure 3.4 Use of partner country procurement systems by donors (32 countries, 2005-10)



Most of the countries participating in the Survey reported that concerns about the credibility, efficiency and effectiveness of country procurement systems was a common reason for donors to continue using their own procurement guidelines and mechanisms or to require additional safeguards. Several partner countries participating in the survey cite regulations imposed by donor headquarters as a constraint on making greater use of countries' procurement systems (e.g. Albania, Bangladesh). Peer reviews of OECD-DAC members confirm that some donors still face legal obstacles in making fuller use of country procurement systems, including tying of aid (discussed in greater detail below). Use of countries' procurement systems by donors also varies across aid modalities. For example, while donors in Uganda increased their use of country PFM systems (indicator 5a) from 60% of aid in 2005 to 66% in 2010, technical assistance tends not to make use of government procurement systems. Stakeholders point to the challenges that this poses in implementation.

■ Untying aid (indicator 8)

Aid is tied when donors place geographical restrictions on the sourcing of goods and services for aid-funded activities – for example, by requiring that goods and services procured with aid funds are sourced from suppliers in the donor country or in another restricted set of countries and territories.

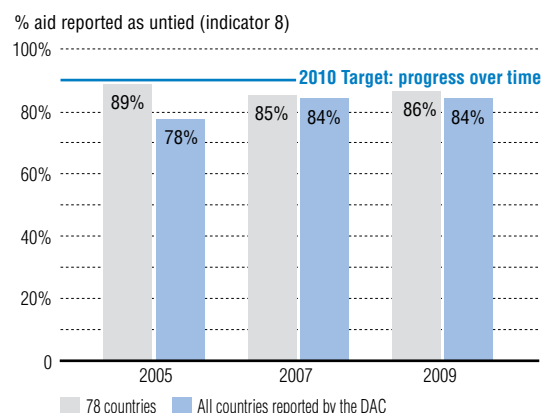
Tying aid in this way limits the choices available to partner countries procuring goods and services, and reduces cost effectiveness considerably. Estimates suggest that tied aid is 15 to 25% less cost effective in general, and over 50% less cost effective for food aid (Jepma, 1991 and 1994; Clay et al, 2009). Tying aid can also hinder ownership and alignment. The Paris Declaration committed OECD-DAC donors to continue making progress in untying aid while the Accra Agenda for Action encouraged donors to untie aid to the maximum extent.

Indicator 8 measures the proportion of aid provided by donors that is considered to be fully untied – *i.e.* placing no restrictions on the countries and territories from which aid-funded goods and services can be procured. Untying is difficult to measure at the partner country level and, as such, the survey draws on data reported by OECD-DAC donors' headquarters to the OECD. The 2011 Survey draws on data on the tying status of aid provided by donors in 2009.

The 2011 Survey results show that OECD-DAC donors did not make progress in untying aid to the full set of countries participating in the 2011 survey between 2005 and 2009 and did not meet their aggregate Paris Declaration target across this group of countries. The proportion of total aid to these countries reported as fully untied declined slightly from 89% in 2005 to 86% in 2009 (Figure 3.5). The average country ratio which, unlike the global indicator, is not weighted by aid volume, increased from 82% in 2005 to 88% in 2009, suggesting important variations in the degree to which aid is untied across countries and donors. More than 20 countries saw setbacks in the proportion of aid that is untied since 2005, while the proportion of untied aid in eight countries – Armenia, Cape Verde, Gambia, Laos, Mauritania, Morocco, Ukraine and Yemen – declined by more than 20 percentage points between 2005 and 2009. Setbacks may in part be explained by the larger number of middle-income countries participating in the survey.

Donors did not make progress in untying aid across the sample of 78 countries participating in the 2011 survey. There is scope for further progress, and most donors have developed individual plans to further untie aid

**Figure 3.5 Progress in untying aid
(78 countries, 2005-09)**



Technical co-operation remains more tied than aid in general

The 2011 Survey also shows variations in the extent of aid untying across donors. In 2009, four DAC donors reported 100% of the aid they provided across the 78 partner countries participating in the Survey as untied (Canada, Ireland, Norway, the United Kingdom). Three DAC donors increased their share of untied aid to the countries participating in the Survey by ten percentage points or more over the period 2005-09, while four saw their shares of untied aid to these countries decline by ten percentage points or more over the same period.

