DAC Guidelines and Reference Series

Harmonising Donor Practices for Effective Aid Delivery

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DAC Guidelines and Reference Series

Harmonising Donor Practices for Effective Aid Delivery

Good Practice Papers

A DAC Reference Document

OECD

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Publié en français sous le titre :
Harmoniser l'aide pour renforcer son efficacité

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Preface

The Monterrey conference highlighted the importance of building partnerships among donors and developing countries as a means of making more effective progress towards the Millennium Development Goals. It specifically called on development co-operation agencies to intensify their efforts to:

> *Harmonise their operational procedures at the highest standard so as to reduce transaction costs and make ODA disbursement and delivery more flexible, taking into account national development needs and objectives under the ownership of the recipient country.*

The management of different donor procedures bears a high cost for developing countries – especially the poorest and most aid-dependent. For example, meeting multiple donor requirements employs a significant proportion of developing countries' administrative capacity; it impairs ownership over partners' own development plans and weakens capacity for effective public management. This is why the Development Assistance Committee (DAC) of the OECD set up a special task force to look at how aid can be delivered more effectively through simplifying and harmonising donor procedures.

The main purpose of the DAC Task Force on Donor Practices, established for a two-year period, was to elaborate a set of good practice papers on how donors can enhance their operational procedures with a view to strengthening partner country ownership. In pursuing this goal it also sought to improve the overall effectiveness of aid and reduce the cost – for donors and recipients – of managing development assistance. The Task Force has associated, in a spirit of mutual accountability, a broad range of developing partner countries representing various geographic regions and different levels of development. This consultation has been carried out at different levels.

The Task Force invited sixteen developing countries,[1] representing different geographical areas and at different levels of development, to participate in the meetings that led to the elaboration of Good Practice Papers presented in this volume.

At developing country level, the Task Force commissioned an extensive consultative survey seeking to identify the priorities and perspectives of developing countries on the harmonisation of donor practices. Interviews were undertaken with government officials and practitioners within line ministries, project implementation units and relevant civil society organisations in eleven countries. The survey results informed the work programme of the Task Force and are presented in the appendix of this volume.

Delivering good practices

The good practices pose significant operational challenges to donors seeking to implement them.

- ***What do good practices cover?*** *In this document, good practices cover three broad functional areas where donors can enhance their procedures.[2] These are:*
  - Good practices between donors and partner governments – *This might include greater reliance on partner government systems for administering aid or timing missions, in agreement*

with the partner government's agenda. These good practices need to be agreed and applied between stakeholders in each partner country and interested donors of each country.

- Good practices between donor agencies – *Aimed mainly at preventing unnecessary duplication of work both for partner governments and development agencies: e.g. one donor trusting another donor to execute aid-related tasks such as audit reports and diagnostic work. Some of these may be country or activity-specific, others might be the subject of wider agreements between two or more donors.*
- Good practices within individual donor systems – *Changes donors can make to their own systems and culture in order to strengthen the ownership of partners and reduce the cost of managing aid. This may require enhancing the capacity of development agency staff to work on this agenda.*

In elaborating these good practices, careful consideration was given to the potential risks arising from harmonised donor procedures. A study, commissioned to address this concern, found that these were limited. The Good Practice Papers provide guidance to address these risks.

- ***How are good practices to be applied to local circumstances?*** *Good practices are a point of reference rather than a matter of prescription for all development agencies, in all countries, at all times. Adapting good practices to the different circumstances of different countries requires greater flexibility in donor policies and procedures to accommodate varying institutional capacities, traditions and partnership histories.*
- ***Why capacity building plays a critical role?*** *All of the Good Practice Papers presented in this volume promote greater reliance on partner country systems for managing development assistance. It is recognised that donors need to give priority to supporting efforts to enhance their capacity to make this possible. One of the key principles occurring throughout the Papers is therefore the importance of simplifying and harmonising procedures in ways that promote partner country capacity development.*
- ***How do good practices fit with various aid delivery mechanisms?*** *Development assistance can be provided in many forms, with different management structures, accounting arrangements and funding mechanisms. Broadly speaking there are three ways in which aid is delivered: project aid, sector programmes and budget support. Donors will typically rely on a variety of these modalities even within a single country. In some cases, such as in sector programme frameworks, project aid and budget support may be combined. This means, for example, that support for the education sector in a country will include both funding of education projects (like school buildings) and budget support (like providing funds to the central budget or the Ministry of Education). The Good Practices Papers do not advocate preference for one form over another; rather, they provide guidance specific to each aid modality where appropriate.*
- ***How will we know that progress is being achieved?*** *Where these good practices are applied there should be monitorable changes in aid delivery. To this end, the Good Practice Papers include indicators that enable partners and donors to chart progress towards more effective partnerships. Further work may be required to refine these indicators to enhance the ease of their use.*

Areas for promoting good practices

There are a large number of areas where good practices can be promoted in order to enhance the aid effectiveness. The focus areas of the Task Force were selected both for their importance and in recognition that other aspects were being treated elsewhere. For example, a separate work programme is being undertaken by the DAC on procurement and a programme of close co-operation is underway in the area of evaluation.

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Six specific papers have been agreed as setting out good practices. The topics are consistent with the findings of the Needs Assessment Survey. They cover:

- *Framework for Donor Co-operation.*
- *Country Analytic Work and Preparation of Projects and Programmes.*
- *Measuring Performance in Public Financial Management.*
- *Reporting and Monitoring.*
- *Financial Reporting and Auditing.*
- *Delegated Co-operation.*[3]

Although formally approved by the DAC, these papers result from extensive discussion with multilateral organisations and partner countries. The papers provide a model that could be applied to other areas, as necessary.

Notes

1. The countries represented were: Bangladesh, Bolivia, Cambodia, Egypt, Senegal, Guatemala, Kenya, Kyrgyz Republic, Mali, Morocco, Mozambique, Pacific Forum, Romania, Tanzania, Uganda, Vietnam.
2. While it is recognised that the implementation of these good practices will have implications with regard to how partner countries manage development assistance, it is not within the remit of the DAC to deal with these issues.
3. *I.e.* when one donor acts on behalf of another.

Acknowledgements

This volume is based on the work of the DAC Task Force on Donor Practices, chaired by Richard Manning (UK) and vice-chaired by Michel Reveyrand (France). The Task Force was established in partnership with other development organisations in December 2000 for a two-year period. Its fundamental objective was to strengthen ownership through identifying and documenting donor practices which could cost-effectively reduce the burden on the capacities of partner countries to manage aid and lower the transaction costs involved.

The Task Force established three sub-groups covering the following topics:

- *Reporting and Monitoring – Chair Christoph Graf (Swiss Development Co-operation).*
- *Pre-implementation Phase of the Project Cycle – Chair Richard Teuten (Department for International Development, UK).*
- *Financial Management and Accountability – Chair Paul Bermingham (World Bank).*

The Task Force and its Subgroups were open to all members and observer delegations to the Development Assistance Committee including those of the World Bank, the IMF and the UNDP. Sixteen partner developing countries were associated with the work of the Task Force. These were: Bangladesh, Bolivia, Cambodia, Egypt, Senegal, Guatemala, Kenya, Kyrgyz Republic, Mali, Morocco, Mozambique, Pacific Forum, Romania, Tanzania, Uganda, Vietnam.

Fred Roos and Simon Mizrahi edited this volume with the assistance of Kjerstin Andreasen.

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Acronyms

CAW	Country Analytic Work
DAC	Development Assistance Committee (OECD)
EU	European Union
GNI	Gross National Income
HIPC	Heavily Indebted Poor Countries
IAASB	International Auditing and Assurance Standard Board
IAS	International Accounting Standards
IFAC	International Federation of Accountants
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
NGO	Non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
ODA	Overseas Development Assistance
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
SAI	Supreme Audit Institution
SWAp	Sector-wide Approach
UN	United Nations
UNDG	United Nations Development Group

Rome Declaration on Harmonisation

Ministers, Heads of Aid Agencies and other Senior Officials representing 28 aid recipient countries and more than 40 multilateral and bilateral development institutions endorsed the Rome Declaration on Harmonisation in February 2003.

We, the heads of multilateral and bilateral development institutions and representatives of the IMF, other multilateral financial institutions, and partner countries gathered in Rome, Italy, on February 24-25, 2003, reaffirm our commitment to eradicating poverty, achieving sustained economic growth, and promoting sustainable development as we advance to an inclusive and equitable global economic system. Our deliberations are an important international effort to harmonise the operational policies, procedures, and practices of our institutions with those of partner country systems to improve the effectiveness of development assistance, and thereby contribute to meeting the Millennium Development Goals (MDGs). They directly support the broad agreement of the international development community on this issue as reflected in the Monterrey Consensus (*Report of the International Conference on Financing for Development*, March 2002, para. 43). We express our appreciation to the governments of Jamaica, Vietnam, and Ethiopia, and to the bilateral donors and international institutions that sponsored and coordinated regional workshops in Kingston, Hanoi, and Addis Ababa in January 2003, in preparation for the Rome Forum. The key principles, lessons, and messages synthesised in the reports of these workshops have provided valuable input to the Forum.

Improvements in development effectiveness

We in the donor community have been concerned with the growing evidence that, over time, the totality and wide variety of donor requirements and processes for preparing, delivering, and monitoring development assistance are generating unproductive transaction costs for, and drawing down the limited capacity of, partner countries. We are also aware of partner country concerns that donors' practices do not always fit well with national development priorities and systems, including their budget, programme, and project planning cycles and public expenditure and financial management systems. We recognise that these issues require urgent, coordinated, and sustained action to improve our effectiveness on the ground.

We attach high importance to partner countries' assuming a stronger leadership role in the coordination of development assistance, and to assisting in building their capacity to do so. Partner countries on their part will undertake necessary reforms to enable progressive reliance by donors on their systems as they adopt international principles or standards and apply good practices. The key element that will guide this work is a country-based approach that emphasizes country ownership and government leadership, includes capacity building, recognises diverse aid modalities (projects, sector approaches, and budget or balance of payments support), and engages civil society including the private sector.

Good practice standards or principles

We acknowledge that while our historical origins, institutional mandates, governance structures, and authorising environments vary, in many instances we can simplify and harmonise our requirements and reduce their associated costs, while improving fiduciary oversight and public accountability and enhancing the focus on concrete development results. We endorse the good practice work by the technical groups of the DAC-OECD Task Force and the multilateral development banks (MDBs), and look forward to the expected completion next year of the UN harmonisation work that is being coordinated by UNDG. We are ready to follow existing good practices while continuing to identify and disseminate new ones.

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Going forward

We agree that, for both donors and partner countries, the progress we make on the ground in programmes and projects will be a concrete and important measure of the success of our efforts. We recognise that such progress can be facilitated and enhanced by harmonisation efforts at the international and regional levels. Building on the work of the DAC-OECD and MDB working groups and on country experience, including the recent country initiatives, we commit to the following activities to enhance harmonisation:

- Ensuring that development assistance is delivered in accordance with partner country priorities, including poverty reduction strategies and similar approaches, and that harmonisation efforts are adapted to the country context.
- Reviewing and identifying ways to amend, as appropriate, our individual institutions' and countries' policies, procedures, and practices to facilitate harmonisation. In addition, we will work to reduce donor missions, reviews, and reporting, streamline conditionalities, and simplify and harmonise documentation.
- Implementing progressively – building on experiences so far and the messages from the regional workshops – the good practice standards or principles in development assistance delivery and management, taking into account specific country circumstances. We will disseminate the good practices to our managers and staff at headquarters and in country offices and to other in-country development partners.
- Intensifying donor efforts to work through delegated cooperation at the country level and increasing the flexibility of country-based staff to manage country programmes and projects more effectively and efficiently.
- Developing, at all levels within our organisations, incentives that foster management and staff recognition of the benefits of harmonisation in the interest of increased aid effectiveness.
- Providing support for country analytic work in ways that will strengthen governments' ability to assume a greater leadership role and take ownership of development results. In particular, we will work with partner governments to forge stronger partnerships and will collaborate to improve the policy relevance, quality, delivery, and efficiency of country analytic work.
- Expanding or mainstreaming country-led efforts (whether begun in particular sectors, thematic areas, or individual projects) to streamline donor procedures and practices, including enhancing demand-driven technical cooperation. The list of countries presently involved includes Ethiopia, Jamaica, Vietnam, Bangladesh, Bolivia, Cambodia, Honduras, Kenya, Kyrgyz Republic, Morocco, Niger, Nicaragua, Pacific Islands, Philippines, Senegal, and Zambia.
- Providing budget, sector, or balance of payments support where it is consistent with the mandate of the donor, and when appropriate policy and fiduciary arrangements are in place. Good practice principles or standards – including alignment with national budget cycles and national poverty reduction strategy reviews – should be used in delivering such assistance.
- Promoting harmonised approaches in global and regional programs.

We wish to record that a positive by-product of our collaboration on harmonisation has been increased information sharing and improved understanding of commonalities and differences during the preparation or revision of our respective operational policies, procedures, and practices. We will deepen this collaboration in the future, and will explore how such collaboration could help to ensure that new or revised policies are appropriately harmonised or "harmonisable" with those of the partner countries and donor institutions.

We recognise the global work on monitoring and assessing the contribution of donor support to the achievement of the MDGs. We will track and, as necessary, refine lead indicators of progress on harmonisation such as those described in the DAC-OECD Good Practice Papers.

We acknowledge the potential contribution of modern information and communication technologies to promoting and facilitating harmonisation – already demonstrated by the use of audio and videoconferencing facilities in the staff work on harmonisation, the Development Gateway, the Country Analytic Work Website, and the early work on e-government, e-procurement, and e-financial management. We commit to further efforts to exploit these technologies.

Next steps

Partner countries are encouraged to design country-based action plans for harmonisation, agreed with the donor community that will set out clear and monitorable proposals to harmonise development assistance using the proposals of the DAC-OECD Task Force and the MDB technical working groups as reference points. In turn, the bilateral and multilateral agencies will take actions to support harmonisation at the country level. As part of their self-evaluation processes, bilateral and multilateral agencies and partner countries will assess and report on progress in applying good practices, and on the impact of such practices. Whenever possible, we will use existing mechanisms to develop such plans and to assess and report on progress, and we will make these plans available to the public.

We will utilise and strengthen, including through partner country participation, existing mechanisms to maintain peer pressure for implementing our agreements on harmonisation. In this regard and in the context of the New Partnership for Africa's Development, we welcome regional initiatives, such as the work by the Economic Commission for Africa, for a joint annual aid effectiveness review in a framework of mutual accountability that would also address harmonisation issues.

Reflecting our experience over these last two days, we plan stocktaking meetings in early 2005 following the review already scheduled in DAC-OECD in 2004. This follow-up would assess progress in and sustain the momentum for fundamental changes that enhance aid delivery, and would contribute to the review of the implementation of the Monterrey Consensus, the timing and modalities for which are expected to be determined by 2005.

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Needs Assessment Survey[1]

The Task Force recognised that it was essential for its work to consult partner countries on their views on donor practices. This was achieved in two ways. First, representatives from sixteen partner countries participated in the Task Force meetings. Second, a Needs Assessment Survey was commissioned in eleven of these countries representing different geographic regions and levels of development. The following section is an executive summary of the main findings of this survey; the full text is presented in the appendix of this report.

The survey was designed to establish partner country views on two main questions: How can donors improve development assistance in ways that support country-owned and led development strategies? And which donor practices, in the current state of affairs, are most undermining the effectiveness of these strategies? In order to establish these views, the consultants charged with carrying out the survey conducted more than 400 interviews with key officials, experts and donor staff.[2]

The survey was structured in two parts. The first examines partner country views of donor practices that place the highest burdens on partner countries. The second identifies priority areas identified for improving donor practices.

