AD HOC DAC MEETING ON DONOR PROCEDURES

DRAFT AGENDA AND DISCUSSION PAPER
To the Heads of Delegations represented on the Development Assistance Committee

Madam, Sir,

**Ad Hoc DAC Meeting on Donor Procedures: Draft Agenda and Discussion Paper**

With reference to my letter of 6 September [DCD/DIR(2000)22], please find attached the draft agenda and the discussion paper for the above-mentioned meeting.

I would like to take this opportunity to stress the importance of this meeting, as it follows up on the mandate given by the High Level Meeting last May. We need to carefully consider what actions the DAC should undertake in the area of donor procedures so that they will not only complement but also strengthen the work already underway or planned in the international community. The aim of our meeting is to provide concrete suggestions for the terms of reference of a DAC Task Force on Donor Procedures.

In view of the above, it is of the utmost importance that DAC Members be represented at the appropriate policy level.

Should you need further information on this meeting or have questions before 26 October, please contact Mr Fritz Meijndert directly (tel.: +33.1.45.24.90.20; fax: +33.1.44.30.63.54; e-mail: fritz.meijndert@oecd.org).

I look forward to seeing you on 26 October.

Yours sincerely,

Richard Carey
Acting Director
DRAFT AGENDA FOR 26 OCTOBER MEETING
ON PARTNERSHIP AND DONOR PRACTICES

1. Opening and adoption of agenda

2. Ongoing work on harmonisation of operational policies and procedures

Under this agenda item, brief presentations will be made of the work underway or planned by the Multilateral Development Banks, the United Nations, the Strategic Partnership with Africa and the Club du Sahel, followed by a discussion on this work. Members are encouraged, in their interventions, to inform the meeting of their own initiatives, individually or jointly with others, in this area.

3. Consideration of possible work in the DAC

Discussion of the proposals made by the Secretariat (as attached below).

4. Next steps

On the basis of the discussions, the Committee will consider the next steps. If there is agreement that a Task Force should be established, the Secretariat would draft terms of reference for such a Task Force. These could be further discussed at the DAC meeting on 7 November and then forwarded to the SLM for endorsement. The Task Force could become operational in January 2001.
Purpose

1. At its meeting on 20 June, the DAC considered a Secretariat proposal to establish a Task Force to implement the HLM’s mandate to provide aid agencies with the guidance needed to implement the partnership agenda. In this context, the HLM requested that work be undertaken - together with the Multilateral Development Banks and the United Nations - to facilitate the management tasks of partner countries, in particular where these are unnecessarily burdened by multiple procedural requirements on the donor side.

2. The purpose of the meeting on 26 October is to further discuss this proposal and to prepare terms of reference for the proposed Task Force, with a two-year mandate, for submission to the Senior Level Meeting in December. The decision to establish the Task Force could be made definitively by the SLM. The Task Force would prepare its work programme at an initial meeting early in 2001.

Background

3. In their 1996 policy document *Shaping the 21st Century: The Contribution of Development Co-operation*, Ministers for Development Co-operation and Heads of Aid Agencies of DAC Member countries recognised that it was necessary to change the way they were conducting their business. In order to enable developing countries to take genuine ownership of their own development process, agencies would have to work in a far more co-ordinated way than they had done so far. What this really means has been progressively elaborated in a number of documents, and in innovative practical examples of co-ordination. The checklist¹ that emerged from the January 1998 Development Partnership Forum, as well as the document circulated by the DAC Chairman at the end of last year², and, more recently, the policy statement adopted by the DAC at this year’s High Level Meeting³ identify the main challenges.

4. While most DAC Members have been and are making serious efforts to tackle these challenges, it is fair to say that a systematic and pragmatic approach in terms of donor practices remains to be considered. The progress made so far has been uneven. This is not the result of a lack of political will on the part of DAC Members to change their practices. Rather, the main problem is that it is extremely difficult to change the way agencies have been working over extended periods of time, especially in cases where they are operating in a complex organisational environment (e.g. when responsibility for the aid programme is shared among various agencies). In addition, it has to be said that fifty years of development

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2. On Common Ground: Converging Views on Development and Development Co-operation at the Turn of the Century.
co-operation have produced a number of groups in donor and recipient countries which are relatively powerful and have institutional interests. These include NGOs and consultancy businesses.

