



## The Seven Habits of Effective Aid: Best Practices, Challenges and Open Questions\*

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When leaders from developed and developing nations meet at the 'High-Level Forum on Harmonisation and Alignment for Aid Effectiveness', to be held at the end of February in Paris, their challenge will be to come up with concrete proposals to put into practice what they committed themselves to in the 'Rome Declaration on Harmonisation' two years ago. In the past two years, numerous efforts have been undertaken in the attempt to improve aid effectiveness, so far with limited results. However, the available evidence and further debate have generated a growing consensus on what needs to be done, at least in the more stable and better managed country environments. The 'seven habits of effective aid' towards which formal commitments are in place for such countries, but which deserve to be clarified, reconfirmed and strengthened can be summarised as:

1. Aligning financing on partner country priorities
2. Improving aid predictability
3. Relying on country systems
4. Increasing donor complementarity
5. Intensifying and incentivising joint action
6. Ensuring mutual accountability
7. Strengthening systemic capacity

There are two cross-cutting imperatives built in to each of these aims: first, to design and implement all actions in terms of their development results; and second, to build them up in specific country contexts, ranging from the most fragile to the most stable and sophisticated.

In each area, this note begins with re-stating agreed principles, aims and instruments, and attributing responsibility for action to donors and partner governments, drawing from the draft text of the declaration to be adopted in Paris. It then raises key

outstanding challenges and tensions, and frames open questions with which senior policymakers need to grapple.

### Aligning financing on partner country priorities

The agreed aim is for partner countries to assert ownership through a clear, results-based medium-term agenda, and for aid to be completely aligned to this agenda at country level. For this to happen, partner governments need to set priorities in national development frameworks such as Poverty Reduction Strategies (PRS). These should have at least the following attributes: clear outcome-based targets; sound, growth-oriented macroeconomic framework; clear costing of programmes over the medium term; and active engagement of national stakeholders. Donors should base the content of their country-level aid programmes on PRS; they should draw major programme conditionality from PRS; and they should use partner governments' performance assessment frameworks to monitor progress against the PRS.

*Challenges.* This PRS-alignment model relies on the existence not just of comprehensive technical capacity, but of a clear national development 'vision' advanced consistently by political actors that have internal legitimacy and external credibility. Such circumstances do not exist in many fragile states, or even in a few more stable contexts where national priorities are not yet visibly and coherently development-focussed. In those cases, joint efforts should converge to such a vision over a reasonable transition period. These transitional situations need to be transparently identified, and a joint understanding of how to reach the ultimate destination has to be reached as soon as possible.

**Question 1: How can the donor community best clarify whether and when a country's PRS is indeed accepted as the principal or sole basis for aid programming? Who should articulate concerns to the contrary?**

A more systemic challenge, in the presence of evident country ownership, comes from inconsistent top-down

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PRS. These can come in many forms, most obviously through global preferences for priority topical themes or sectors, to which the PRS then has to be “retrofitted”, in substance or rhetoric. It is important that the negative effect of such pressures on misalignment at country level is contained. This is not easily done unless decentralisation of authority is considerable and the mix of aid instruments is suited to this purpose.

**Question 2: How can donors best reassure partner governments that they are willing and able to allocate aid resources to locally-identified national priorities, substantiated by a credible results-based PRS?**

### Improving aid predictability

The agreed aim is to provide partner countries with credible medium-term commitments, and to minimise the variability of aid over the partner government’s fiscal cycle. Donors should programme aid over a multi-year framework, aligned with national budgeting and programming cycles. They should fully disclose expected flows and any triggers for their reduction or suspension. They should formulate conditionalities as not to undermine predictability, and disburse funds on schedule. Partner governments should build up effective, accountable financial management systems for raising and using public resources, improving fiscal planning and linking it firmly to development results.

*Challenges.* Despite significant progress in streamlining conditionality linked to the PRS, predictability is still seriously affected by conditionality-related uncertainties, especially in the case of political conditions which may not be explicit in the agreed assessment framework. Moreover, closely harmonised combinations of political, structural policy-based and macro-performance conditionalities among different types of donors may actually increase the overall vulnerability of partner countries to stoppages. Ideally, donors and partner governments should move from “yes/no” to “more/less” types of triggers, and increasingly base these on monitorable results set in the PRS. Successful use of outcome-based conditionality may also help build a consensus for broad-based sector wide and general budget support among key donor constituencies.