The burdens on partner countries

The first objective of the survey was to identify donor practices that placed the highest burdens on partner countries in terms of ownership, aid transaction costs and aid effectiveness. To this end, each respondent was asked to name the three most important burdens with regard to effective aid delivery. The responses were then aggregated into seven categories that are presented in Box I below.

Box I. **Burdens as ranked by respondents**

Rank	Type of burden	Frequency of mention
1	Donor driven priorities and systems	■■■■■■■■■■■■■■
2	Difficulties with donor procedures	■■■■■■■■■■
3	Uncoordinated donor practices	■■■■■■■
4	Excessive demands on time	■■■■■■
5	Delays in disbursements	■■■■■■
6	Lack of information	■■■■■
7	Demands beyond national capacity	■■

The main finding substantiated by the survey is the sense that there is a significant lack of national ownership. This has been defined in the survey as partner governments' ability to design and manage its own development plans while relying on development assistance. The survey also confirmed what many people in the donor community already knew – managing different donor procedures is a major burden for partner countries. Both lack of ownership and the cost of uncoordinated donor practices are brought to bear on partner countries in different ways. This is briefly described in the following paragraphs:

- **Donor driven priorities and systems** – This was the most frequently mentioned burden in all of the countries surveyed. It covers two related dimensions. The first concerns the pressure donors bring to bear on partners' development policies and strategies. Specific examples illustrating this are provided in the main report. The second refers to donor aid management systems that are designed to meet mainly donor requirements rather than to support national needs and priorities. One issue particularly highlighted in the survey was donor reliance on parallel management systems and "ring-fencing".
- **Difficulties with donor procedures** – This burden refers to the intractabilities encountered by partner countries when complying with specific donor procedures. Respondents highlighted procurement and technical assistance as the two main areas that challenged partner administrations. This category also includes problems associated with donors changing their systems, policies and staff.
- **Uncoordinated donor practices** – Many respondents put forward difficulties in understanding and fulfilling the multiple, diverse requirements of different donors. The problem is particularly acute when competing donor systems are making duplicative demands on partners' administrations. This is the case, for example, when different donors co-funding the same activity all require different reports at different dates to meet their own accountability requirements.

Key areas for improvements

The second part of the survey examines key areas where respondents felt reforms would most contribute to improving the effectiveness of development assistance. As in the previous section, responses have been aggregated by category. These are listed in Box II below.

Box II. **Initiatives suggested for improving management**

Rank	Initiative suggested	Frequency of mention
1	Simplify procedures and systems	■■■■■■■■■■■■■■■■
2	Harmonise procedures	■■■■■■■■■■■■■■
3	Align procedures on partner systems	■■■■■■■■■■■■■
4	Share information	■■■■■■■■■■■■
5	Untie aid	■■■■■■■■■■■
6	Respect national priorities and strategies	■■■■■■■■■■
7	Strengthen local capacity	■■■■■■■■■■
8	Use a co-ordination structure	■■■■■■■■
9	Rely on budget support	■■■■■■■■
10	Rely on SWAps	■■■■■■■

The initiatives suggested by respondents are consistent with their perception of the main burdens. They reflect the need to strengthen national ownership and address the problem of the high transaction costs arising from multiple and uncoordinated donor practices. The first four of the suggested initiatives are briefly described below.

- **Donors should simplify their procedures** – Simplifying donor procedures was mentioned, in almost all countries, as the most important initiative for reducing burdens. It offers partners and donors a number of advantages. It meets the objective of diminishing aid transaction costs while eluding the cost of negotiating common or harmonised procedures.
- **Donors should harmonise their procedures** – Different modalities for achieving better harmonisation were put forward, including the suggestions that donors should agree and adopt a common set of procedures, or donors should rely on one another for specific tasks (delegated co-operation).
- **Donors should align procedures on partner systems** – One specific modality for harmonising donor procedures is when donors align their procedures on those of the partner country. It was suggested that this should be seen as a medium term process that may comprise a number of intermediate steps. The first step involves, for example, donors synchronising their procedures with partners' key policy cycles (*e.g.* budget cycle). The concluding step is reached when donors fully rely on partner systems. This process requires close co-operation between the donor community and the partner country.
- **Donors should be more transparent** – It was noted that donors should increase the level of communication between themselves and with government. Donors and partner governments should share more regularly information on planned and ongoing activities, procedures, reports and evaluation results. This could improve the effectiveness of aid activities and also benefit co-ordination efforts while reducing duplication of activities.

Notes

1. The views and analysis presented in this report are the responsability of the University of Birmingham. They do not reflect positions of DAC members, nor do they represent the official position of the governments of the countries examined in the study.
2. The list of countries is a subset of the sixteen countries associated with the Task Force. These countries were Bangladesh, Bolivia, Cambodia, Egypt, Mozambique, Romania, Senegal, [Fiji, Samoa and Vanuatu], Tanzania, Uganda and Vietnam.

ISBN 92-64-19982-9
Harmonising Donor Practices for Effective Aid Delivery
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Chapter 1

Framework for Donor Co-operation

Abstract. *The effectiveness of a donor's assistance in a partner country is affected by the nature of the institutional framework for its relations with the partner government and with other donors, and by its own internal rules and culture. In recent years, donors have recognised the importance of ensuring that these frameworks support nationally owned poverty reduction strategies or similar approaches.*

Different objectives and interests between donors and partner governments can impair aid effectiveness. Donor support can be opaque and unpredictable. The way aid is delivered can create an unnecessary burden on partner countries, hinder efforts to build partner country capacity and weaken partner government leadership and its accountability to its own people.

This chapter sets out nine guiding principles for providing more co-ordinated and effective development assistance. These principles underpin not only the good practices in setting an effective framework but also all the good practices in the subsequent five chapters.

This chapter also sets out specific good practices donors may adopt for developing the overall framework for donor-partner government relations, for donor-donor co-ordination and for individual donor systems. If adopted, they would enhance a greater sharing of objectives between donor and partner governments, clearer expectations of each other and more predictable and transparent aid flows. Donors would co-ordinate in a way that would be transparent and minimise unnecessary transaction costs for partner countries. Donors' internal rules and cultures would encourage their staff to behave collaboratively and as flexibly as possible.

Introduction

Individual donors do not work in isolation. Invariably they undertake operations that require involvement from a partner government and generally work in areas where other donors are also active. Effective working relations, based on mutual trust and respect, are vital. Experience shows that these must be built on explicit, shared objectives, and an institutional framework for co-ordination that reconciles different interests in a constructive way.

A good framework for aid co-ordination will enable leadership by partner governments, simplify working relationships and create flexibility where it is missing. It will also facilitate dialogue between donors and civil society and the private sector in a partner country.

A good framework for aid co-ordination spans donor-partner relations, intra-donor relations, and individual donor systems as follows:

- An overall framework for development assistance in a particular country which sets out a consensus between government and donors on objectives and strategy, and agreement on the forums, rules and timetables to manage dialogue between donors and government.
- Arrangements between different donors to enhance co-ordination and to simplify procedures where it is not possible to use partner government systems.
- Internal donor rules and culture that affect the ability to form effective partnerships with partner governments and other donors.

What follows are some guiding principles for developing these frameworks and specific good practices in their design and operation. Possible indicators for these good practices are set out in the Technical Guidance Notes presented at the end of this chapter.

Guiding principles

In recent years, donors have given a renewed emphasis to the importance of their relationships with partner governments and, in particular, to placing nationally designed country strategies at the heart of the development process. This trend has been strengthened by the development of nationally owned poverty reduction strategies and similar approaches which emphasise the responsibility of donors to make the exercise of this ownership effective. They also emphasise the need to change the nature of accountability so that donor requirements support national systems.

The principles underlying this new approach to partnership are set out in Box 1.1. They reflect priorities identified in the DAC's Guidelines on Poverty Reduction (2001) and adopted by the international community in the Millennium Declaration and in the Monterrey Consensus. They provide a set of guiding principles for all the good practices in this volume. Donors' ability to adopt many of these guiding principles, and the good practices that follow from them, depends on the commitment and capacity of partner governments to improve donor co-ordination and aid effectiveness.

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Box 1.1. **Guiding principles on providing co-ordinated aid**

1. Donors should support country-owned, country-led poverty reduction strategies, or equivalent national frameworks, and base their programming on the needs and priorities identified in these.
2. Development assistance should be provided in ways that build, and do not inadvertently undermine, partner countries' sustainable capacity to develop, implement and account for these policies to their people and legislature.
3. Co-ordination of donor practices enhances the effectiveness of aid, particularly for aid dependent countries. Aid co-ordination should, whenever possible, be led by partner governments.
4. Reliance on partner government systems, where these provide reasonable assurance that co-operation resources are used for agreed purposes, is likely to enhance achievement of sustainable improvements in government performance.
5. Partner countries and donors have a shared interest in ensuring that public funds are used appropriately.
6. Donors should work closely with partner countries to address weaknesses in institutional capacity or other constraints that prevent reasonable assurance on use of co-operation resources.
7. The development of appropriate partner country systems will often be a medium term process. Until donors can rely on these, they should simplify and harmonise their own procedures to reduce the burden placed on partner countries.
8. No single approach is suitable for all countries. The manner in which harmonisation is implemented needs to be adapted to local circumstances and institutional capacities.
9. Assistance to empower civil society and support effective organisations representing the private sector also can enhance improvements in partner government performance.

Good practices

Donor – partner relationships

Partner countries have legitimate interests in autonomy of action, and in transparency and predictability of aid flows. Donors have legitimate concerns regarding good management and the impact of their aid. This can create a tension between the good practices of promoting ownership and partnership with partner governments and the desire of donors to ensure that aid is used for its intended purposes and helps promote reform. An effective aid relationship requires a donor and partner government to build a working consensus on objectives and strategy. This is easier when the latter has a definite strategy, clearly presented and implemented. Where government capacity is weak, a challenge for donors is in assisting partner countries to develop a nationally owned strategy. Poverty reduction strategies are increasingly the focus of strategic agreement, provided they link into the country's own planning and budgeting system.

A further challenge for donors in building partnerships is to reach a clear agreement with partner governments on how a government's performance will be assessed and how this assessment will be used to determine aid flows. Transparency and predictability about aid flows enhance trust between donors and partner governments.

These challenges suggest the following good practices (see below) in creating an effective donor-partner relationship where a shared understanding of objectives and strategies exists:

- **Set out the objectives and operations of individual country programmes and make these widely available** – Donors should set out the objectives, and indicative operations they plan to support, for each of their substantive country programmes. In developing these, they should:
  - Consult partner governments on the consistency of the proposed operations with a partner government's poverty reduction strategy or equivalent national framework.
  - Base the analysis of a country's development needs and potential on the partner government's own analysis in its poverty reduction strategy paper or equivalent national framework.
  - Share the key proposals for support with the partner government, other donors and civil society.

  An explicit, open, country programme that draws on common analysis and takes account of partner government objectives can help reduce the risk of inconsistency or duplication in donor support in a partner country (see Box 1.3).
- **Multi-year programming of aid** – Donors, wherever possible, should programme their aid over a multi-year timeframe that is consistent with the financial planning horizon of the partner government, and are transparent about the circumstances under which aid flows may vary. The combination of longer term and more predictable finance enables partner governments to have more trust in the reliability of donor finance – this is needed to plan increases in service delivery capacity, and facilitates macroeconomic management.
- **Use common performance indicators** – Donors and partner governments should agree on performance indicators that are simple, measurable, prioritised and easily verifiable. Where donors are funding the same operations they should use the same performance indicators.
- **Build a common framework for aid co-operation** – Donors and partner governments should agree a framework for review and monitoring their assistance and seek to incorporate it into multi-donor review and monitoring processes such as consultative forums and a partner government's review processes, as part of building a common framework for aid co-ordination (see Box 1.2).
- **Provide full information on aid flows** – Donors should provide partner governments with full information of aid flows. This should be done regularly and in a timely manner. This enables partner governments to integrate aid into macroeconomic and budgetary management and to publish details of aid received (see Box 1.3).
- **Support leadership in aid co-ordination by partner governments** – Donors should support leadership in aid co-ordination by partner governments, in order to link aid to development planning and budgeting processes. Partner governments should lead the overall consultative institutions, including organising and chairing consultative groups, high-level meetings, working groups and similar arrangements, and providing the secretariat. This requires adequate staffing, resources and appropriate location within the government structure. Where necessary, donors should be prepared to support the co-ordination process financially and technically. Donor support of partner government

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Box 1.2. **Donor – government partnerships**

Uganda – Since 1997 the Government of Uganda (GoU) and donors have co-ordinated to improve aid effectiveness by focusing support through GoU's Poverty Eradication Action Plan (PEAP). The PEAP outlines GoU's overarching strategy for poverty eradication and, in Volume III, the shared commitment that support will only be sought and provided for programmes that are in the PEAP. Volume III also outlines preferred modalities for donors' support, with general or sector earmarked budget support identified as the desired method of aid disbursement. These principles are being operationalised with the aim of common procedures in place by March 2003.

Implementation of the PEAP and donor co-ordination is facilitated by a Poverty Reduction Support Credit (PRSC). The PRSC addresses public sector crosscutting issues, which are identified in bi-annual joint government-NGO-Donor or sector reviews. The PRSC is a matrix of actions, with benchmarks and outputs, developed through a consultative process. Several agencies, and all those providing budget support, use the policy matrix as the framework for disbursements whilst monitoring PEAP implementation via the Medium-Term Expenditure Framework and the budgetary process. There is one annual Government-Donor review of progress against undertakings and PEAP indicators. Donors therefore have shared compatible benchmarks around which their budget support is mobilised.

Whilst progress is still required in a number of areas (*e.g.* improved funding predictability and better co-ordination of analytic work), a number of benefits of these arrangements are already apparent:

- Ugandan ownership of its poverty reduction and public expenditure programmes, strengthened budgetary institutions, and reduced transaction costs of external assistance.
- A multi-sector approach promoting co-ordination and collaboration that are essential ingredients for institutional reform.
- A comprehensive approach addressing sector and system-wide problems in service delivery more effectively.

leadership should be undertaken in a way that enables donors to continue to consult civil society and representatives of the private sector of the partner country on aid partnership issues.

Particular issues arise when donors channel funds through partner government systems and disbursement of these funds is linked to government performance. There is a spectrum of such donor operations ranging from certain types of partner government managed projects to the provision of un-earmarked budget support. They have a number of features that make partner governments potentially more vulnerable to any lack of coherence in their provision – they are provided directly to a partner government's budget, can be subject to a high degree of policy conditionality and individual tranches can be significant in relation to the budget. In the case of budget support, either general or sector-earmarked, these characteristics make it desirable that a common framework for the provision of budget support be agreed between a partner government and those donors providing such support. Such a framework provides greater clarity and transparency in the mutual expectations of donors and partner governments. This greater understanding enables partner governments to plan with more certainty, to use these resources to

Box 1.3. **Joint programme for macro-financial support**

Mozambique – The main donors providing direct budget support operate as a group (known as the G10), in support of a Joint Programme for Macro-Financial Support agreed in November 2000, and governed by an Aide Memoire signed between the Government of Mozambique (GoM) and the participating donors. The key features of this innovative arrangement are:

- The long-term objectives are explicitly stated.
- Regular dialogue takes place between GoM and donors on key areas set out in the Joint Programme Agreement (JPA). Quarterly meetings particularly focus on reviews of revenue and expenditure priorities, budget execution, and progress in implementing Mozambique's poverty reduction strategy (PARPA).
- Annual review of the programme in March/April is followed by provisional pledges of general budget support for the next calendar year, confirmed (assuming successful continuation of the programme) together with a quarterly disbursement schedule after approval of the State Budget in December.
- Common arrangements are used for disbursing the general budget support through a simple mechanism that provides untied, un-earmarked financing.
- Policy conditionality within the existing JPA requires GoM to implement the poverty reduction programme as described in its key planning documents such as the PARPA and the medium term fiscal framework, and staying on track with its macroeconomic programme as set out in its Poverty Reduction Growth Facility agreed with the IMF. At present, donors are free to add policy conditions outside the main agreement, though the aim is to achieve a common donor position on what conditions should apply, and how they should be assessed.
- World Bank and IMF attend meetings as observers.