5. One of the areas where progress has been relatively poor, precisely for the reasons cited above, is simplification and better harmonisation of donor procedures. All development agencies have operational policies and procedural requirements that guide their engagement with partner countries. Most agencies define them for environmental and social areas, procurement, country and sector strategy formulation, appraisal, (financial) reporting and accountability. A major problem is that even where agencies have similar objectives, their specific requirements can be different. Also the number of such requirements has grown as the number of donors and of specific conditionality has increased, making partnership a complex approach at the project and country level. As a result, donors and partner countries alike - particularly poorer and smaller partner countries with limited implementation capacity - face administrative complexities that in some cases raise transaction costs, impede alternative, more programmatic financing arrangements, and more generally lessen development effectiveness. More importantly, the multitude of complex administrative requirements makes it extremely difficult for partner countries to exercise ownership.

6. At the last Development Partnership Forum, which the DAC jointly organised with the World Bank and the UNDP\(^4\), the magnitude of the problem of multiple donor procedures came to the fore. According to one presentation, a conservative estimate for a typical African country is that 600 projects translate into 2 400 quarterly reports a year submitted to different oversight entities, and more than 1 000 annual missions to appraise, monitor and evaluate. Each mission asks to meet with key officials, and each will ask the government to comment on its report. The most common complaint voiced by officials interviewed for seven case studies of aid management in Africa was that aid imposes too many administrative burdens.

7. The DAC High Level Meeting has not been the only forum to urge donors to address the issue of multiple procedural requirements which impose a serious burden on limited partner country capacity. Similar calls were recently made by the G7 Finance Ministers\(^5\) and by the Development Committee of the World Bank.\(^6\) The latter has been asked to submit a report on progress with harmonisation at the next meeting of the Development Committee.

8. Clearly there is a close relationship between efforts to streamline donor procedures and the building of capacity for development management in partner countries. Donors will need to have confidence in the efficiency and integrity of partner country systems if they are to use them. At the same time the persistence of multiple donor procedures makes it difficult to rationalise and strengthen developing country administrative capacities. Therefore the reform of donor procedures needs to go hand in hand with public management reform and capacity building in partner countries.

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4. Development Partnership Forum: From Aid Co-ordination to Development Partnership, 7-8 December 1999
5. In their report to the heads of State and Government, dated 21 July 2000, G7 Finance Ministers state: *Donors should also improve the effectiveness of their support by co-ordinating their aid better in support of well-considered and recipient-led programmes, and simplifying, and where feasible harmonising, aid procedures.*
6. The communiqué of the Development Committee meeting of September 25 2000 reports: *Ministers stressed that multilateral and bilateral donors could contribute greatly to country ownership, more efficient use of resources, and achievement of the agreed International Development goals, by making greater progress on the harmonisation of their operational policies and procedures to reduce the burden on developing countries. Ministers asked the Bank to work closely with its partners and prepare a report for the Committee’s next meeting on progress with harmonisation.*
Scope of the Work

9. Bearing in mind the request from the DAC High Level Meeting as mentioned in paragraph 1, it is suggested that the Task Force carries out the following broad tasks:

- Draw together the analysis and progress from work underway in the international community on simplifying and harmonising operational policies and procedures and identify emerging good practices.
- Work on selected specific issues involved for bilateral agencies.
- Identify areas where it would be helpful and possible to lay out agreed guidance for DAC Members.

These are elaborated below.

Draw together the analysis and progress from work underway and identify emerging good practices

10. As was shown at the 20 June meeting, a considerable amount of work is already in train in the development co-operation system on the range of issues involved. The Multilateral Development Banks have been discussing their operational policies and procedures since 1996. The UN General Assembly has urged the UN to consider simplification and harmonisation of its procedures as one of the focus areas for the substantive session of the ECOSOC for the year 2000. The former Special Programme of Assistance to Sub-Saharan Africa – which became in 1999 the Strategic Partnership with Africa -- has been working at improving donor instruments and procedures since its establishment in 1987. More recently, special initiatives have been taken by some bilateral donors, either individually or jointly. Finally, it should be mentioned that the issue has also been taken up on the partner country side. A group of ministers from the Sahel region have decided to draft a code of good development co-operation practice from a developing country perspective. The code aims to transfer the management of development and the responsibility for executing programmes and projects to the South. The annex provides further details on all this ongoing work.