While aid provided through multilateral channels is largely untied, some of the multilateral donors participating in the Survey continue to apply some restrictions on the countries from which aid-financed goods and services can be procured (for example, by requiring that goods and services be procured from firms based in the member countries of a multilateral organisation).

Country reports submitted as part of the 2011 Survey note that in many cases progress has been achieved in untying aid. However, some (e.g. Malawi) also report that non-traditional donors and smaller donors have not followed suit. Views gathered in some country reports also highlight that technical assistance is still perceived as being tied *de facto*, leading to supply-driven technical assistance that may be poorly aligned with partner government priorities. This phenomenon was also noted in discussions in some of the participating fragile states.

A review of the progress made by OECD-DAC donors in untying aid highlights a number of important findings in this area (OECD, 2011d):³

- In 2009, 79% of all bilateral ODA was reported as untied, 17% as tied, with the tying status of the remaining 5% not reported. Good progress is being made by donors in developing individual plans to further untie their aid to the maximum extent as agreed in the Accra Agenda for Action, though not all OECD-DAC donors have action-oriented strategies to untie their aid further. In a few cases, donors will need to remove or relax legislation and administrative provisions requiring aid to be tied if further progress is to be made.
- Technical co-operation is more tied than aid in general: in 2009, 64% of all bilateral technical cooperation was reported as untied, 22% tied, with the status of the remaining 14% not reported.⁴
- Improvement is needed to meet the transparency provisions associated with the DAC's 2001 Recommendation on Untying (covering LDCs and HIPC)s) to notify *ex ante* untied aid offers on a public bulletin board and to report on contract awards. For instance, although USD 4.9 billion worth of untied aid offers were notified to the OECD *ex ante*, 95% of that was due to a single donor (the United States). Only a small number of DAC members regularly make untied aid notifications and a number do not notify at all – a situation which has been deteriorating. This significantly undermines transparency and leads to increased lack of trust regarding the real extent of untied aid.
- A large share of contract awards continues to go back to suppliers in donors' own countries. In 2009, 51% of contracts (in value terms) were awarded to suppliers from donor countries with a further 7% to suppliers from other OECD countries. The share of contracts awarded to enterprises from the poorest countries has been falling – benefiting mostly the companies from other developing countries. This trend highlights the concern that aid is *de facto* less untied than it might appear and also that suppliers from LDCs and HIPC)s are unable to compete for such contracts on an open and competitive basis.

– Most untied aid was linked to programmatic and pooling modalities, and combined with efforts to use and strengthen partner capacities in financial management and procurement. This was not the case, however, for most project-type aid where even those that were *de jure* untied, were found *de facto* to have elements that remained tied.

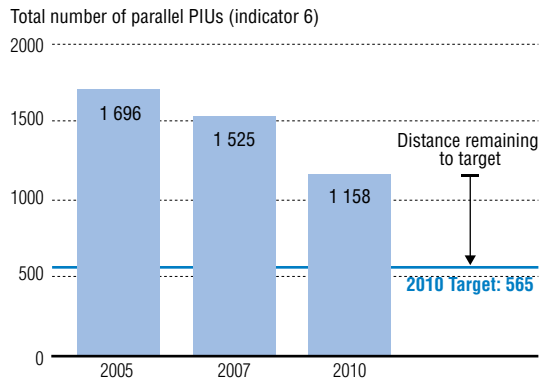
Assistance provided through south-south co-operation is often tied to goods and services from southern partners. Technical co-operation in south-south partnerships is often tied in nature. Financial co-operation, when provided in the form of concessional loans, is generally tied to the purchase of goods and services of the provider country. However, there is little conditionality involved. For instance, China and India provide tied assistance in the form of “packages” that can include not only grants, preferential loans and debt relief, but also preferential trade and investment schemes (OECD, 2010b; Clay *et al.*, 2009).