Both government and the donors regard these arrangements as successful. Dealing with the donors as a group has reduced the burden of meetings and simplified dialogue, while greater clarity on the amount and timing of donor disbursements has been welcomed. Government would like this to go further, with multi-year commitments, and with improved predictability by ensuring a more consistent and explicit approach to conditionality.

enhance country performance and facilitate macroeconomic management. Important elements of such a common framework for budget support are set out in paragraphs below:

- **A common conditionality framework** – Donors should agree a common conditionality framework, drawn from a partner's poverty reduction strategy or equivalent national framework. This will provide a menu from which donors draw in their individual operations. Donors should limit their conditionality to this common framework. The aim is to prevent the proliferation of conditions imposed by individual donors (see Box 1.2).
- **Multi-year funding commitments** – Donors, where possible, should make multi-year funding commitments (subject to performance) to enable the partner government to plan its medium term macroeconomic and fiscal projections.
- **Compatibility of commitments and disbursements with partner government cycles** – Donors should time commitments that are compatible with a partner government's budget cycle and time disbursements flexibly to enhance a partner government's macroeconomic management.

- **Budget support review integrated into partner government review processes** – Donors should incorporate review of their budget support into partner government led processes for reviewing its own poverty reduction strategy or equivalent national framework in the case of general budget support, or sector programmes in the case of sector budget support (see Box 1.2).
- **An open process for managing any concerns** – Donors and partner governments willingly engage in collective and transparent forms of dialogue on concerns that either party may have in terms of commitments.
- **Clear rules for any suspension of aid** – Donors should suspend support within-year only in exceptional circumstances that are clearly defined.

Donor-donor relationships

Multiple inconsistent practices by donors impose burdens on partners. Where it is not possible to use partner country systems, donors can ease this burden by adopting common systems and procedures or adopting joint working arrangements that include shared decision-making. Such harmonisation can lead to stronger, more sustainable forms of aid co-ordination, provided care is taken to consult fully with partner countries so that donor harmonisation is in their interests.

Donors work together in partner countries in various ways. Some of these working arrangements, such as joint monitoring teams and joint high-level meetings, directly reduce administrative burdens on partner countries. Others, such as lead donor arrangements for particular sectors and donor co-ordination bodies, can create the potential for lower burdens on partners of administering aid.

Good practices for achieving these benefits of **joint working,** where donors participate in the same project or programme, are set out below.

- **Consult with partner governments** – Donors should consult with the partner government to seek ways of reducing administrative burdens by joint working.
- **Coherent communication with a partner government** – Donors should communicate in a coherent manner with a partner government, resolving differences of view on policy to the minimum desired by the partner government to enable it to make informed choices. Inconsistent messages from donors impose a cost on partner governments. Resolution of these differences reduces these costs but should respect the desire of a partner government for consideration of policy choices. Donors and partner governments may achieve greater coherence through a lead donor representing all donors engaged in the sector or crosscutting issue (see Box 1.4 and Box 1.5).
- **Share information** – Information on relevant donor operations in a sector (including consultancies, project proposals, reports) should be made available to other donors and the partner government (see Box 1.4 and Box 1.5).
- **Explicit agreement on roles** – Agreements should set out the respective roles, consultation mechanisms and behaviours expected of each donor in a multi-donor activity where the benefits from an explicit understanding outweigh the costs of any negotiation.
- **Burdens on partners can be reduced by standardising systems and procedures** – Provided that the new procedures are simpler. Where possible systems and procedures of partner countries should be used. Progress to date has been greater in practical small-scale efforts, responding to the country context rather than seeking to impose a uniform

Box 1.4. **India's District Primary Education Programme**

India – The District Primary Education Programme (DPEP) seeks to benefit more than 50% of India's primary school age children. It is co-financed by the provinces and a consortium of donors (World Bank, EC, DFID, Netherlands, UNICEF), whose support flows through the budget of Government of India. DPEP sets clearly defined sector goals, and brings together all donors to work with the National government to bring out systemic changes in primary education. Detailed Perspective Plans are drawn up and appraised jointly by the Government of India and the donor agencies. Sector wide goals are set and systemic changes supported. Joint Review Missions are held every six months, led alternately by the Government of India and an individual donor. Periodic studies are identified and undertaken by specific agencies. Reporting follows agreed formats.

Box 1.5. **Joint working by donors**

Vietnam – There are several examples of joint working by donors in Vietnam. The Poverty Working Group – a government body with donor and NGO members – produced a joint Poverty Assessment Report "Vietnam: Attacking Poverty" (2000) which led to joint donor work in supporting the government in designing and implementing its Comprehensive Poverty Reduction and Growth Strategy (PRSP). This reduced the government's transactions costs in managing aid and working with donors.

approach globally. Good practices for developing common systems and procedures are set out in below.

- **Consult with partner governments** – Donors with common interests should work together in partner countries to develop common procedures in consultation with partner governments and where the benefits warrant the costs of negotiation. This allows for more active involvement of partner countries and for joint development of country and donor systems rather than the continued development of donor systems as a separate activity (see Box 1.7). Donors should make explicit agreements with other donors on collaboration, but no more formally than necessary. Common donor procedures should not be pursued where costs of negotiation outweigh benefits of adoption.
- **Share examples of common procedures** – Donors share country-specific examples of common procedures to enable identification of lessons that can be applied more widely. Such examples can contribute to an ongoing review of systems and procedures in international forums, drawing together good practices from countries and regions into approaches and standards that can be applied more widely.
- **Global common procedures only in certain circumstances** – Negotiation of common procedures at a global level is only appropriate where this approach does not undermine the adoption of partner government systems and where the benefits of standardisation warrant the costs of negotiation. Harmonisation is likely to be most effective when it is around partner country systems. Initiatives to standardise a particular procedure amongst a group of donors should take account of the potential impact on their ability to respond flexibly to the different circumstances in partner countries. The cost of

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negotiating standardisation varies between procedures – for some they may be higher than the likely benefits from greater simplification.

More specific good practice on joint working in monitoring and reporting, financial management and in terms of delegated co-operation are provided in the relevant other Good Practice Papers.

Box 1.6. **Adopting common procedures**

Cambodia – A series of donor reviews in 2001 led to the establishment of a Memorandum of Understanding and Action Plan between World Bank, the Cambodian Ministry of Economy and Finance (MEF) and the Asian Development Bank (AsDB). The parties agreed: a way of working jointly on portfolio reviews, and priorities and time-bound actions to improve project implementation and quality. Actions agreed included the use of common standard operating manuals for project implementation and project financial management, the use of a common set of portfolio performance indicators to be monitored regularly, and the timing of regular reviews. This "co-ordinated programme of support" between MEF, World Bank and AsDB was agreed at a Portfolio Review Meeting in December 2001.

Box 1.7. **Common donor procedures**

Vietnam – In 2001 the Government of Vietnam (GoV) issued decrees on the management and utilisation of ODA resources that changed the procedures and regulations governing all stages from project identification to monitoring and evaluation. They also clarified the responsibilities of the various Vietnamese agencies involved in the ODA process. In support of this initiative, the World Bank, the Asian Development Bank and Japan Bank for International Co-operation agreed a joint statement in May 2002 to harmonise areas of procurement, financial management, environmental and resettlement issues. Implementation of this agreement will strengthen GoV's aid absorption capacity and streamline the aid implementation process.

Individual donor systems

Donors' internal systems and procedures can be complex and inflexible and work against collaborative, country-owned approaches. There is scope to make these procedures simpler and more flexible while introducing incentives for staff that emphasise working more closely with partners and in a manner that increases partner capacity. A number of good practices can help make this change.

- **Create top level advocates of harmonisation** – Donors should create top level advocates responsible for promoting harmonisation and partnership at a high level in their organisations, by assigning senior staff to these tasks.
- **Encourage initiatives in partnership and joint working by country offices** – Donors should encourage initiatives in partnership and joint working by country offices, particularly where they enable country office staff to avoid spreading themselves too thinly (geographically or by sector).
- **Decentralise decision-making** – Decentralised donor decision-making to country-based staff enhances the potential for partner country specific partnership working.

- **Ensure programme managers' awareness of the degree of flexibility** – Donors ensure that programme managers are aware of the flexibility permitted in applying internal procedures.
- **Manage staff to create the right environment for them to behave collaboratively and flexibly** – Donors should manage the turnover of staff in country and regional offices, in terms of the frequency, sequencing and the briefing of new staff, in order to maintain institutional knowledge and continuity in partnerships. Donors should emphasise the interpersonal skills required for effective partnerships in selecting, training and evaluating staff. Donors should remove any inappropriate pressures on staff to demonstrate achievement where this might create a sense of rivalry that inhibits information sharing.
- **Set transparent performance standards** – Donors should set transparent performance standards for themselves in consultation with partners (*e.g.* in turnaround times for disbursements, approvals and meeting deadlines for providing aid information to government aid co-ordinators).
- **Be open to assessments of aid management performance** – Donors should be willing to participate in assessments of performance in aid management in order to create transparent incentives to good practice.
- **Review procedural requirements regularly** – Donors should regularly review their procedural requirements so that programme managers are able to be flexible, and adopt simple procedures, consistent with their legal framework.
- **Review legal framework** – Where legal frameworks are felt to limit joint working by a donor, the potential benefits of joint working should encourage donors to review the legal framework under which they operate (see Box 1.8).

Box 1.8. **Reviewing the constraints to more flexible working**

The Canadian International Development Agency (CIDA) established an internal Working Group on Program-Based Approaches (PBAWG) in 2002 to consider operational constraints to participation in programme-based approaches, such as contractual, legal and financial considerations. The Group examined the adequacy of CIDA's current authorities to engage in budget support and other new programme approaches. The PBAWG:

- prepared a comparative analysis of other bilateral donors' policies and practices (*e.g.* fiduciary risk assessment, basis and timing of payment, cash flow requirements etc.);
- prepared a comparative analysis of multi-donor initiatives where a joint Memorandum of Understanding exists; and
- is identifying characteristics of transfer payments (*e.g.* accounting and reporting requirements) needed for the support of programme approaches.

The Group recognised that CIDA would have to modify its internal terms and conditions to allow for payments to be made on the basis of achievement of performance objectives, rather than reimbursement of expenditures and advanced payments, as it did hitherto. In late 2002, CIDA was seeking new financial authorities from the Canadian Treasury Board Secretariat. This included an increase to the threshold for advances – from the level of CAD 500 000 quarterly or monthly based on immediate cash flow requirements – and a decrease in the frequency of accounting and reporting by a partner government.

- **Ensure coherence between the various agencies of an individual donor** – Where a donor is represented in a partner country by more than one executing agency it should integrate the operations of each of these agencies into a single coherent strategy or business plan. These agencies should be as flexible as possible within external constraints in adopting common procedures in a specific country where this reduces the burden on the partner country. Roles and responsibilities of each agency should be clear and shared with the partner government and other key stakeholders.

TECHNICAL GUIDANCE NOTE

Note 1.1
Indicators of Good Practice in Framework for Donor Co-operation

Good Practices	Success Criteria	Source of Information
1. Donor – partner relations		
Donors set out the objectives, and indicative operations they plan to support, for each of their substantive country programmes. In developing these they: ● Consult partner governments on the consistency of the proposed operations with a partner government's poverty reduction strategy or equivalent national framework. ● Share key proposals for support with the partner government, other donors and civil society.	Progress in developing nationally designed and owned poverty reduction strategies.	Partner governments.
Donors, to the greatest extent possible, programme their aid over a multi-year timeframe that is consistent with the financial planning horizon of the partner government, and are transparent about the circumstances under which aid flows may vary.	Programming period of aid by donors.	Donor HQs.
Donors and partner governments agree performance indicators that are simple, measurable, prioritised and easily verifiable.	Performance indicators agreed by partner governments and donors.	Periodic studies.
Where donors are funding the same operations they use the same performance indicators.	Use of common performance indicators by donors funding same activity.	Donors in country.
Donors agree a framework for review and monitoring their assistance and seek to incorporate it into a multi-donor review and monitoring processes such as consultation forums and a partner government's review processes, as part of building a common framework for aid co-ordination.	Increased co-ordination in review and monitoring of assistance.	Donors in country.
	Evidence of inclusion of reviews and monitoring in multi-donor processes and partner government reviews.	Donors in country and partner governments.
Donors provide partner governments with full information on aid flows. This is done regularly and in a timely manner.	Statements of aid flows submitted by donors to partners.	Partner government aid co-ordination units.
Donors support leadership in aid co-ordination by partner government, in order to link aid to development planning and budgeting processes.	Donor participation and support to aid co-ordination framework in country.	Partner governments and donors in country.

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Good Practices	Success Criteria	Source of Information
Donors providing budget support seek to agree a common framework for the provision of budget support, elements of which include:		Partner governments and donors in country.
• Donors agree a common conditionality framework drawn from a partner's poverty reduction strategy or equivalent national framework that provide a menu from which donors would draw in their individual operations. Donors limit their conditionality to this common framework.	Evidence of agreed common conditionality framework based on partner country's poverty reduction strategy or equivalent national framework.	
• Donors, where possible, make multi-year funding commitments (subject to performance) to enable the partner government to plan its medium term macroeconomic fiscal projections.	Evidence of multi-year funding commitments.	
• Donors time commitments to be compatible with the partner government's budget cycle and to time disbursements flexibly to enhance partner government's macro-economic management.	Donors reactions to performance of partners. Donors' timing of funding compatible with partner government's budget cycle.	
• Donors seek to incorporate review of their budget support into the partner government's review of it's own poverty reduction strategy or equivalent national framework (in the case of general budget support) or sectoral programmes (in the case of sector budget support).		
• Donors agree a process for dialogue to manage concerns that either party may have about the other's commitments.	Evidence of existing dialogue.	
• Donors suspend support within-year only in exceptional circumstances that are clearly defined.	Frequency of suspensions. Management of suspensions.	
2. Donor – donor relations		
Donors mutually consult with the partner government to seek ways of reducing administrative burdens by joint working.	Consultations with partner government departments by donors to seek ways of reducing administrative burdens.	Partner government departments.
Donors communicate in a coherent manner with a partner government, resolving differences of view on policy to the minimum desired by the partner government to enable it to make informed choices.	Greater coherence of policies between donors and partner countries.	Donors and partner governments.
Information on relevant donor's operations in a sector (including consultancies, project proposals, reports) is made available to other donors and the partner government.	Availability of information on activities.	Donors in country.
Agreements set out the respective roles, consultation mechanisms and behaviours expected of each donor in a multi-donor activity where the benefits from an explicit understanding out-weight the costs of any negotiation.	Roles, consultation mechanisms and behaviour clarified in a multi-donor activity.	Donors in country.
Donors with common interests work together in partner countries to develop common procedures in consultation with partner governments and where the benefits warrant the costs of negotiation.	New common procedures developed by donors in-country.	Partner governments and donors in country.
Donors share country-specific examples of common procedures to enable identification of possible common lessons that can be applied more widely.	Donors support ongoing review of systems and procedures in international forums.	Donors HQs.
	Progress in dissemination and adoption of good practices.	Donors in country and HQs.