**Question 3: Is there scope for expanding the use of aid instruments that link flexible and secure assistance over long commitment periods exclusively to the achievement of specific development results? What problems need to be overcome to expand the share of aid channelled through such mechanisms?**

### Relying on country systems

The agreed aim is to commit to use national systems at country level, as soon as these are jointly assessed as

being robust enough, in at least four key areas: public financial management; procurement; monitoring and evaluation; and environmental and social safeguards. Donors should work with partner countries to conduct joint assessments and bring performance up to agreed standards. Until then, they should simplify their own procedures to reduce the burdens on partner governments: in particular, they should avoid establishing or requesting new Project Implementation Units (PIU). Partner governments have the ultimate responsibility to instigate such assessments and take action to remedy the deficiencies they reveal.

*Challenges.* The main challenge is to break the deadlock whereby donors are privately sceptical of national fiduciary systems, on the basis of evidence of corruption or other concerns, yet at the same time unable or unwilling to support a joint assessment process and subsequent capacity building that would remedy the situation over time. This may also involve some lack of clarity over the global and local institutional ‘architecture’ necessary to conduct such assessments, and on how difficult qualitative judgments are to be made consistently in different contexts. By default, much of this burden is assumed by the multilateral agencies. However, they may not be the only or best solution in every case, and their mandate for this may not be universally supported and funded.

**Question 4: Should there be new collective arrangements for the assessment of national fiduciary systems and subsequent capacity building, and if so, how should these be organised and funded?**

### Increasing donor complementarity

The agreed aim is to reduce the burden on partner countries arising from excessive fragmentation of donors at global, country and sector level, whilst preserving their choice over preferred delivery channels for aid. Partner governments should express their preferences for the number and nature of the donors they wish to engage directly, and the preferred areas for cooperation, based on their perspective on the comparative advantage of each donor. Donors should avoid both excessive international dispersion and excessive concentration, and work together to seek ways of improving cross-country balance and avoiding major gaps and overlaps, including by delegated cooperation. At the country level, they should exercise self-restraint on the number of areas/sectors of active involvement, at least where direct contact with senior officials is required.

*Challenges.* This is a delicate area, in which little detailed preparatory analytical work has been conducted so far. The underlying concern is that harmonisation and alignment may well fail if continued donor-side proliferation and fragmentation reaches greater

proportions. Group arrangements such as Sector Wide Approaches (SWAs) and budget support help consolidate the picture, but at considerable set-up cost and with the significant risk that a few outliers could hold overall progress hostage. At the same time, increased specialisation around donor ‘comparative advantage’ needs to move beyond size of aid flows alone, and make use of the wide variety of skills, trust, experience and talents on offer. Partner governments may want to, and often do, choose smaller donors to act as “lead donor” and help them in coordination tasks. More thought also needs to be given in the international architecture to ‘donor orphan’ situations, for example those cases where there are only a few bilaterals involved, and multilaterals are bound by performance-related allocation criteria. This means that the latter are unable to perform much of a ‘balancing’ role.

**Question 5. Do donors see merit in exploring some form of individual or collective self-restraint on the number of areas where they are active in any given country, based not only on their own perceived strengths but also on the configuration of other donors at country level and an operational definition of comparative advantage? What principles should guide this discipline? Is the problem of donor orphans a serious one, and if so, how should it be approached?**

### **Intensifying and incentivising joint action**

The agreed aims in this area are to increase the prevalence of joint diagnostic work, joint sector and budget groups and shared information. Donors should simplify procedures and make them transparent, and strengthen incentives for management and staff to work closely with partner governments and other donors. They should operate as far as possible within joint (partner-led) sector and budget support approaches and through subcontracting arrangements (delegated cooperation) which reduce the burden on partner governments. Partner governments should lead strong local harmonisation processes, embedded in national strategies.