11. All of the current initiatives vary in the coverage by donor, region and/or instrument. Non involves all donors for all regions and for all types of assistance. So far, interaction between the various efforts has been absent or limited. The Task Force could provide a useful platform to bring together the analysis and progress of ongoing work and use this as a basis for information sharing and identifying good practices. How this task will actually be implemented in the Task Force’s operations needs to be further discussed. In this connection the DAC might wish to discuss if and how it should be engaged in the production of the report the World Bank has been requested to produce for the next meeting of the Development Committee.

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7. There may be a case for the DAC also to provide electronic access to a wider range of relevant material; this will be further discussed in the OECD/World Bank Workshop on Using Information Technology to Promote Aid Effectiveness, scheduled for 2-3 November 2000.
Work on selected specific issues involved for bilateral agencies

12. While it is to be expected that specific issues involved for bilateral agencies will be identified as the synthesising work proceeds, some suggestions are made at this stage to stimulate the discussion.

13. Experience with implementing Sector-wide approaches (SWAps) suggests that the partner country considers donor procedures for procurement and (financial) reporting as among the most cumbersome. At the same time partner countries’ limited capacity in this area is seen by many donors as a bottleneck to engage in SWAps. Addressing the issues such as procurement and (financial) reporting might therefore be beneficial for both donor and partner countries. In addition, work in the area of procurement could benefit from and build upon earlier work in the DAC Working Party on Financial Aspects and achievements made by the Multilateral Development Banks. Since SPA and others are working on SWAps and related issues as well, it will of course be important to establish the extent to which work undertaken in the Task Force would be complementary and reinforcing.

14. At its meeting in June 2000, the Roundtable of Multilateral Development Banks identified the following areas where harmonisation of procedures could be considered: environmental assessment; procurement; resettlement; local costs, retroactive financing, supplementary financing, recurring costs, cost savings, financing of interest; disclosure; corruption; indigenous peoples; reporting requirements; analysis (financial, economic, social); selection and payment of local consultants; evaluation; country and sector strategies (process/procedure); poverty reduction; terminology; determining access to/allocation of concessional funds (e.g. defining performance based criteria). While this list contains items that may not be relevant, or may be less relevant, in the bilateral context and/or in terms of burdening developing countries’ management capacity, it should be noted that it contains the two areas mentioned in the previous paragraph, i.e. procurement and reporting. Some other items may also be worthwhile considering, such as environmental assessment or selection and payment of local consultants.

15. The Groupe Ministériel d'Animation et de Proposition (GMAP) - the lobby group of Sahelian ministers - raises the issue of conditionalities. In a paper for the GMAP meeting at the beginning of October, it is stated that the complexity of the international co-operation system is not only the result of different and complex donor procedures, but also ““. Of the aid agencies’ tendency to be forever adding new policy conditions (gender, environment, good governance, poverty reduction, 20-20 agreement, combating corruption, democratisation, defence budget limitation, etc.)”. Through its good practices and guidelines it can be maintained that the DAC is already making contributions towards common understanding among donors. However, also in this area some more progress should be possible. For example, donors could make use of each other’s analyses and assessments. Where possible, common standards for assessment could be adopted, e.g. with respect to Environmental Impact Assessments.

Identify areas where it would be helpful and possible to lay out agreed guidance for DAC Members

16. The results of the two work areas above could ultimately be used to update and complement the existing DAC Development Co-operation Manual of 1992. This manual contains guidelines in the area of aid co-ordination, project appraisal, programme support, technical co-operation and procurement, inter alia.
Task Force Membership

17. The Task Force would be established at the policy level, with participation from capitals and international institutions, mobilising as necessary relevant experts (including from financial and auditing departments of DAC Members’ aid agencies). The Task Force should include representatives of the World Bank (including the SPA unit) and UN system who are actively engaged in this agenda. There would be close collaboration also with the Club du Sahel, which has a major project underway on the reform of aid management.

18. The Task Force would in a sense function as a joint international group on donor procedures. It would be particularly important for the Task Force to find appropriate ways of interacting with developing country aid managers, and country-level reform pilots.