Good Practices	Success Criteria	Source of Information
Negotiation of common procedures at a global level is appropriate where this approach does not undermine the adoption of partner government systems and where the benefits of standardisation warrant the costs of negotiation.	Review of common procedures at global level.	Survey of existing common procedures.
3. Individual donor systems		
Donors create top-level advocates of harmonisation and partnership at high level in their organisations, by assigning senior staff to these tasks.	Whether senior staff are assigned in donor donors to promoting harmonisation and partnership.	Donor HQs.
Donors encourage initiatives in partnership and joint working by country offices, particularly where they enable country office staff to avoid spreading themselves too thinly (geographically or by sector).	Initiatives in partnership and joint working taken by donor country offices.	Donor country offices.
Decentralised donor decision-making to country-based staff enhances the potential for locally-determined partnership working.	Evidence of improvement of locally-determined partnership work.	Donors in country and HQs.
Donors manage staff to create the right environment for colobaritve and flexible behaviour:		
• Turnover of staff in country and regional offices, with regard to frequency, sequencing and the briefing of new staff, in order to maintain institutional knowledge and continuity in partnerships.	Whether continuity in partnerships is maintained.	Partner governments and donors in country.
• Donors emphasise the interpersonal skills required for effective partnerships in selecting, training and evaluating staff.	Change in criteria for selecting, training and evaluating staff.	Donors' HQs and donors in-country.
• Donors remove any inappropriate pressures on staff to demonstrate achievement where this might create a sense of rivalry that inhibits information sharing.	Objectives set for donor field staff.	Donors in-country.
Donors set transparent performance standards for themselves in consultation with partners.	Performance standards set by donors for themselves.	Donor HQs and donors in country.
Donors participate in assessments of performance in aid management in order to create transparent incentives to good practice.	Participation by donors in assessments of donor performance.	Donor HQs and donors in country.
Where legal frameworks are felt to limit joint working by a donor, the potential benefits of joint working should encourage donors to review the legal framework under which they operate.	Reviews of legal framework carried out by donors.	Donor HQs.

ISBN 92-64-19982-9
Harmonising Donor Practices for Effective Aid Delivery
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Chapter 2

Country Analytic Work and Preparation of Projects and Programmes

Abstract. *Country analytic work (CAW) forms the basis for partner countries' policy development. It helps to assess performance in their implementation and the risks to the use of donor resources. It can also form the basis for specific donor supported operations. Preparation of these operations sets the basis on which subsequent reporting, monitoring and evaluation are conducted.*

The growth in diagnostic products, and lack of co-ordination in how they are applied, can lead to duplication of donor efforts and high transaction costs for partner countries. Where partner governments take the lead, the challenge is to assist them to raise quality, coverage, consistency, transparency and relevance of CAW to policy development. Donors often duplicate each other's work in preparing specific operations and fail to consult adequately with partner countries or use the process to build partner country capacity.

This chapter sets out good practices that donors may adopt to address these concerns. If adopted, they would reduce unnecessary administrative burdens imposed on partner countries by rationalising the development and application of diagnostic tools and preparation of specific donor operations. Aid effectiveness would be enhanced by planning and undertaking CAW and project/programme preparation in the context of a government-led strategy. They would be carried out in a way that enhances partner countries' capacity. The impact of CAW would be enhanced through wider dissemination of its results.

Key issues

This chapter covers two key prior stages of any donor-supported operation: country analytic work to support country dialogue and provide preparatory analysis for donor assistance; and the identification and preparation of specific operations drawing on this analysis.

- **Country analytic work** provides the context, strategies and priorities within which specific donor interventions may be identified. Such work may be undertaken at many different levels: macro, sector, crosscutting, sub-sector or sub-national. It includes:
  - Collection and analysis of data such as population censuses, household surveys, statistics of production, prices, trade, monetary and fiscal data, and performance indicators for sectors (particularly health and education). These have traditionally been conducted by national governments as part of their planning process.
  - A range of less formalised tools to support analysis that tend to be more participative and varied in approach, notably participatory poverty assessments.
  - Examination of the effectiveness of the capacity and policy of partner government systems, including fiduciary aspects, governance and investment climate assessments. Traditionally these have been designed and undertaken by multilateral agencies. However, such diagnostic tools are increasingly relied on by national governments and other donors.

Good analytic work is essential for well-focused policy and programmes. Donors must be confident that the policies their assistance supports are based on sound information. As greater recognition has been given to the importance of an evidence base for policy so the amount of analytical work has risen. Given the limited capacity of many partners much of this has been commissioned by donors themselves.

Many of the diagnostic tools for policy making are well established, and, since they form the basis for planning and allocating public resources, ownership by partner governments has traditionally been high. However, they may not be applied with sufficient coverage and consistency, the basic statistics that the tools require may not be collected sufficiently well or poor communications within a partner government may prevent analytic work being shared. The challenge for donors is in assisting governments to raise quality, coverage, consistency, transparency and relevance of analytic work to policy development and reform.

In other areas, donors have led the development of diagnostic tools – particularly on government systems for fiduciary purposes. Sometimes this has resulted in a proliferation of overlapping tools that have been applied to a particular country without adequate co-ordination. Here the need is to avoid duplication and promote partner government ownership in the design and dissemination of analytic work – and of the decisions that it supports.[1]

Donors have a role in ensuring effective dissemination of analytic work by helping partner governments ensure results of analytic work are widely available and accessible.

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The final challenge is to encourage its effective use to develop policy. Evidence-based policy making requires that decision-makers have access to analytic work and understand its results.

- Donors also undertake **work to prepare for specific operations** that they fund – from modest technical assistance projects to large-scale programmes. This may entail project identification missions, the use of decision-making tools such as results frameworks and logical frameworks and the development of project concept notes and final financing proposals. This work is generally designed and conducted by individual donors for their own decision-making. The working arrangements and designs of programmes and projects that are developed determine the nature of implementation and set the basis on which subsequent reporting, monitoring and evaluation is conducted.

The proliferation of preparatory work can impose unnecessary administrative burdens on partner governments via the multiple consultancy missions and the separate processing of similar donor proposals. Multiple formats and models of results frameworks and logical frameworks can make it difficult to use the analytic work produced by individual donors. Underlying these problems is the lack of incentives within donors to make better use of each other's work and that of partner governments to avoid repetitive analyses for preparing individual project preparation.

Donors can also fail to consult sufficiently in identifying and designing operations – with partner governments, other donors and civil society and representatives of the private sector in partner countries. This might create a conflict with a partner government's poverty reduction strategy (or equivalent national framework) or duplication or conflict with other donors' operations. It can also undermine the prospect of sustaining the benefits of an operation and preclude an important opportunity for building capacity in a partner country.

Purpose

This Chapter presents a set of guiding principles and good practices on how donors can make aid more effective in supporting the analysis and design of partner policies and undertaking preparation of specific activities. Its objectives are to:

- **Strengthen the ownership[2] and accountability of partner governments** – How donors conduct the elements of pre-implementation has a strong influence on the ability and willingness of the partner government to own the donor supported operation – whether analytic work or financial assistance based on such work. It also affects the accountability of the partner government to its own people.
- **Reduce unnecessary administrative burdens imposed on partner countries** – Good practice can rationalise the development and application of diagnostic tools, and the way in which country analytic work and preparation of specific donor activities are undertaken, thereby eliminating duplication.
- **Design aid in a manner that increases partners' capacity** – The way in which a donor undertakes country analytic work and prepares specific activities is an important factor in determining a partner government's ability to develop its capacity to undertake such work itself.
- **Make information more readily available** – One of the conditions for enhancing the impact of country analytic work is sharing the information and knowledge they provide to both donors and partner governments.

Guiding principles

In elaborating the good practices presented in this chapter, the DAC was guided by the principles set out in the Framework for Donor Co-operation. In addition, certain principles are specific to country analytic work and preparation of donor operations:

- **A partner government should be fully involved in donor supported country analytic work and preparation of donor operations** where ownership by it is important to the effectiveness of an operation or to the effective use of any analysis. It is essential a partner government owns a piece of analytic work if it is to determine policy or if a donor operation is to have a sustainable impact on government performance more generally.
- **Partner government's systems should be used where they provide the quality of analysis required.** Where capacity is insufficient to enable this, donors should seek to undertake the analysis in ways that help build the capacity of these systems.
- **Where reliance cannot be placed on partner systems, donors should seek to harmonise their country analytic work and activity preparation in ways that minimise the burden on the partner government.** Donors should seek to rationalise the development and application of diagnostic tools and to share the resulting analysis.
- **Harmonisation of analysis should not mean a single source of policy advice.** Whilst there is a strong case for harmonisation of basic data collection it would be undesirable for a partner government to be limited to only one source of policy advice.

Good practices

Good practices are practical steps to be taken towards achieving the above objectives. They are grouped under:

– Analytic work to support design of policies and donor support.

– Specific work to prepare for donor supported operations.

Country analytic work

Donors are involved in the development of analytic tools, their application in a particular country, dissemination of the results and their use in the development of policy prescriptions. Good donor practices in analytic work are suggested for each of these stages in the development and use of diagnostic tools.

Development of analytic tools. Tools for assessing systems and capacity are developing rapidly in scope and number, mostly under the leadership of multilaterals, particularly the World Bank and the IMF. With the increasing reliance of other donors and partner governments on such studies there is a need to avoid duplication, rationalise existing tools and promote wider participation. Therefore, the key good practices for further development of analytic tools are:

- **Donors should make available their diagnostic toolkits to other agencies, partner governments and other interested groups** (see Box 2.1 and Box 2.2).
- **Donors should collaborate with each other and with partner countries to establish what new diagnostic tools are needed, how to develop them and how to rationalise the existing stock** (see Box 2.2).

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Box 2.1. **Sharing diagnostic tools** (***www.countryanalyticwork.net***)

Global – A first step towards some of the above good practices (and those on the application of diagnostic tools) is the annual forum led by World Bank on Country Analytic Work (CAW) that commenced in 2001. Each forum takes an overview of the analytic tools used by a number of donors in certain diagnostic areas and considers progress in rationalisation.

The Forum is underpinned by a Website launched in 2002 to "facilitate co-ordination and co-operation on country analytic work amongst countries and donors with goals toward improving development impact and cost effectiveness for both capacity building and knowledge sharing". The Website enables an exchange of information on completed and future CAW produced by the donors involved with the Website. Documents are listed by country, theme of CAW, agency and operational status. It also provides information on each donor's procedures for conducting CAW; toolkits to assist in the preparation and production of CAW; and examples of best practice in analytic work. Details of the relevant person to contact for each donor's CAW are provided.

Box 2.2. **A common diagnostic toolkit: gender and development**

Egypt – The Egyptian Donor Assistance Sub-group on Gender and Development, which comprises multilateral and bilateral donors, international NGOs and the government, supported the production of a Gender and Development Tool Kit for Egypt. The idea arose out of the recognition that there was a duplication of efforts in generating gender-related data – new consultants had to find this information for themselves. The toolkit provides a reference for all those working on gender and development in Egypt and has been well received.

- **In any further development and rationalisation of diagnostic tools, donors should give priority to:**
  - Reducing unnecessary overlaps among tools, particularly for analysis of systems and capacity.
  - Re-orienting the application of tools towards capacity building.
  - Including in the design of each tool a systematic follow-up of the extent to which the recommendations from its previous application in the country have been acted on by government and donors.
- **Donors should enable partner countries to participate in further development and rationalisation of diagnostic tools.**

Application of diagnostic tools. Application of diagnostic tools in partner countries involves choosing which tools to apply, how to gear them to partner country conditions, deciding who should apply them and how the work should be funded. Making these choices needs to ensure that the work is relevant, of a suitable quality, owned by partner

government where appropriate and avoiding unnecessary duplication. Good donor practices to meet these challenges are:

- **Donors should aim to rely on analytic work produced by partner governments and by other donors** (see Box 2.8).
- **Under partner government leadership, donors should collectively help plan the key analytic work to be done in the next time period.** Discussions might cover how the work should be designed, executed and paid for, what the quality problems have been in prior analytic work and how they should be corrected, what existing analytic work should be dropped, and the lessons from analytic work in other countries (see Box 2.8).
- **Donors should undertake analytic work jointly or rely on the work of the partner country or other donors.** Where this is not possible they should co-ordinate their work and missions with donors and the partner government planning similar analytic tasks to lessen the burdens on partner officials (see examples below).
- **Donors managing analytic work in a partner country should have clear and appropriate contact points in the partner government.** In the consultation process adequate time should be allowed for a genuine dialogue.
- **Where the analytic work is of crosscutting nature, the contact points in government should be from all the departments most affected.** Individual departments may not have the capacity to directly carry out the work, but if they participate in commissioning, determining terms of reference and supervision this makes it more likely that they will use the results.
- **In helping plan the supply of data and analysis, donors should work closely with government departments that use data and analysis, as well as with the technical producers of the data and analysis** (*e.g.* statistical offices).
- **Donors should promote common analytic work on sector policy and programming as the basis for donor-supported operation in a sector.** Good sector analytic work is the basis for planning donor support to a sector. If there is a good sector policy and programme in place it facilitates the integration of donor operations into the sector, whether donors fund them collectively or individually (see examples below).
- **Donors should use partner country expertise in teams for analytic work, as far as possible, so that national analytic capacity is built.** Where this is not possible, knowledge of the context and subject, not national origin, should be the main criterion. Country-based tendering should be adopted wherever possible to develop local capacity. Much of the growing need for analytic work can be satisfied by local consultants, particularly impact and tracking studies, for which local knowledge is essential (see Box 2.5).
- **In multi-donor analytic work the optimal team size work should be determined by function and task rather than donor representation.** This requires accepting and trusting the work of other donors, and being confident that results of the work will be available (see Box 2.7).

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Box 2.3. **Sector analytic work forming the basis of donor support**

Vietnam – Past donor support to a number of sectors including education and health has led to high-quality sector planning owned by the government which was then used to co-ordinate donor assistance. Assistance in individual sectors supported an overall sector plan led by senior sector managers. These in turn formed part of an overall development plan co-ordinated by the Prime Minister.

Box 2.4. **Initiatives to promote co-operation in sector analytic work**

Vietnam – In Vietnam there were 22 Government-Donor-NGO Partnership Groups active in mid 2002, each focusing on a key development issue – such as public administration reform, food security and health. The groups provided an opportunity for discussion on development policy. They aimed to share information and understanding, agree a common technical diagnosis, agree principles in finding solutions and jointly develop a detailed shared action plan. The main factors for success of these partnerships have been identified as: flexibility, ownership and leadership, commitment, wide multi-level support, funding and technical knowledge. For further information and links to status notes on each of the working groups: see *www.un.org.vn/donor/donor.htm*

Box 2.5. **Partner government participation in analytic work to build capacity**

Uganda – A joint international and national consultancy team, funded by Japan Policy and Human Resources Development Fund (PHRD) grants and administered by the World Bank, analysed local government expenditures and capacity commissioned by the Uganda Plan for Modernisation of Agriculture Secretariat. Similarly, teams comprising international and national consultants were put together by donors to work on fiscal de-centralisation.

Box 2.6. **Joint analytic work**

Turkey – KfW and EIB, in close co-ordination with the Turkish partner institution, the National Treasury, entered a co-financing agreement to pool their resources within a Municipal Infrastructure Investment Programme, covering a number of smaller projects in various municipalities. The two donors conducted joint feasibility studies, under the leadership of KfW, and one joint appraisal mission, thereby avoiding duplication of effort.