■ Avoiding parallel implementation structures (indicator 6)

When donors provide project aid, they have often established their own structures or imposed the establishment of new structures on partners for the management of these projects. Such so-called project implementation – or management – units (PIUs) are typically set up specifically to manage the implementation and administration of donor-funded projects and programmes. These structures are often set up outside – and therefore in parallel with – existing country institutions and structures and can as a result, undermine efforts to strengthen the capacity of core government institutions, distort public sector staffing and salary levels, and reduce the degree of control and accountability exercised by partner governments in the implementation of aid-funded activities.

Through the Paris Declaration, donors committed to avoid setting up such parallel structures to the maximum extent possible. They also recognised that their ability to do so depends on strengthened country systems and structures. The Accra Agenda for Action emphasised this aim, with donors committing to be transparent regarding their reasons for establishing parallel structures when they do so.

Figure 3.6 Number of parallel project implementation units (32 countries, 2005-10)



In Paris, donors committed to reduce by two-thirds the number of parallel PIUs over the period 2005-10. Indicator 6 measures the number of parallel PIUs by counting – at the country level – the number of such units used by donors in the implementation of aid-funded activities for the government sector. Although substantial progress has been made towards this target, the global target was not met in 2010. The 32 countries participating in both the 2006 and 2011 Surveys had a total of 1 696 parallel PIUs in 2005. This number fell to 1 158 in 2010 (Figure 3.6). Donors’ lack of confidence in country systems and procedures was often cited by stakeholders as an important reason for limited progress in reducing reliance on parallel PIUs. Some partner country governments mentioned that use of PIUs can bring short-term advantages such as greater efficiency in disbursement and risk management. While several countries reported difficulties in making progress in this area, other countries have found ways to integrate parallel PIUs by making PIUs accountable to government rather than donors or installing government-led PIUs with a common set of procedures. Other partner countries have introduced requirements for explicit government approval and clear evidence of exceptional circumstances for the use of parallel PIUs in their aid policies.

The number of parallel PIUs has continued to decrease but not enough to meet the target

Some countries saw the number of parallel PIUs decrease as sector-wide approaches were introduced. Many countries participating in the survey recognised a joint government-donor responsibility to rationalise project implementation procedures – along with further progress in strengthening PFM systems – as factors that would ultimately help to reduce donors’ use of parallel PIUs.

Stakeholders in most of the fragile states participating in the survey noted that efforts to reduce reliance on parallel PIUs have been limited. Discussions pointed to the particular challenges that the persistent reliance on parallel PIUs by donors could impose on efforts to strengthen core state functions in these environments. This is increasingly acknowledged by actors in some countries – for example, Haiti aims to gradually integrate parallel PIUs into line ministries. Stakeholders in some countries (*e.g.* Haiti, Southern Sudan) felt that donors use humanitarian aid as a means of financing public service delivery beyond immediate crises for a number of reasons. In some cases this is because of a lack of appetite for engagement with government, in others it is to avoid using national systems or supporting frequently weak sector strategies, or because humanitarian aid allows for more flexible engagement and disengagement on the part of the donor.

■ Sector experiences in using country systems: evidence from health and education

Sector evidence shows mixed progress on the use of country systems by donors. In 2009, the monitoring process of the International Health Partnership (IHP+) found that 63% of the total funding for health from 15 donors used PFM in five countries with sufficiently strong systems (IHP+Results, 2011). In the education sector, the Education for All Fast Track Initiative (EFA FTI) found that only 29% of aid in the education sector used PFM systems and 37% used country procurement systems in the countries surveyed (EFA FTI, forthcoming). However, donors used PFM and procurement systems for at least half

of their aid in a third of these countries and a country’s procurement systems in 11 countries. In countries with pooled fund arrangements (*e.g.* Lesotho, Nepal and Zambia), donors used the country PFM systems for more than 95% of their education aid.