19. The Task Force would need to be chaired by a person elected from the Membership of the DAC.

Voluntary Contributions

20. The Task Force would receive support from the OECD Secretariat. It is likely that some of the work will have to be commissioned. Commissioned work should be focused on specific tasks that realistically can be done, depending on availability of resources and willingness of Task Force Members to finance and be responsible for various tasks.
ANNEX
ONGOING OR PLANNED WORK IN THE AREA OF HARMONISATION OF DONOR PROCEDURES

Multilateral Development Banks

The 1996 Task Force Report on Multilateral Development Bank (MDBs) (“Serving a Changing World”) urged MDBs to co-ordinate across a broad front, including operational policies and procedures. Partly in response, MDBs formed *inter alia* six thematic working groups - covering procurement, evaluation, environment, governance/corruption/capacity building, the financial sector, and private infrastructure - to explore the scope for harmonisation.

The objectives and outcomes among the various groups differ. The Procurement Group has reached agreement on a Master Bidding Document for goods for use by all MDBs. This document will cover about 70 per cent of all contracts that use MDB financing. The Evaluation Group has made progress in exchanging information and establishing good practices. It has also produced a good practice standard document for evaluating private sector investments. However, standardisation of evaluation methodology is proving to be more difficult. The Environment Group has mapped and analysed the social and environmental requirements for all 35 participating institutions while the Private Sector Financing Group has established a data base which collects the experiences of members in the 'enabling environment' for private sector intervention. The recently established Financial Analysis and Management Group explicitly seeks 'harmonisation' among its participating institutions but the precise focus and working approach has yet to be determined.

In June 1999 several MDBs, UNDG and OECD/DAC began a parallel Roundtable that complements the work of the thematic working groups. While the participants in the thematic groups are subject matter specialists, participants in this exercise are officials with corporate responsibility for designing, implementing, monitoring and evaluating their institution’s overall policy and strategy framework. The intent is to encourage upstream dialogue on these overall frameworks in their broader corporate contexts; identify ways in which policies, practices and strategies facilitate or impede donor collaboration in supporting country level and regional development; and explore options (including harmonisation) for eliminating such impediments.

The ongoing work of the Roundtable includes the following items:

- **Compiling an Inventory.** A comprehensive draft inventory of the differences and similarities in MDB operating requirements has been prepared. It suggests that several procedural requirements are complex and divergent.

- **Revisiting Objectives.** As the working groups evolve, some are finding that they need to redefine their objectives to better reflect their internal dynamic and facilitate constructive engagement by all members. The Roundtable is compiling a list of these objectives and is discussing ways of supporting them. The objectives under discussion include reducing the administrative cost for
borrowers and donors associated with the complexity of donor procedural requirements; improving the clarity of operational communications between donors and borrowers, and among donors themselves; enhancing MDB credibility; and preserving borrower choice among institutions which can play different but complementary roles.

- **Defining “Harmonisation”**. The experiences of the working groups have shown that “Harmonization” does not have a uniform interpretation. The Roundtable is debating a framework for “Harmonization” that envisages three distinct but related aspects: a) consultation, which involves sharing information and learning from each other’s experiences; b) convergence, which emphasises moving toward similar requirements in agreed areas to reduce transaction costs to borrowers and development agencies and/or increase development impact (thereby avoiding convergence merely for the sake of convergence); and c) complementarity/“competitive pluralism,” where institutions operate differently but in ways that are consistent with agreed development objectives, and with each institution’s mandate and comparative advantage.

- **Discussing Modalities**. Participants are discussing possible concrete and voluntary modalities for reducing administrative costs (related to procedural requirements) in the short and longer term. These modalities include arrangements under which staff could recommend for Management endorsement and Executive Directors approval (as necessary) exceptions to operating policies and procedures in specific instances where such exceptions would facilitate better donor collaboration (including cofinancing arrangements) and improve development impact. Other possible modalities include instituting voluntary upstream consultation and “global peer review” among MDBs during the development or revision of policies and procedures; hiring experts, where necessary and acceptable to the MDBs, to support the working groups, whose members typically juggle other work responsibilities; and voluntarily “contracting” one or more MDBs to assist in developing policies and procedures for another MDB or MDBs.

- **Exploring Priorities**. Possible priorities for information sharing include operational policy and strategy work programs. Possible priority areas in which procedural differences could be reduced are procurement, financial management, project processing and reporting, and social and environment safeguards. There is also scope for much better co-ordination in formulating country and sector strategies.