Dissemination and use of analytic work. There are two areas of donor good practice in dissemination of analytic work and in its use to develop policy. Good practices to help partner governments make the results of analytic work more widely available and accessible are shown below:

- **All analytic work should be shared to the fullest extent observing individual participating donors' policy and the prior agreement reached with the partner country** (see examples above).

Box 2.7. **Varying the analytic work team size**

Ethiopia – Bilateral donors have a strong interest in the Public Expenditure Review (PER) of a partner country, drawing on it for macroeconomic and fiscal analysis as background to their programmes. Few of them have the resources to undertake their own studies on such a scale, and duplication of such work is undesirable in any case. The World Bank has made efforts to involve other donors in PERs. However there have been mixed results.

Inclusiveness was achieved by accepting virtually all development agency nominations of personnel to participate in the exercise. Extremely large and unwieldy teams resulted. In response, the number of direct participants was reduced, while still aiming to make the work accessible and useful to the wider community of donors. Partly because of the partner government's sensitivities about sharing work-in-progress, several non-participating donors found this unsatisfactory. This illustration underlines the importance of openness by government as well as the development agencies for efficient collaboration on diagnostic work.

Box 2.8. **Partner government led common analytic work**

Tanzania – Tanzania's Poverty Monitoring System (PMS) was set up in December 2001 to provide a common process for undertaking analytic work on poverty, developing joint diagnostic tools for the PRSP and ensuring that all information is collected and analysed for input to policy makers.

The System is an integral part of the PRSP and under government leadership brings together donors, civil society and academia. It commissions joint analytic work, pools resources for research and acts as a clearing house for data collected by government institutions.

Following the establishment of the PMS it was agreed that the UNDP's National Human Development Reports, which discuss specific themes and policy issues, should be merged with work produced by PMS and comprise its Poverty and Human Development Report. This Report uses UNDP tools such as the human development indicators but is very much a nationally owned process. It provides an important link to the PRSP by discussing the status of poverty and providing a rich source of material on poverty-related issues available to all donors.

It then considers how best to share its findings using a range of instruments (including civil society discussions). PMS outputs are made available to TZ online, an in-country managed Website and repository for a wealth of documents from all sources. TZ online allows donors, government, civil society, NGOs and academics access to a wide-ranging set of analytic documents. These cover development in Tanzania, priorities, progress in poverty reduction and sector reforms (*www.tzonline.org*).

- **Where partner countries have public "right to information" laws donors should respect and promote the right of public access to analytic work under these laws.**
- **Donors should ensure that all their documents are put into accessible and readable form, with regard to simplicity and clarity of concepts and language.** Technical jargon should be minimal and summaries provided. Where necessary these should be translated into national or vernacular languages.

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- **Donors should ensure wide electronic distribution of analytic documents by maintaining online libraries of documents,** both individually and collectively at country and international level (for example the Country Analytic Work Website and Tanzania Online described above). Websites should specify how to obtain printed copies.
- **Distribution lists for study reports (including to sub-national levels of government) should be included in reports and in "terms of reference" for studies.**
- **Print runs for analytic work important to partner countries should be set generously, with copies widely available within the country.**
- **For particularly important work "popular versions"** should be issued, to build wide understanding, supported by media coverage.

Good practices to make more effective use of analytic work to inform decisions are shown below:

- **Donors should support partner policy formulation based on empirical evidence** – Tanzania's Poverty Monitoring System, linked to TZ online, seeks to put this into effect (see box above).
- **Strategy documents should acknowledge the supporting analytic studies to reveal the analytic basis for policy and to enable others to draw on the same work.**
- **Training seminars focused on the results of important work should be available to members of a country's legislature and other policy makers to whom it is relevant,** to ensure key analytic work is well understood by decision-makers and their advisers.

Specific work to prepare donor-supported operations

When identifying or preparing specific activities donors need to ensure appropriate consultation, provide sufficient opportunities for building capacity in partner countries and reduce unnecessary administrative costs. Good practices in this area are:

- **Donors should ensure consistency of a possible operation with any programming framework agreed with a partner government.** If it is not consistent, or where no such framework is in place, they should consult partner governments on the consistency with the national poverty reduction strategy or equivalent framework.
- **Donors should promote a shared understanding of each other's approach to project preparation by adopting a common terminology for the stages of the project cycle.** Where possible this should be based on a partner government's terminology.
- **Donors should build flexibility into their procedures to enable them to use the project notes, logical framework and financing proposals of a partner government or other donor.** This should include flexibility on formats and labels. Where a donor has needs that exceed those of others a supplementary note can be attached rather than a completely reworked version written. Flexibility is inspired by recognition that donors' individual approaches have a common core (see Box 2.9).
- **Donors should seek opportunities in project design for involving partner countries in a way that develops their capacity to undertake such work.**
- **Where donors use a results framework to identify possible activities they should do so jointly with the partner government and other agencies in order to achieve a shared understanding of problems and solutions.**

Box 2.9. **A donor leading on project preparation**

Bosnia and Herzegovina – The European Fund for Bosnia and Herzegovina (EFBH) was established in 1998 to promote the development of small and medium-sized enterprises and to improve the housing situation in Bosnia-Herzegovina. It was co-financed by the European Commission and bilateral donors (Austria, Germany, Netherlands and Switzerland) with KfW as the lead donor mandated to administer the EFBH.

KfW undertook all project preparation activities, assessments and reports on behalf of the co-financing group. Counterpart organisations therefore only needed to communicate with one donor – KfW – regarding design and pre-implementation. There were also economies of scale through an increased funding volume and reduced paperwork. This was made possible by mutual trust and the capacity and sector specific knowledge of KfW.

Notes

1. This was indicated in studies of partner views in Bangladesh, Bolivia, Cambodia, Egypt, Senegal, Guatemala, Kenya, Kyrgyz Republic, Mali, Morocco, Mozambique, Pacific Forum, Romania, Tanzania, Uganda, Vietnam.
2. Ownership over a process involves a high degree of leadership, control, motivation and initiative in managing the process.

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TECHNICAL GUIDANCE NOTE

Note 2.1
Indicators of Good Practice in Country Analytic Work and Preparation of Projects and Programmes

Good practices	Success criteria	Source of information
1. Country analytic work		
Development of diagnostic tools		
Donors make available their diagnostic toolkits to other donors, partner governments and other interested groups.	Reduction in overlap among tools. Increased efficiency in application of diagnostic tools.	Donor HQ and in-country.
Donors collaborate with each other and with partner countries at a global level to establish what new diagnostic tools are needed, how to develop them and how to rationalise the existing stock.	Collaborative activity in developing and refining diagnostic tools.	Donor HQs.
	Quality of stock of diagnostic tools: coverage, overlaps, implementability, usefulness of results.	Periodic studies of diagnostic tools.
In further development and rationalisation of diagnostic tools, donors give priority to:		
• Reducing unnecessary overlaps among tools, particularly for analysis of systems and capacity. • Re-orienting the application of tools towards capacity building.	Reduction in overlaps among tools (acceptance of each others' tools) for analysis of systems and capacity.	Periodic studies of diagnostic tools. Donors in partner countries.
• Including in the design of each tool a systematic follow-up of the extent to which the recommendations from its previous application in the country have been acted on by government and donors.	Coverage of capacity building in analytic tools.	Periodic surveys of partner governments' capacity.
	Inclusion of follow-up in diagnostic tools.	Donors and partner governments.
Donors assist partner countries to participate in further development and rationalisation of diagnostic tools.	Evidence of partner countries participating. Donors programme to assist partner participation.	Attendance records and proceedings of forums. Donors HQs.

Good practices	Success criteria	Source of information
Application of diagnostic tools		
Donors aim to rely on analytic work produced by partner governments and by other donors.	Donors' policy statements on analytic work. Change in use by donors of partner government analytic work compared to other sources, particularly own.	Donors. Partners and donors in partner countries.
Under partner government leadership, donors collectively help plan the key analytic work to be done in the next time period.	Programmes to raise partner government capacity in analytic work. Changes in quality, coverage and dissemination of partner analytic work.	Periodic assessments of quality of partner analytic work by donors and government aid co-ordinators in partner countries.
Donors should undertake analytic work jointly or rely on the work of the partner country or other donors. Where this is not possible they should co-ordinate their work and missions with donors and the partner government planning similar analytic tasks.	Change in amount of collaborative analytic work relative to working alone. Existence and activities of joint steering committees.	Reports of analytic work. Donors in partner countries.
Donor analytic work in a partner country should have clear and appropriate reference points in the partner government.	Change in amount of collaborative analytic work relative to working alone.	Reports of analytic work.
Where the analytic work is of crosscutting nature, the reference points in government should be from all the departments most affected.	Evidence of government inputs into diagnostic studies. Evidence of government use and dissemination of analytic work.	Periodic interviews with government departments which use government data and analyses.
In helping to plan the supply of data and analysis, donors work principally with government departments that are users of data and analysis, as well as with the technical producers of the data and analysis.	Donors work with government departments in helping to plan analytic work.	Donors in partner countries.
Donors promote analytic work on sector policy and programming as the basis for donor-supported activity in the sector.	Increased analytic work on sector policies.	Donors in partner countries.
Donors use partner country expertise in teams for analytical work, as far as possible, so that local analytic capacity is built.	Local/foreign composition of teams for analytic work. Adoption of local tenders.	Periodic study of application of diagnostic tools.
In multi-donor analytic work the optimal team size for work should be determined by function and task rather than donor representation.	Composition of teams for analytic work.	Reports of analytic work.
Dissemination and use of analytic work in development of policy		
Donors support partner policy formulation based on empirical evidence.	Availability and quality of empirical studies.	References in key policy documents.
Strategy documents acknowledge the supporting analytic studies.	Evidence that key policy documents have drawn on these studies.	Key policy documents.

Good practices	Success criteria	Source of information
Training seminars focused on the results of important work are available to parliamentarians and other policy makers to whom it is relevant.	References to analytic work in key policy documents. Number of training seminars and impact. Existence of capacity building programmes supporting the legislature.	Partner country parliamentarians and policy makers.
All analytic work should be shared to the fullest extent observing individual participating donors' policy and the prior agreement reached with the partner country.	Change in availability of documents from development agencies. Time lag between doing a study and its availability on a Website. TOR and drafts in progress also appear on Websites.	Donor policy statements on information. Donor Websites and partner government Websites.
Where partner countries have public "right to information" laws, Development agencies respect and promote the right of public access to analytic work under these laws.	Evidence of availability of key analytic documents.	Donors in-country and HQ.
Donors ensure that all their documents are put into accessible and readable form, with regard to simplicity and clarity of concepts and language. Summaries in local vernacular are included where appropriate.	Change in availability of donors' documents in simple and readable form. Periodic assessment of Development agency outputs for readability and clarity. Training of donor staff in writing simply and clearly.	Donors in partner countries. Donors' policy statements on ensuring and monitoring accessibility of their outputs.
Donors ensure wide electronic dissemination of analytic documents by maintaining online libraries of documents at country and international level. Websites specify how printed copies can be obtained.	Availability of documents.	Donor's Websites.
Distribution lists for study reports (including to sub-national levels of government) are included in reports and in "terms of reference" for studies.	Statements in study reports and terms of reference.	Statements in study reports and terms of reference.
Print runs for analytic work important to a partner country are generously set and copies widely dispersed in the country.	Change in print runs and distribution.	Partner governments.
For particularly important work "popular versions" are issued, with coverage on radio and in newspapers.	Number of popular versions of policy distributed.	Partner governments.
2. Specific work to prepare development agency supported activities		
Donors consult partner governments on the consistency of a proposed donor supported activity with a partner government's poverty reduction strategy or equivalent national framework.	Evidence of consistency of development assistance with national framework for poverty reduction.	Donors in-country and partner countries. Key policy documents and national framework for reduction of poverty.
Donors promote a common understanding of each others' approach to project preparation by adopting a common terminology for the stages of the project cycle based, where possible, on a partner government's terminology.	Evidence of inclusion of government terminology, where appropriate. Evidence of streamlining of terminology among development agencies.	Donors in-country and partner governments. Survey of Websites and documents.

Good practices	Success criteria	Source of information
Donors build flexibly into their procedures to enable them to use a partner government's or other donors project concept notes, logical frameworks and financing proposals where appropriate, and particularly where donors collaborate in an activity.	Evidence of increased use of existing project documents compared to those generated by development agencies individually. Evidence of compatibility of project documents among agencies.	Donors in-country and partner governments. Donors in-country.
Donors seek opportunities in project design for involving partner countries in a way that develops their capacity to undertake such work.	Evidence of partner countries increased input in project design stages.	Donors in-country.
Where donors use a results framework to identify possible activities they do so jointly with the partner government and other development agencies with an interest in the relevant areas to achieve a shared understanding of problems and possible solutions.	Evidence of joint identification of areas of interest. Clarity of identified problems and proposed solutions.	Donors in-country and partner governments. Donors in-country.

ISBN 92-64-19982-9
Harmonising Donor Practices for Effective Aid Delivery
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Chapter 3

Measuring Performance in Public Financial Management

Abstract. *Effective management of public finances, including aid resources, is essential in achieving development goals. Diagnostic reviews are an important – and growing – source of information to governments and donors on the state of public financial management systems in partner countries. They help to identify risks and constraints to the implementation of development programmes and to the use of all budget resources, including those provided by donors. Partner countries and donors have a shared interest in being able to monitor progress over time in improving public financial management systems. They are assisted by a performance measurement framework – and an associated set of reform measures – that builds on the information set out in diagnostic reviews and related analytic work.*

The growth in diagnostic products in recent years, and lack of co-ordination in how they are applied, can lead to duplication of donor efforts and high transaction costs on partner countries. This can make it more difficult to arrive at a shared agenda among government and the donor community on how to improve public financial management.

This chapter sets out good practices that may be adopted to address these concerns. Their adoption would reduce the number of separate diagnostic reviews in partner countries – the aim being coverage without duplication. Aid effectiveness would be enhanced by planning and executing diagnostic reviews in the context of a government-led strategy for improving overall management of public finances, with diagnostic work fully integrated with performance measurement and capacity building efforts. Impact would also be enhanced by more participatory approaches to the conduct of reviews, and their wider dissemination. Given the absence of a comprehensive, internationally accepted performance measurement framework in public financial management, the adoption of common performance indicators by donors should avoid governments being presented with an excessive number of potentially conflicting targets. It would also help co-ordinate donor capacity building efforts.

Key issues

Effective financial management of public resources is essential to achieve the objectives of development programmes. It also promotes accountability within developing countries and provides donors with assurance on the use of their funds. Good financial management systems in partner countries are required for all forms of aid, but are particularly important for budget support, where donor funds are not allocated to finance specific expenditures. Diagnostic reviews in public financial management are a growing source of information to both governments and donors. They reflect the state of public financial management systems, the risks and constraints that these pose to the implementation of development programmes and the use of donor resources (see Box 3.1).[1] Diagnostic reviews and performance measures assist governments in creating strategies that improve management of public finances.

Box 3.1. **What is a diagnostic review?**

A diagnostic review examines a partner country's public financial management system and practices. Diagnostic reviews are generally not audits and do not track individual items of expenditure. Nor do they provide a pass or fail assessment of a country's public financial management system in terms of its adequacy for managing external funds. Rather, they provide donors and governments with information on:

- The strengths and weaknesses of public financial management systems.
- The risks to which funds channelled through governments' systems may be exposed.
- The government programmes aimed at improving these systems.