Despite some positive trends in the health sector, evidence of progress tends to remain patchy and limited: even in the context of well established sector-wide approaches (*e.g.* Malawi, Cambodia, Zambia, Mali) or where PFM systems are reported as good (*e.g.* Rwanda), use of country systems could be reinforced in the health sector. Reasons cited for the lag in the use of country systems are often more political than technical, but also include capacity bottlenecks; high turnover of donor staff; lack of experience in developing results-oriented programmes; the persistence of parallel systems; and high volumes of off-budget funds undermining the integrity of country systems themselves (OECD, forthcoming f).

The EFA FTI monitoring exercise shows that on median two parallel PIUs are operating in the surveyed countries and donors reported that they did not use any parallel PIUs in 2010 in a quarter of the countries. In some countries (*e.g.* Ethiopia, Cambodia), local education groups have attempted to track the reduction in the number of parallel PIUs and to discourage the establishment of new PIUs by demanding justification when donors are planning such structures. Establishing new PIUs or maintaining existing ones reflects, at least in part, donors’ concerns about weak absorption and implementation capacity on the part of partner governments. Although it was reported that reforms and capacity development initiatives have led to the a reduction in PIUs, some donors still require PIUs as a funding condition, particularly when they do not have a country presence.

FUTURE CONSIDERATIONS

- The integration of information on aid flows in national budgets depends on the degree to which donors report aid flows comprehensively to partner countries and the degree to which partner countries in turn record aid accurately. Clear regulations and reporting requirements, including deadlines and the frequency of reporting in partner countries, are a pre-requisite for donors to provide better information, and in turn, for aid to be better reflected in partner countries' budgets.
- The weak relationship between the quality of a country's PFM and procurement systems and their use by donors is an area that requires further attention, particularly in countries with reliable country systems. Evidence suggests that greater use of these systems by donors no longer depends principally on technical improvements, but rather on political considerations. Efforts to make progressively greater use of country systems over time, and thereby contribute to further strengthening country systems, should be considered.
- Using partner country PFM systems is often perceived to be the same thing as providing general budget support, though it is by no means an "all or nothing" proposition. Aid can be provided in a range of ways that make use of countries' own systems. More efforts are needed to identify how aid provided through different modalities, and in particular project aid, can make fuller use of PFM and procurement systems and support the strengthening of public sector management in a more holistic manner.
- Donors' attitudes to risks remain a bottleneck to greater use of PFM and procurement systems. Mechanisms for developing countries and their donors to jointly assess risks and work collaboratively to manage them could be explored as a way forward.
- Benefits in aligning aid with country priorities and systems can be undermined by non-aligned aid or other sources of development finance. In this context, special attention should be paid to new types of development finance, such as climate change financing, which is projected to grow rapidly in the near future. Climate funding pledged by OECD countries in support of developing countries currently amounts to USD 30 billion in total by 2012, with a commitment to reach USD 100 billion a year by 2020. Emerging evidence points to challenges arising in this context and suggests scope for drawing on lessons learned from aligning aid in other areas such as financing for health.

NOTES

1. The target agreed for indicator 3 was a 50% reduction in the proportion of aid flows to the government sector not reported in government budgets, with at least 85% reported on-budget. A 50% reduction compared with the 2005 baseline of 42% would yield a target lower than 85% and as such the 85% minimum target has been applied.
2. UN agencies, funds and programmes provided data for the 2011 Survey collectively at the country level. References to aid provided through the United Nations system in this report – and the figures provided in Appendices B and C – relate to the activities of UN agencies, funds and programmes participating in the Survey co-ordinated by the respective UN country teams.
3. Figures drawn from the OECD-DAC review are not necessarily identical to those published as part of the 2011 Survey due to differences in the partner countries covered.
4. Technical co-operation and food aid are excluded from the coverage of the DAC Recommendation on Untying. DAC donors are thus not obliged to untie technical co-operation or food aid to LDCs and HIPC. Technical co-operation and food aid are covered in DAC-CRS statistics on the tying status of aid and are reported as tied or untied aid when the tying status is known, or otherwise recorded in the “tying status not reported” category.

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