*Challenges.* The whole area of incentives for harmonisation and alignment, and in particular for incurring the considerable extra institutional and personal costs of working in tandem with the country and other donors, is emerging as a critical variable on which more thought and action is urgently needed. Incentives on the partner side are even less well understood than on the donor side, and the relationship between field and headquarters signals is also complex. One crucial factor is the extent to which promising country-based initiatives, which often call for exceptions to established norms, are seen to receive vigorous support from senior managers. There is, conversely, the risk of limiting joint action to a formal exercise, rather than as a demonstration of an underlying willingness to pool efforts in-country. The same is true

of delegated cooperation.

**Question 6. What do donors see as the single most important incentive signal that their agency can give to encourage harmonisation and alignment at country level, and to recognise and offset the costs it entails?**

### **Ensuring Mutual Accountability**

The agreed aim is to strengthen the downward accountability of donors and partner governments to partner country citizens, alongside reciprocal donor/partner accountability. Donors should strengthen mutual accountability by providing comprehensive, timely and transparent information on aid flows, and agree on an assessment framework covering their own performance, in parallel with the performance framework used to judge partner performance in the PRS. Partner governments should improve the quality and coverage of public financial reports on the use of both domestic and foreign resources. They should strengthen domestic accountability for development policies and systematically involve their parliaments and civil society organisations in all key stages of the PRS and the budget process.

*Challenges.* It is becoming clearer that successful alignment has a lot to do with partner governments internalising such accountability frameworks, indeed insisting that donors respect them, as against the aid “tail” wagging the usually much larger domestic finance “dog”. In several cases these prescriptions are written into constitutional law, and attempts by donors to reserve special niches for their own systems are rightly resisted as non-compliant. However, mutual accountability remains asymmetric, insofar as donors can sanction partner countries’ failure to meet performance benchmarks by withholding disbursements, whereas partner governments can only use the court of public opinion to react to poor donor performance, and that only at some risk of incurring retaliation.

**Question 7. What can be done to increase donor individual and collective accountability to partner countries? Are donor performance assessment frameworks, such as recently introduced in Mozambique, a useful tool and if so, how could their use be promoted more widely?**

### **Strengthening Systemic Capacity**

The agreed aim is to increase both demand and support for partner country institutions that are critical to sustained development results. Donors should provide reliable medium term resources for nationally-led programmes for capacity development. Most of this funding should be pooled, with the partner country freely selecting among sources of expertise. Donors should prioritise funding of joint diagnostic work, carried out transparently. They should build capacity needs

explicitly into dialogue on monitoring and fiduciary frameworks. Partner governments should be encouraged to undertake reforms to bring national systems up to assessment standards. This includes diagnostic reviews to identify weaknesses, and comprehensive action plans to strengthen capacity, embedded in national strategies. Donors and partners could form specialised joint cross-cutting groups, analogous to SWAps, to help design and implement such action plans, and ensure they are reflected in donor assistance strategies.

*Challenges.* Of the multi-dimensional challenge of capacity building, perhaps the key insight is that action to help build systems and institutions is often undermined by behaviour in another context which undercuts capacity, or fails to produce demand for such capacity to match the intended supply. An obvious example is the damaging long-term effect of the establishment of PIUs, as well as the systemic effects of divergent salary and benefit structures on civil service incentives. Such effects are beyond the control of individual donors, who can however set dangerous or unstable precedents. Cultural change at country level is likely to need new forms of engagement and joint learning bringing together donor and partner officials. There are no 'magic bullets', in the form for example of sophisticated information management systems, that will work without a commensurate change in power and accountability lines, which are therefore more important than technology or funding alone.

Question 8. What is the single most important step donors can take to increase the space for partner country capacity to manage development? Are further initiatives to promote pooled technical cooperation, and new forms of joint training at country level, essential? How does this relate to the discussion of incentives for harmonisation and alignment?

Some of the questions highlighted above will prove very difficult to answer, but leaders gathered in Paris should keep them in mind when discussing and deliberating about how to take the agenda forward to promote harmonisation and alignment for more effective aid delivery. This leads to a final, overarching question.

Question 9. How is this agenda to be adopted for the large and growing group of 'fragile states'? Do the same habits apply to a different degree, or is an entirely different approach needed?

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