Diagnostic reviews provide information on the strengths and weaknesses of the public financial management systems of partner countries. They support country efforts to improve the performance of their public financial management systems, and so contribute to improved development outcomes. They also provide information to allow donors to consider the risks that their funds may not be used for agreed or appropriate purposes. Thus, partner country governments and donors have a shared interest in high quality diagnostic reviews.

In recent years, the proportion of development funds made available through government financial systems has increased significantly. Efforts by donors to improve their understanding of the functioning of these systems have brought about the risk of an uncoordinated development of different diagnostic reviews. For developing countries, this means that a disproportionate amount of scarce administrative resources may be spent fulfilling multiple donor requirements. For development agencies, it may lead to unnecessary duplication of work. Thus there is considerable value, for donors and partner countries alike, in harmonising different diagnostic reviews and placing them in the context of a coherent, sequenced programme of work to strengthen public financial

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management. This, in turn, should be an integral part of participating donors' strategies for country assistance and the country's own poverty reduction strategy.

Diagnostic work records the state of public financial management at a point in time. Partner countries and donors have a shared interest in being able to monitor progress over time in improving public financial management systems. A performance measurement framework – and an associated set of reform measures – assists them in this by building on the information set out in diagnostic reviews.

Much of the formal diagnostic work in the area of public financial management is still evolving. A number of diagnostic tools are used. The main instruments with a brief description of their purpose are listed in Box 3.2. In addition to these formal reviews, important diagnostic work is often carried out through specific technical assistance projects or as part of the preparation and implementation of donor financed activities.

Box 3.2. **Current diagnostic tools**

Country Financial Accountability Assessment (World Bank) – CFAAs are a diagnostic tool designed to enhance knowledge of public financial management and accountability arrangements in client countries.

Public Expenditure Review (World Bank) – PERs analyse the recipient country's fiscal position, its expenditure policies – in particular the extent to which they are pro-poor – and its public expenditure management systems.

Country Procurement Assessment Review (World Bank) – CPARs examine public procurement institutions and practices in borrower countries.

HIPC Expenditure Tracking Assessment (World Bank and IMF) – These assess the ability of the public financial management systems in highly indebted poor countries (HIPCs) to track poverty-reducing expenditures, using fifteen public financial management benchmarks.

Fiscal Transparency Review (IMF) – This is a module of the Reports on Observance of Standards and Codes (ROSC) which uses the Code of Good Practices on Fiscal Transparency adopted by the IMF in 1998.

Diagnostic Study of Accounting and Auditing (Asian Development Bank) – These examine financial management and governance practices in the public and private sectors of borrower countries.

***Ex ante* assessment of country financial management (European Commission)** – Traditionally, the EC has carried out audits of its "targeted" budgetary support with a view to determining expenditures "eligible" or "ineligible". For future budget support, however, it is developing a new approach using *ex ante* PFM assessments based on a mix of diagnostic work completed by other donors/governments and a "compliance test" to provide an empirical evidence of performance of the PFM systems.

Country Assessment in Accountability and Transparency (UNDP) – CONTACT is a toolkit to assist governments and consultants in conducting missions to assess public financial accountability systems.

Purpose

The purpose of this chapter is to put forward a set of good practices on how donors and governments can collaborate to make diagnostic reviews and measurement of performance in public financial management more effective. In pursuing this goal it seeks to achieve four specific objectives:

- **Maximise developmental benefits** – Diagnostic reviews are a valuable input to government efforts to improve public financial management systems. Their quality and impact can be improved by encouraging stronger country ownership and in-country consultation, and by integrating the reviews into both government and donor decision-making cycles, programmes of country assistance and poverty reduction strategies.
- **Make information more readily available** – Sharing the information and knowledge they provide with both donors and partner governments enhances the impact of diagnostic reviews.
- **Rationalise diagnostic reviews** – Diagnostic reviews should provide full coverage of public financial management issues without unnecessary duplication. Donors should reduce the burden on developing countries through fewer and better co-ordinated diagnostic reviews.
- **Provide a framework for performance measurement in public financial management** – Partner countries and donors have a shared interest in being able to monitor progress over time in improving public financial management systems, as reflected in diagnostic reviews. This chapter provides broad guidance on how donors might address this emerging issue in individual partner countries.

The practices set out in this chapter are consistent with those described in the Good Practice Paper entitled *Country Analytic Work and Preparation of Projects and Programmes*.

Guiding principles

Diagnostic work

The following principles guide the elaboration of good practices in diagnostic work in this chapter:

- **Partner country governments should be fully involved in and have ownership of diagnostic reviews** – There is scope for partner governments to be increasingly involved in the conduct of diagnostic reviews and this chapter suggests a number of good practices to that end. This should improve the quality of these reviews and provide greater incentives for donors and partner governments to strengthen public financial management systems.
- **Harmonised diagnostic reviews alleviate the burden on partner countries** – Donors should rationalise the scope, timing and conduct of diagnostic reviews so as to avoid unnecessary duplication of work, and should rely as far as possible on other donors' diagnostic reviews to satisfy their requirements.
- **Harmonisation does not mean standardisation** – In many countries receiving development assistance, public financial management systems may fall well below international good practices. This does not mean that financial assistance should not be provided to these countries: each donor must decide what level of risk it accepts in providing funds through the partner country's budget, in relation to developmental benefits. Thus, different donors may make different decisions on the basis of the same diagnostic review.

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- **Diagnostic reviews should be responsive to country development context** – Improvement in public financial management systems is part of the overall development agenda, driven by the partner country and supported by donors. Undertaking of diagnostic work will be influenced by and feed into the overall country support strategies. Diagnostic studies should be regarded as part of a process, not as a single product, and sequenced over time.
- **Diagnostic reviews should be conducted according to open and transparent processes** – There should be full consultation with all stakeholders before completion. There should be "no surprises" when the final report is published.
- **Understanding the institutional and governance context** – Reviews of public financial management systems are not simply "technical" exercises. They require a full understanding of the underlying governance arrangements in a country, the informal rules and incentive structures, and the factors that can undermine efficient and effective delivery of public services through waste, mismanagement and corruption.

Performance measurement

The following principles guide the elaboration of good practice in performance measurement:

- **The measurement framework needs to encompass the critical aspects of public financial management** – Covering budget formulation, execution, reporting, and review – and be fully integrated with diagnostic reviews and processes.
- **The measurement framework should encompass internationally agreed codes and standards** – Which represent the target for public financial management systems – where appropriate. This leads to two specific requirements:
  - ❖ Codes and standards need to be developed to fill existing gaps in coverage.
  - ❖ Developing countries should fully participate in the development and formulation of codes and standards.
- **Performance measures should be comprehensive with respect to the critical areas to be covered without being excessively numerous.** They should be readily understandable, cost effective, and capable of being calibrated to cover different stages of development and monitored on a regular basis. They should be acceptable to both partner countries and donor agencies and, where appropriate, consistent with current and proposed relevant international codes and standards.
- **While there can be no single overall measure of public financial management performance, it is necessary to avoid having too many indicators.** In addition to indicators of the overall effectiveness of the system, it can be useful to have more detailed indicators of specific aspects or areas of public financial management, *e.g.* public procurement, internal control and external audit.

Good practices in diagnostic work

Planning the review

As far as possible donors should seek to satisfy their requirements by relying on the diagnostic reviews that are already available, or that will be made available within a reasonable period of time.

Where individual donors' requirements are not satisfied by available diagnostic reviews, they should seek to limit unnecessary duplication of work by collaborating with other donors and stakeholders and sharing the results of their reviews.

All donors should promptly share information on plans for carrying out diagnostic work in a particular country.

The reasons for conducting the review and its relationship with the overall country development strategy and the strategies of participating donors should be clear to, and accepted by, all participants at the beginning of the review.

Collaboration between partner country and donors is as important as collaboration between donors. Collaboration may take a number of forms:

- **Joint undertaking of a diagnostic review** – With work being undertaken by staff or consultants of any number of development partners, including the partner country.
- **One or some partners undertaking the study** – This may include the partner country undertaking a self-assessment, with appropriate review by donors, or one or more donors carrying out work on behalf of a wider group, with others providing funding or specific technical resources or indicating their intention to use the results of the study.

Conducting the review

The nature and extent of collaboration should be agreed and documented at the start of the planning process. This should include:

- The role of the partner country in the work.
- Whether there is to be a joint or separate reports for different donors.
- Whether there is to be a joint report, and the preparation of a joint initiating memorandum.
- Which donors may be lead-participants, and which may take a more secondary role. Where there are many donors interested in a diagnostic study it may be necessary to limit the direct participation of some so as to keep the process cost-effective. This would be achieved through mutual agreement.
- The staffing contribution and division of labour and costs between the participants.
- Processes for communicating conclusions with other stakeholders.

Obtaining objective information on the quality of the public financial management system requires consultation with all stakeholders in the partner country. Apart from central ministries such as Ministry of Finance, these include spending ministries, parliaments, the business community and civil society.

Progress and emerging conclusions should be shared with all participants during the course of the review through regular meetings. The partner country should be encouraged to share draft conclusions with other country stakeholders before finalisation.

Quality assurance

All participants have a shared interest in achieving a quality diagnostic review. Where joint reviews are carried out, quality assurance arrangements should be agreed at the planning stage and recorded in a jointly owned paper. These arrangements will normally provide for a regular review of work done by each participating organisation, and for clearance by others before the report is issued.

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Sharing the review report

All review reports will be shared to the fullest extent, observing individual participating donors' disclosure policy and the prior agreement reached with the partner country.[2]

Follow-up activity

Donors will work to develop an understanding with the partner country that the review is intended to bring about improvements in the public financial management system. This should lead to the elaboration of an agreed action plan and follow-up activity.

Box 3.3. **Improving public oversight of public expenditures**

Bangladesh – During 1999-2000, a Country Financial Accountability Assessment was conducted by the World Bank and UNDP with participation from the Ministry of Finance, line ministries, parliamentary oversight bodies and private firms of accountants. The assessment focussed on the quality of financial accountability and transparency in Bangladesh, and made recommendations for improvements. The financial management standards and practices of agencies using public funds was compared to international good practices as well as those of external oversight agencies – nine Audit Directorates of the Comptroller and Auditor General's Office, parliamentary committees concerned with public expenditure, donor agencies and the media. It included an assessment of the steps that would be needed to support a shift by donors from projects to budget support and sector programmes. Among the responses of the government is the creation of an independent Public Expenditure Review Commission, headed by a retired Comptroller and Auditor General. The Commission will review all aspects of public expenditure on an annual basis and report to the government and to Parliament.

Box 3.4. **Partners support government led diagnostic process**

Tanzania – The Government of Tanzania owns and leads the diagnostic work program in public financial management – and that is what accounts for its success. The programme, of which the centrepiece is the annual Public Expenditure Review (PER) – is closely integrated into the government's budget cycle and involves a broad cross-section of stakeholders, and close partnership with donors.

The PER process has evolved from its traditional role of external evaluation of budget management to support the government's programme to improve budget management within a medium term expenditure framework. It supports better donor co-ordination by ensuring that aid is consistent with budgetary objectives and priorities and increasingly integrated in the budget.

More recently, the PER has been supplemented by the Country Financial Accountability Assessment (jointly undertaken by the World Bank and DFID, published as a government document, and shared with all donors) and the Country Procurement Assessment Review, which look at critical aspects of budget execution. The programme has the following benefits: *a)* donors share their sector specific or thematic experience, to the benefit of all who participate ; *b)* more effective use of resources in undertaking technical studies on budget issues ; *c)* a higher profile of budgetary issues in the work of all parties ; and *d)* a platform to support the shift from project to budget support by several donors.

Collaboration on follow-up is important and should also involve identification of capacity development needs and provision of technical assistance where necessary. The partner country should co-ordinate this process and avoid donor competition.

Updating of the review

Consistent with the review's role as a knowledge tool, the information needs to be kept up to date. While a full diagnostic review may be undertaken only every three to four years, updating of the overall assessment should be undertaken every year. This includes using appropriate public financial management performance indicators. Desirably, this should take place through a joint mechanism agreed between the partner country and donors and built into the country's budget cycle.

Good practices in performance measurement

Given the emerging nature of work in this area, good practices have yet to fully emerge. However, based on work to date, the following appear important:

- Partner country governments and donors should collaborate in the setting and monitoring of country-specific performance indicators in public financial management.
- Donor collaboration should take place within a government-led strategy for improving the overall management of public finances that sees performance measurement fully integrated with diagnostic work and capacity building efforts. Common performance indicators can avoid governments being presented with an excessive number of – potentially conflicting – targets, and can serve to co-ordinate donor capacity building efforts.
- Given the absence of a comprehensive, internationally accepted performance measurement framework in public financial management, donors should support work on the development of such a framework. They should also ensure that developing country conditions and voice are reflected. Where available, donors should be guided by existing international standards, codes and approaches in formulating country-specific performance targets, as appropriate to country conditions (see Box 3.5 below).

Box 3.5. **Elements of an emerging performance measurement framework**

Among the elements of an emerging international framework for performance measurement in public financial management are:

- International standards, such as the International Public Sector Accounting Standards (IPSAS) of the International Federation of Accountants and the auditing standards of the International Organisation of Supreme Audit Institutions (INTOSAI). Work is also commencing on IPSAS for development assistance and budget reporting.
- Codes of good practice, such as the IMF's Code of Good Practices on Fiscal Transparency and budget classification procedures promulgated by the IMF (Government Finance Statistics) and United Nations (COFOG).
- Current benchmarks, such as the set of 15 performance benchmarks in public financial management used by the IMF and World Bank in tracking poverty reducing expenditures in Highly Indebted Poor Countries (HIPCs). An updated set of these benchmarks will be available in 2003. In addition, UK DFID has developed a set of public financial management performance benchmarks in the context of managing fiduciary risk when providing direct budget support.

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- Indicators of public financial management performance assist donors in assessing risks to their programmes. While donors should collaborate in the formulation of performance indicators in individual countries, donors decide individually on the nature and level of resource transfers in a given set of circumstances. They will take into account previously agreed measures.

Notes

1. Public financial management includes all phases of the budget cycle, including the preparation of the budget, internal control and audit, procurement, monitoring and reporting arrangements, and external audit. The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority needs, and efficient and effective allocation of public services.
2. See the Country Analytic Work Website at *www.countryanalyticwork.net* also referred to in *Country Analytic Work and Preparation of Projects and Programmes*.

TECHNICAL GUIDANCE NOTE

Note 3.1
Indicators of Good Practice in Measuring Performance in Public Financial Management

Good practices	Success criteria	Source of information
Diagnostic coverage without duplication.	Reduction in number of diagnostic reviews that address the same area. Reduction in number of donor missions.	Country Analytic Work Website.
Higher impact of diagnostic work.	Proportion of reviews carried out in the context of country strategy. Proportion of reviews carried out through agreed collaborative mechanisms.	Information on country programmes and Country Analytic Work Website.
Enhanced partner country capacity in public financial management.	Government/donor community consensus on public financial management performance benchmarks. Agreed approach to building public financial management capacity.	Announced government/donors programmes, and progress reports thereon.

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ISBN 92-64-19982-9
Harmonising Donor Practices for Effective Aid Delivery
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Chapter 4

Reporting and Monitoring

Abstract. *Reporting and monitoring of development assistance is a critical function of effective aid delivery. It provides essential data along with insights for drawing lessons, setting priorities and managing development activities. It also offers assurance that funds are used for agreed purposes. Furthermore, it supplies information on whether a policy, development strategy or a project is being implemented as planned and reaching its objectives. Achieving this effectively is in the interest of donors and partner countries.*

One problem is that reporting and monitoring systems have often been designed to meet donors' information needs rather than to support the priorities of partner countries. An additional problem is that duplicative reporting and monitoring systems are making competing demands on partners' limited resources. This impairs partner countries' ability to rely on useful, timely information for their own development strategies.

