

AID EFFECTIVENESS

A PROGRESS REPORT
ON IMPLEMENTING THE
PARIS DECLARATION

EXECUTIVE SUMMARY



3rd

High
Level Forum
ON AID EFFECTIVENESS

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Foreword

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

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

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

Acknowledgements

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

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

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

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

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

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

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

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

Executive Summary

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

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

Part I

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

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

ownership), its limits are also being revealed, and new dilemmas and tasks are being highlighted.

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

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

Partners to:

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

Donors to:

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

Partners and donors to:

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

Part II

Ownership

The Paris Declaration is based on the recognition that development will be successful and sustained, and aid fully effective, only where the partner country takes the lead in determining the goals and priorities of its own development and sets the agenda for how

they are to be achieved. Ownership is the most overtly political of the five Paris Declaration commitments: strengthening partners' ownership represents a shift of power in the aid relationship, while underlining the need for mutual accountability.

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

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

Alignment

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

As compared with 2005, donors are increasingly basing their activities on partners' national development and sectoral strategies, medium-term expenditure plans and budgets. Despite signs that new approaches to conditionality are aligned with partners' strategies, partner and donor perspectives are often still some way apart. There are also efforts to build capacity of central and local government, and also of civil society. However, these efforts need to be better co-ordinated. The evidence on reducing the number of parallel Project Implementation Units is mixed and unclear.

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

generally performing better. Positive results in predictability and use of country systems appear linked to budget support, based on observations in 14 African countries and 20 donors providing budget support.

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

Harmonisation

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

Excessive fragmentation of aid reduces its effectiveness and overburdens recipients in many countries and sectors, but it is possible to reduce the number of donors without significantly reducing the volume of aid flows. Division of labour is a critical, yet sensitive, dimension of the Paris agenda, with links to comparative advantage, specialisation and delegated co-operation. Difficult though it is, many donors increasingly seek a better division of labour with others and have launched a number of activities to bring it about. Much of the progress has come in the form of greater consensus building (such as through the 2007 EU Code of Conduct on Complementarity and Division of Labour). A task team has also developed good practice principles on in-country division of labour. The task is to further apply these to reduce the number of active donors in over-crowded sectors while maintaining (or increasing) the overall volume of financing. This is likely to require more co-operative arrangements, silent partnerships and delegated co-operation.

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

information on donor activities; and agreement on how comparative advantage will be measured.

Managing for development results

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

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

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

Mutual accountability

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

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

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

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

Sector perspectives

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

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

Major efforts are under way within the education sector of many partner countries to apply the Paris Declaration principles. Two of the main studies commissioned to assess the Paris Declaration implementation in the education sector are not yet completed, making it difficult to assess progress to date. Results that are available suggest levels of progress that vary greatly by country. Further, capacity for policy making, planning and service delivery is often insufficient to strengthen country ownership and the credibility of country systems. Considerable efforts have been made to increase donor support for, and alignment with, country systems, but there is still a general case for channelling more funds through government systems. There is a need to rationalise donors' roles: in many partner countries, there are still too many donors active in the sector. An international managing-for-results tool is in place, but country-owned monitoring systems are often weak. Work is under way to identify fit-for-purpose financing tools for restoring education in situations of fragility and conflict, where country systems have wholly or largely broken down.

The present food crisis has brought into sharp relief the fact that agriculture and rural development offer the greatest opportunity to overcome hunger and poverty, and to address

cross-cutting issues. However, it is difficult to apply the Paris Declaration principles, in light of the diversity of agricultural production systems and livelihoods requiring heterogeneous and context-specific solutions and the absence of key stakeholders. While budget support, PBAs and sector-wide approaches (SWAps) are important instruments for alignment and mutual accountability, projects are also useful, including in areas where the state plays a limited role.

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

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

Civil society and aid effectiveness

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

Joint efforts are being directed towards three outcomes:

- Recognition and voice: A better understanding and recognition of the roles of CSOs as development actors and as part of the international aid architecture, and engagement of CSOs in general discussions of aid effectiveness.
- Enriching the international aid effectiveness agenda: An improved understanding of the applicability and limitations of the Paris Declaration for addressing issues of aid effectiveness of importance to CSOs, including how CSOs can better contribute to aid effectiveness.
- Lessons of good practice: A greater understanding of good practice relating to civil society and aid effectiveness by CSOs themselves, by donors and by developing country governments.

Situations of fragility and conflict

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

At the policy level, there has been significant progress over the past three years. DAC members have adopted the principles for international engagement in fragile states and

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

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

Implications of the changing aid architecture

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

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

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