**United Nations**

One of the focus areas for the substantive session of the ECOSOC for the year 2000 will be the issue of simplification and harmonisation of procedures adopted by the UN system in its operational activities for development. The UN Secretary-General will submit a progress report to the ECOSOC with recommendations on how to pursue this matter. This report (E/2000/46 - 23 May 2000) is available on the UN web-site(http://www.un.org/documents/ecosoc/docs/2000/).

The Report concludes that progress by the UN system to simplify and harmonise programming and administrative procedures is still inadequate, but that new steps are being taken by UNDG. For example, UNDG has recently stressed the relation between harmonisation of programme cycles and CCA and UNDAF as instruments to harmonise programming at the country level. The report also mentions that budgetary, accounting, auditing and general financial practices represent an area where further steps might be explored to achieve cost reduction and higher productivity. Other areas of ongoing or planned work include reporting requirements; decentralisation and delegation of authority to the field; common formats for project design; procurement; personnel management practices.
Strategic Partnership with Africa (SPA)

The former Special Programme of Assistance to Sub-Saharan Africa -- renamed in 1999 the Strategic Partnership for Africa -- has always worked at improving donor instruments and procedures. In the document outlining the objectives and work programme for SPA-5, it is recognised that certain changes in donor practices and aid procedures could facilitate the use of a fiscal framework and add value to it and therefore to aid effectiveness. Good progress in this area would entail that the timing of aid announcements and disbursement is aligned with the national budget cycle. Timely reporting of aid flows in a transparent manner would help improve the upstream reporting of public expenditures and ensure that aid flows are adequately reflected in the budget (on an ex ante basis as well as on an ex post basis). Donor aid-reporting systems which help provide information on aid commitments, aid disbursements, and aid composition (by sector and instrument), would facilitate incorporation of the most accurate projections on aid flows in the budget.

SPA is now working with seven Task Teams, two of which are explicitly addressing the issue of harmonising procedures. The Task Team on Financial Management and Accountability is set to suggest ways of harmonising donor procedures related to financial management. The Task Team on Sector Programmes will look more generally at the issue: procurement, remuneration and per diems, fund mobilisation; use of national procedures for aid implementation and common baskets.

The two Task Teams mentioned above will have a joint meeting on 17 October to discuss an analysis and synthesis of a series of position papers prepared by the members on the state of the art considering their agencies financial management procedures.

Club du Sahel

A group of ministers from the Sahel region have decided to draft a code of good development co-operation practice from a developing country perspective. The code aims to transfer the management of development and the responsibility for executing programmes and projects to the developing country partner. To facilitate this process, the Club du Sahel has set as one of its objectives to identify concrete reforms that improve aid effectiveness. It has set up a network of financial managers and comptrollers which will need to identify the worst obstacles in existing procedures; work to remove them; define a framework for a new approach based on more delegation to the South, and harmonised management and accountability principles; and promote the principle of pooling resources in common funds. In support of this Network, the Club du Sahel intends to make an assessment of the magnitude of the problem of multiple donor procedures and of the transaction costs involved. In addition it will map local capacities.

Special initiatives

In a number of CDF pilots efforts are being undertaken by the donor community to identify areas of possible simplification and harmonisation of procedures, for example in Vietnam and Ghana. The latest progress report on the CDF pilots notes that donors are increasingly seen to be aligning their strategies with those of the Government. However, this is not an easy process. Conditionality is very much a factor for some donors who prefer to negotiate this separately with the government involved. Voices from the field raise concerns about the lack of donor co-ordination and the transaction costs this imposes on clients. Encouragingly, some donors are ready to modify the use of their own procedures as a result of the CDF process.
At the initiative of their Ministers for Development Co-operation - on a recent visit to Tanzania - Norway, the Netherlands, the UK and Germany decided to co-operate on harmonising their aid procedures in the health sector. They invited other donors to join their endeavours.

At a workshop organised in the Netherlands last May, with participation from a selected number of organisations, on harmonisation and adjustment of financial management and control procedures it was decided to conduct a study on harmonisation possibilities at the field level focusing on issues of reporting, disbursements and auditing. It was also decided to commission a study on pooling technical assistance.