This chapter sets out good practices that donors may adopt to address these concerns. If adopted, they would strengthen partner countries' capacity to manage and monitor their own development plans and alleviate the administrative burden of duplicative systems. They would also improve the transparency of key information on development.

Key issues

Donors currently fund more than 50 000 development projects and programmes across the world; in most cases they are required to report on the use of these funds. This can create a substantial administrative burden for both donors and developing partner countries. A recent study notes for example that:

> A conservative estimate for a typical African country is that 600 projects translate into 2 400 quarterly reports submitted to different oversight agencies; 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 reports.[1]

Often this means that donors' combined reporting requirements exceed partner countries' capacity to deliver useful and timely information.

The cost of reporting and monitoring needs however to be carefully balanced against its benefits. These can be briefly described as follows. Firstly, it provides essential data and insights for drawing lessons, priority setting and forward planning. Secondly, it offers the assurance that funds are used for agreed purposes – a necessary condition for carrying out sustained co-operation. Thirdly, it supplies information on whether a policy, development strategy, programme or project is being implemented as planned and is reaching its objectives. Achieving this in an effective way is in the common interest of both donors and partner countries.

For the purpose of this chapter, reporting and monitoring is defined as the set of activities that provide key stakeholders (governments, civil society and donors) with information in support of development policies, programmes and projects. Financial aspects are covered in a separate chapter.[2] While the terms *reporting* and *monitoring* are often used in conjunction in this chapter, they do refer to different activities:

- **Reporting** is the set of tasks required to compile information and present it within a report (written or verbal). This is also meant to include donor missions to partner countries.
- **Monitoring** is the measurement of relevant information on the implementation progress of a project, programme or policy and the achievement of its objectives. This also includes information on the context (economic, social, political) that affects development results.

Purpose

This chapter puts forward a set of guiding principles and good practices on how donors can enhance reporting and monitoring in ways that alleviate its burden on partner

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Box 4.1. **Key concepts in reporting and monitoring**

Monitoring – There is a distinction between *implementation monitoring* which concerns process and progress in undertaking activities, completing the work plan and utilising the budget; and *results monitoring*, which concerns the measurement of results and the attainment of the project purpose.

Evaluation refers to the process of assessing the extent to which a project has achieved its objectives in terms of several criteria including relevance, effectiveness, efficiency, impact and sustainability. Evaluation may be carried out during implementation (mid-term evaluation), at the end of a project (final evaluation) or after the project has closed (*ex post* evaluation).

Indicators are used to measure progress towards goals. They specify what to measure in order to monitor and evaluate the performance of policies, programmes and projects, in a quantitative or qualitative way. The following typology offers a convenient way of classifying indicators, referring to different levels of results:

- **Input:** measures resources to be provided; *e.g.* number of vaccines purchased.
- **Output:** measures the goods and services produced; *e.g.* number of children vaccinated.
- **Outcome:** measures the intermediate results generated relative to the objectives of an operation; *e.g.* percentage of children that have contracted measles.
- **Impact:** measures longer-term results or changes produced directly or indirectly, intended or unintended by an operation; *e.g.* infant mortality rate.

countries and promote stronger systems of national accountability. Specific objectives of this paper are to:

- **Strengthen partner countries' capacity to manage and monitor their own development plans** – By ensuring that donors use and support partner monitoring and information systems for their own requirements whenever possible.
- **Encourage donors to rely on a single report by operation** – By ensuring that such a single report by development activity – at project, sector or country – meets the information needs of key stakeholders, partners and donors.
- **Encourage donors to rely on a single monitoring framework by operation** – By ensuring that such a single monitoring mechanism by development activity, at project, sector or country, level meets the information needs of key stakeholders, partners and donors.
- **Improve transparency and availability of monitoring information** – By ensuring that key information is readily available for stakeholders and decision-makers. In this context, an appropriate use of new information technology (Internet, electronic communication, etc.) improves access to information at a relatively low cost.
- **Reduce the number of donor missions and reviews** – By ensuring that such missions and reviews are rooted in a mutually understood need to facilitate learning and comply with accountability purposes.

Guiding principles

Achieving the objectives set out in this chapter presents a significant challenge that will engage partner governments, donors and key national stakeholders (Civil society, NGOs, etc.) in a medium-term process. The good practices presented in this paper have

been designed to help donors meet this challenge. In elaborating these, the following set of principles served as guidance:

- **Reporting and monitoring systems should be country-owned and led** – Country leadership in discussing reporting and monitoring mechanisms with donors is critical. Such leadership and demonstrable willingness of partner governments to address institutional issues are a precondition to change aid relationships with donors.
- **Donors should work with partner countries to rely on country owned reporting and monitoring systems** – Reporting and monitoring systems have too often been established and geared towards satisfying donor interests and concerns; often they have been carried out by donor personnel or consultants without appropriately involving partner countries. Donors should work with their partners in a participatory approach to strengthen country capacities and demand for result based management.
- **Reporting and monitoring systems should support partners' own information needs** – Partner governments – and in-country stakeholders (civil society, legislators, etc.) – should hold a rolling dialogue about their accountability needs. Donors should work with partner governments to support this dialogue while agreeing on arrangements that provide an adequate basis for external accountability to donors. Both partner governments and donors need to be accountable to the ultimate beneficiaries of development co-operation.
- **Simplification and harmonisation of systems is a key challenge** – As donors increasingly rely on partner country systems, it is important that their information requirements do not overburden those systems, or divert existing capacity. One way of achieving this is by ensuring that the reporting and monitoring systems used by donors are simplified, harmonised, and appropriately timed in relation to national policy and budget processes.

Box 4.2. **Lessons and challenges**

Old lessons

- A small amount of reliable data is more useful than a large volume of questionable data.
- Focus continuity in monitoring and reporting on a small set of core indicators.
- Combine quantitative and participatory (qualitative) monitoring methods.

New lessons

- Tailor-made monitoring arrangements suit local needs, while "off-the-shelf" models rarely fit.
- The attribution of particular impacts to particular aid projects is difficult and does not enhance development effectiveness.

Future challenges

- Build reporting and monitoring systems on local capacities, demands and leadership.
- Take into account the opportunity costs of participatory approaches for the participants themselves.
- Scale up project monitoring towards programme and policy monitoring, wherever possible within the PRS framework.

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Good practices

Good practices in reporting and monitoring are practical steps to be taken towards achieving the above objectives. They are grouped under five headings, namely:

- Relying and building on country systems.
- Co-ordinating donor reporting and monitoring systems.
- Simplifying donor reporting and monitoring systems.
- Making information more transparent.
- Rationalising review missions.

Relying and building on country systems

Reporting and monitoring systems should enable and encourage ownership. To this end, donors should seek to rely and build on partner countries' systems. Good practices in this area are:

- **Build on partner country systems** – Reporting and monitoring systems should build on existing national/local institutions and performance assessments wherever possible. These systems should ideally provide information on financing (including aid), budget expenditure, progress in implementation, and poverty reduction outcomes/impacts.
- **Avoid creating parallel systems** – Donors should avoid information requirements that create the need for parallel systems to be developed by partner countries. They should respect the often limited reporting and monitoring capacities of their partners. If donors require particular information for their management, learning or accountability purposes, they should bear the additional costs, share it with the partners and refrain from asking for additional efforts from partners.

Box 4.3. **Relying on partner country systems**

Tanzania – Donors have supported efforts to mainstream the poverty monitoring framework within government systems in Tanzania. Work has also built on existing routine data systems and the work of the National Bureau of Statistics.

- **Rely on Poverty Reduction Strategies (PRS)** – In countries where Poverty Reduction Strategies are being implemented donors should:[3]
  - Resist introducing indicators of performance in poverty reduction that are not included in the policy matrix of the national PRS; if donors see a need to introduce additional indicators for monitoring, learning or accountability purposes, such indicators should be developed in close consultation with the partner countries concerned.
  - Seek to streamline the performance indicators used in Poverty Reduction Strategies.
  - Make sure that sector and project reporting and monitoring requirements feed into the overall reporting and monitoring system of the PRS, and are appropriately timed with key policy cycles, including the budget process, and the production of the annual PRS Progress Report and the Millennium Development Goals Report.

Box 4.4. **Aligning practices with PRS systems**

SPA – The Strategic Partnership with Africa (SPA) has recently carried out three pilot Action Learning Missions to discuss with governments and in-country donors the possibilities for an annual PRS cycle whereby aid financing, procedures and practices line up behind a national review process and budget cycle. The missions sought to elicit from donors and government an agenda for change, and determine specific constraints to improved alignment. The mission identified several elements that would be needed to bring about an alignment of donor programmes around the PRS and budget cycle:

- Governments will need to operationalise the PRS more thoroughly. This will require detailed policy declarations, increasing coherence with sector plans, establishing closer links with the budget, and preparing a matrix of indicators to track annual performance.
- The timings of donor reviews, commitments, and disbursements will need to be altered to coincide with the government's financial cycle. Both missions proposed a detailed review cycle.
- The Annual Report can serve as the primary reporting requirement if donors express in advance the information they would like to see in the Report and avoid *ad hoc* information requests. Additional reporting requirements should be harmonised where possible.

- **Build capacity for sustainable systems** – Where partner systems do not provide appropriate information, donors work with governments to improve them according to a nationally led and clearly defined national strategy for developing and strengthening these systems. This includes:
  - Donors work with partners to raise the quality of essential data used for monitoring.
  - Donors and partners ensure that reporting and monitoring of impact focuses on indicators related to key policy targets and decision-making processes (*e.g.* national-level Millennium Development Goals and indicators).
  - Donors and partners seek to agree a limited number of key indicators to be used for long-term impact studies.

Box 4.5. **Strengthening country systems**

PARIS21 – (Partnership In Statistics for development in the 21st Century) is a Consortium that was set up in 1999 by the UN, OECD, the World Bank, the IMF and the EC. It intends to act as a catalyst for promoting a culture of evidence-based policymaking and monitoring in all countries, and especially in developing countries. Working through existing agencies, the process seeks to help countries develop well managed and resourced statistical systems and to foster more effective dialogue between data producers and users. The initiative facilitates the co-ordination of technical co-operation and the sharing of expertise and best practice examples and experiences.

- **Involve civil society** – Donors should encourage reporting and monitoring processes, which are supported and complemented by non-governmental stakeholders, particularly in policy monitoring. Such procedures help to ensure well-balanced perspectives.

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Co-ordinating reporting and monitoring systems

Until donors rely more extensively on government reporting and monitoring systems, donor information systems and needs should be co-ordinated as fully as possible.

- **Agree on common reporting procedures** – Donors co-financing a discrete set of activities – whether defined project, sector, or budget support – should work towards agreeing, in consultation with partner countries, common formats, content and frequency for a single periodic report that meets the needs of all partners. The reports should cover all of the activities in the defined area, and meet the information needs of key stakeholders in the country as well as individual donors.

Box 4.6. **A single reporting framework**

Bolivia – Four development co-operation agencies (IDB, World Bank, Netherlands and Sweden) harmonised their monitoring and reporting procedures. They agreed a uniform monitoring system with the Government of Bolivia, which includes joint donor field visits and all donors accepting a uniform report. Led by government, the monitoring process also involves regular meetings and joint end-of-year progress evaluations between the donors and government to agree future policy and implementation matters.

- **Agree on a common monitoring framework** – Donors and partner countries agree performance indicators that are simple, measurable, prioritised, easily verifiable and relate to longer-term goals. Where donors are funding the same activities they use the same performance indicators. Donors agree a framework to review and monitor their assistance and seek to incorporate it into multi-donor review and monitoring processes such as consultative forums and a partner government's review processes, as part of building a common framework for aid co-ordination. A common agreed monitoring framework should also specify the number and length of missions as well as how monitoring results will be acted upon.

Box 4.7. **Co-ordinating aid in Ho Chi Minh City**

Vietnam – An ODA Partnership (ODAP) was established in Ho Chi Minh City with the fundamental purpose of strengthening the city's capacity to co-ordinate development assistance. The main activities of ODAP included project monitoring, information sharing (newsletter, common data-bases), city planning. It is expected that these activities will result in greater ownership and lower transaction costs for Ho Chi Minh City People's Committee – the local authority in charge of co-ordinating aid in the southern metropole. Additional support has been provided by five donors (UNDP, World Bank, AsDB, Belgium and JBIC) in order to strengthen the institutional capacity of the People's Committee.

- **Rely on other donors** – In multi-donor activities, donors allocate particular monitoring and reporting tasks to donors best able to carry them out.

Box 4.8. **Designating a lead agency**

Bosnia and Herzegovina – The European Fund for Bosnia and Herzegovina (EFBH) project is co-financed by the EC and several bilateral donors. KfW was designated as the lead agency and representative of the other donors, primarily because of its specific sector knowledge and capacity. Partner country agencies therefore had only one organisation to communicate with, making administration quicker and simpler. One progress report is commissioned every six months, which is submitted to the other donors.

Simplifying reporting and monitoring systems

In addition to alignment with government systems, and co-ordinating among donors, it is important that donors also simplify, whenever possible, their own reporting requirements in order to help alleviate the burden on partner government systems. Good practices in this area are:

- **Simplify donor procedures** – Where necessary, donors seek to simplify the procedures required by their legislatures for ensuring probity of their expenditure (*e.g.* by requesting amendments to their governing regulations to allow greater flexibility in how such monitoring and reporting is carried out, in terms of format, frequency, etc.). Allowing greater discretion to local donor representatives also fosters more adequate, flexible and simpler reporting and monitoring arrangements.
- **Rely on a constrained data set** – Donors acknowledge that not all information can or should be reported or monitored. A few key elements should be monitored to create a data set that is manageable and informative. These elements should be agreed at the appropriate level (project, sector or country).

Making information more transparent

Information, especially in the field of development assistance, is a typical example of a public good – the cost of providing it does not depend on the number of people who use it. In fact, the wider the dissemination of information the greater the benefits. Thus, there is considerable value in making information on aid more widely available and transparent. Good practices in this area are:

- **Share and disseminate information** – The norm for donors and partners is that all monitoring results for publicly funded projects are openly available to the public. Where sensitive information is involved this is contained in a restricted version or annex, rather than suppressing the whole report. Donors adopt an open stance making information normally available.

Box 4.9. **Sharing information online**

Tanzania – *Tanzania Online* is an internet based database that allows donors, government, civil society, NGOs, academics and others, access to a wide-ranging set of analytic documents and reports on development in Tanzania, priorities, progress in poverty reduction and sector reforms. The initiative was established by UNDP, the Government of Tanzania and the Economic and Social Research Foundation, to improve access to, and the exchange of information on analysis of development issues in Tanzania. *www.tzonline.org*

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- **Promote national demand for existing information** – Information should be made available in user-friendly formats with summaries and minimal use of technical jargon. The production of "popular versions" of important reviews should be considered, in local languages if appropriate.

Box 4.10. **Promoting demand**

Uganda – A World Bank survey discovered that only a fraction (13%) of funds disbursed by central government for schools' non-wage expenditure was actually received. Funds were diverted to other purposes by local government officials, or used for private gain. The monitoring instruments were revised and government policy now is to publish details of all funds released to district authorities. Transfers are detailed in newspapers, radio broadcasts and on public notice boards, to enable local communities to check funds are actually received and spent as intended. As a result of this initiative, 90% of allocated funds reached schools.

- **Donors provide appropriate information on their development activities** – This will include routinely providing partner governments with full information on aid flows.

Rationalising review missions

One of the most frequent complaints made by partner governments is that too much time is spent with donor officials and responding to donor needs. Sometimes these meetings are scheduled without giving sufficient consideration to partner governments' agendas and irrespective of claims made by other donors on the time of government officials.

- **Donors conduct fewer missions** – Donors acknowledge the fact that a reduction in the number of donor review missions can significantly alleviate partner countries administrative burden.
- **Donors co-ordinate timing of missions** – Donors agree with partner countries on the most appropriate schedule. Donors also share information on their plans to carry out missions in a country.
- **Donors conduct more joint missions** – Where possible, donors conduct joint review missions with other donors.

Box 4.11. **Joint health reviews**

Uganda – The Government of Uganda and donors are keen to conduct joint reviews to consider progress and agree future activities and priorities in the health sector. The review was redesigned in 2002 to increase harmonisation with government processes, particularly the Public Expenditure Review, and following concern to reduce administrative burdens. Successful innovations included the establishment of a small technical committee to ensure thorough preparation and thus good dialogue; the process being inclusive as donors, central and local government staff and civil society were included; and a greater focus on results rather than processes. A consultant facilitator helped promote dialogue and consensus among partners. An important issue yet to be addressed is strengthening government representation, particularly of senior staff.

Notes

1. *Source:* Van de Walle and Johnston.
2. See Financial Reporting and Auditing.
3. The implementation of PRS is a dynamic process, so that indicators might change over time.

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Note 4.1
Indicators of Good Practice in Reporting and Monitoring

Good practices	Success criteria	Source of information
1. Relying and building on country systems		
Donors promote locally designed and conducted reporting and monitoring systems that are of international standard.	Development of reporting and monitoring systems in partner countries. Reporting of partner government to parliament. Change by donors towards use of partner country reporting and monitoring systems.	Periodic studies – including partner country as well as donor perspectives – of reporting and monitoring systems in partner countries.
Donors adapt their reporting and monitoring needs as far as possible to fit with partner country systems (*e.g.* use supplements to domestic reports, rather than demanding own reports).	Reporting and monitoring used by donors compared to partner country system in same activities or sector.	Periodic studies – including partner country as well as donor perspectives – of reporting and monitoring in partner countries.
Donors seek to include reporting and monitoring arrangements in the design of all donor-supported activities.	Statements of reporting and monitoring arrangements in agreements for donor supported activities. Periodic study of sample of agreements for donor-supported activities.	Partner governments, donors in country.
The design of reporting and monitoring should include reviews in relation to longer-term goals and alternative approaches, so that the results of reporting and monitoring contribute to future strategy and practice.	Inclusion of reviews of strategy in design of reporting and monitoring.	Financing agreements between donors and partners.
Where partner country reporting and monitoring systems are inadequate donors help to develop them.	Partner country statements sharing assessments of inadequacy. Donor assistance to capacity building in reporting and monitoring.	Periodic studies – including partner country as well as donor perspectives – of reporting and monitoring in partner countries.
Donors work with partners to raise the quality of essential data used for monitoring.	Donor contributions to improvements in quality of essential data.	Partner country statistics offices.

Good practices	Success criteria	Source of information
Donors and partners ensure that reporting and monitoring of impact focuses on indicators related to key policy targets and decision-making processes.	Impact indicators monitored in donor-supported activities.	Donors in country and partner government departments with monitored programmes.
Donors and partners seek to agree a limited number of key indicators to be used for long-term impact studies.	Number of poverty indicators monitored for long term impact.	Partner government PRS documentation.
Donors seek – where possible – to involve non-governmental stakeholders in impact monitoring and in using the results (*e.g.* the media, advocacy groups, research institutions, consumer groups).	Involvement of non-government stakeholders in impact monitoring and using results of monitoring.	Periodic studies of impact monitoring arrangements.
2. Co-ordinating reporting and monitoring systems		
In multi-donor activities, donors agree common reporting and monitoring formats and timetables based on partner systems where possible.	Common formats and timetables for reporting and monitoring in multi-donor activities.	Periodic studies of samples of monitoring reports.
In projects within the same sector, donors seek to use common or similar reporting formats to reduce the burden on partner officials working in the sector.	Reporting formats used by donors with projects in the same sector.	Sector departments and donors in partner countries.
In some multi-donor activities a single donor may lead on reporting and monitoring. Other donors should accept this.	Leadership by single donors in reporting and monitoring for multi-donor activities.	Periodic studies of samples of monitoring reports.
In multi-donor activities, donors allocate particular reporting and monitoring tasks to donors best able to do them.	Division of labour among donors in reporting and monitoring in multi-donor activities.	Donors and governments in partner countries.
Donors ensure harmonised reporting and monitoring systems and procedures for all of their own organisations working in a partner country.	Comparison of reporting and monitoring procedures of donors' organisations with those of partner countries.	Donors in country.
3. Simplifying reporting and monitoring systems		
Donors create greater flexibility in their own reporting and monitoring procedures (*e.g.* formats, frequency, thresholds).	Change in donor regulations to allow greater flexibility and discretion in reporting and monitoring procedures.	Donor headquarters, donors and governments in partner countries.
Where necessary, donors seek to simplify the procedures required by their legislatures for ensuring probity of their expenditure (*e.g.* by requesting amendments to their governing regulations to allow greater flexibility in how such reporting and monitoring is carried out).	Change in probity verification procedures required by donors' own legislatures.	Donor headquarters and donor legislatures.
Donors ensure that all of their own organisations working in a partner country bring their reporting and monitoring systems and procedures in line with those of the partner country.	Comparison of reporting and monitoring procedures of donors' organisations with those of partner countries.	Donors in country.

Good practices	Success criteria	Source of information
4. Making information more transparent		
The norm for donors and partners is that all monitoring results for publicly funded projects are openly available to the public. Where sensitive information is involved this is contained in a restricted version or annex, rather than suppressing the whole report.	Donors' and partners' policy statements on disseminating monitoring information.	Donor Websites, collective in-country Websites for monitoring information and analytic work.
Monitoring reports should make clear to stakeholders the evidence on which they are based and the method of investigation used.	Clarity of evidence-base of reports.	Periodic studies of samples of monitoring reports.
Reports should be written in user-friendly formats with summaries and minimal use of technical jargon.	User-friendliness of format and language of reports.	Periodic studies of samples of monitoring reports.
Donors seek to make monitoring reports and reviews widely available in electronic format by contributing to special Websites for this purpose.	Availability of monitoring reports from donor Websites and special Websites.	Donor Websites and special Websites for monitoring information.
The production of "popular versions" of important reviews should be considered, in local language(s) if appropriate.	Number of hard copies, popular versions of monitoring reports distributed. Availability of popular versions on Websites.	Partner government departments, donors in country, donor Websites and special Websites for monitoring information.
Donors in country help to create a common, open source of monitoring information.	Existence, financing and progress of common source of monitoring information in partner countries.	Inspection of Websites. Interviews with organisations running Websites for monitoring information.
Donors adopt an open information stance, making monitoring reports normally open and available. This will include providing partner governments with full information of aid flows, including own administrative expenditures, and routinely providing partners and other donors.	Availability of monitoring reports from donors. Availability to partner governments of aid flow information.	Donor Websites, donors in country. Partner government aid co-ordination offices.
5. Rationalising review missions		
In multi-donor activities, donors undertake common monitoring missions.	Joint monitoring missions compared to non-joint for multi-donor activities.	Donor governments in partner countries.

ISBN 92-64-19982-9
Harmonising Donor Practices for Effective Aid Delivery
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Chapter 5

Financial Reporting and Auditing

Abstract. *Good quality financial reporting is critical to the effective implementation of development programmes and to accountability in the use of development resources. Independent audits by appropriately qualified auditors provide assurance on the reliability of financial reports and that aid is used for its intended purposes. Country authorities and donors have a shared interest in receiving good quality audited financial reports.*

Diverse and uncoordinated donor requirements in financial reporting and auditing impose high transaction costs on partner countries. They place competing demands on already limited financial management skills and can undermine efforts to build sustainable capacity.

This chapter sets out good practices that donors may adopt to address these concerns. If adopted, they would lead to a significant reduction in the number of financial reports and audit opinions that partner countries are required to provide to donors. They would enhance partner country capacity in accounting and auditing by progressively aligning donor requirements with strengthened national accounting and auditing processes and by increasing donor investment in building capacity. Finally, they would enhance the effectiveness of aid delivery by providing common financial reports that reflect all project funds.

Key issues

Financial reporting is the process by which the management of projects[1] reports how resources have been used. Auditing is the process by which an independent external auditor expresses an opinion on the reliability of the annual financial report and compliance with the rules governing the use of funds.

Good quality financial reporting is critical to the effective implementation of development programmes and to accountability in the use of development resources. Independent audits by appropriately qualified auditors provide assurance on the reliability of financial reports and that aid is used for its intended purposes. Country authorities and donors have a shared interest in receiving good quality audited financial reports.

Purpose

The **purpose** of this chapter is to define:

- A set of internationally acceptable financial reporting practices – regarding the use of all funds related to donor-supported projects – which meet the financial information needs of both country authorities and donors.
- A set of internationally acceptable auditing practices, which provide assurance to both country authorities and donor agencies on the reliability of the financial report and on compliance with conditions on the use of funds provided.

The **expected impacts** of adopting the practices set out in this chapter are:

- A significant reduction in the number of financial reports and audit opinions that partner countries must provide to donors.
- Enhanced partner country capacity in accounting and auditing by progressively aligning donor requirements with national accounting and auditing processes and by increasing donor support to build capacity.
- More effective aid delivery, by providing common financial reports that reflect all project funds.

Guiding principles

Financial reporting

Donors should rely on partner country financial reporting systems when the financial reports meet the information needs of government and donors. When systems are judged to be unable to produce these reports, capacity building should be a priority of external assistance.

The financial report that meets the needs of the project management team and other external stakeholders should be sufficient to meet the needs of donors. A single financial report covering funds from all sources and all project disbursements facilitates both project management and aid co-ordination. Donors should report all resources transfers

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(including direct disbursements) associated with a project to the project management and the appropriate country authority (*e.g.* Finance ministry).

International Public Sector Accounting Standards (IPSASs) provide a reference point which can be used in determining a government's accounting standards. Donor agencies should avoid defining their own national accounting standards as the basis of accounting for the project.

Audit arrangements

Funding agreements should state the audit arrangements that apply to donor-supported activities.

Donors should accept the Supreme Audit Institutions (SAI) of partner countries as auditors of donor-supported projects when their capacity is judged to be acceptable.[2] Where private sector auditors are to be used, an assessment of the auditor's capacity and experience should normally be carried out. An example of a questionnaire that can assist such an assessment is provided in Technical Guidance Note 5.2 at the end of this chapter.

A single audit opinion should cover the auditing needs of both the government and donors, who should agree the terms of reference for the audit (Technical Guidance Note 5.2).

Project audits should be conducted in accordance with international auditing standards. National auditing standards may be used where they are in all material respects consistent with international standards.

Good practices

Financial reporting

- **Reliance on government systems** – Effective project management requires information on all sources of funds used for the project and all disbursements. Similarly, donors require financial information to ensure the developmental objectives of the project are achieved. Project financial reports should therefore capture all sources of funding, with sufficient segregation of data to permit identification of individual sources of funds and disbursements on major project activities or types of expenditure, as well as any balance(s) of funds on hand. A common financial report should cover the needs of all donors.
- **Share information** – Donors should make information available to partner country governments on transactions financed on their behalf to allow all resources to be fully accounted for.
- **Agree on common reports** – Donors supporting a specific project or programme should agree common financial reports that meet the needs of both the country authorities and donors. Donors should accept the financial reports of partner countries where these are considered to be of acceptable quality. Donors should accept the financial reporting period of the partner country. Where weaknesses are identified, donors should support capacity building measures.
- **Reporting for budget support** – The government's annual national financial report should be able to identify budget support provided by individual donors. This report is normally submitted to the partner country's legislature or similar body and to the SAI for audit.
- **Reporting for sector programme support** – In the case of sector programme support, donors should rely on the financial reports of the relevant Ministry/Department where these are considered to be acceptable. Where the sector programme support includes

conditions relating to the use of the funds, specific data on these funds may be incorporated into the Ministry/Department's financial reports. The financial report should compare actual activity for the current reporting period with budget for the same period. If applicable, cumulative activity from inception of the programme should be compared with the cumulative programme budget. The financial reports should be prepared in a structure and detail that facilitates comparison with physical progress. The frequency of the financial reporting should be determined by the needs of the programme, and would normally take place on a quarterly basis. Donors should avoid, as far as possible, insisting on off-budget systems for sector programme support. Financial reports for sector programmes should reflect transactions financed by pooled funding arrangements as well as those financed directly by individual donors.

- **Reporting for project support** – Reporting for projects usually involves more detailed reporting than for budget support or sector programmes. It may include the use of unaudited interim financial reports, consisting of a Cash Flow Statement together with accompanying notes. The interim reporting period should be based on the information and decision-making needs of the users of the financial report, and be on a quarterly basis. For smaller or less complex projects, or as otherwise agreed, the reporting period could be on a semi-annual, annual, or life-of-project basis. The submission date for unaudited financial reports should normally be 45 days after the end of the reporting period. The financial report should compare actual activity for the current reporting period with budget for the same period. If applicable, cumulative activity from inception of the programme should be compared with cumulative programme budget. The financial reports should be prepared in a structure and detail that facilitates comparison with physical progress.[3] The annual financial report is usually the report submitted for audit.
- **Notes to the financial reports (programme and project reports)** – The notes to financial reports normally contain additional explanatory information. They should specify the basis of accounting used (cash or accrual) in the financial report, together with any deviations from agreed accounting standards. They should include sufficient information about the donor financing supporting the project to allow the reader to understand the main financial arrangements. This should include the total assistance agreed to be provided, any restrictions on what should be funded from the agreement, the terms of financing (grant or loan with interest and the rate, amortisation period, etc.), and may indicate whether all grant and loan covenants have been complied with. Contingent liabilities, as a result of contracts entered into which are still being implemented should be disclosed, together with contracts payable as a result of unpaid progress bills or contract withholding provisions.
- **Reporting for revenue earning projects** – Some physical infrastructure projects result in revenue producing assets when construction is complete. Loan funds rather than grants usually support them. During the construction period the financial information needed by donors is as described above. Revenue earning public utilities should prepare financial statements on the same basis as private sector commercial utilities. These include a balance sheet, an income statement and a cash flow statement together with accompanying notes. The funding agreement may specify the types of financial information to be disclosed in the financial statements.
- **Internal control** – Donors should rely on government accounting and internal control (including internal audit) procedures where these are determined to be adequate to

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provide the necessary safeguards over both programme and project funds.[4] Where improvements are needed to internal controls, donors may support efforts to strengthen these systems. Where controls are assessed to be weak, donors may agree additional safeguard measures to ensure appropriate management of project finances.

- **Accounting standards** – Financial reports should be prepared in accordance with acceptable accounting standards. Accounting standards vary between countries, although all will follow either the cash or accrual basis. Many countries follow some form of the cash basis of accounting. The International Public Sector Accounting Standards (IPSASs), issued by the International Federation of Accountants, provide a reference point to judge the standards that will apply to donor-supported projects. The planned IPSAS on the cash basis of accounting may be particularly useful for developing countries.

  Good accounting practice for revenue earning public sector utilities are defined in IPSAS 1 "Presentation of Financial Statements". IPSAS 1 specifies that these entities should adhere to International Accounting Standards (IAS) issued by the International Accounting Standards Board. This would place public sector utilities on the same basis as private sector utilities, utilising the accrual basis of accounting and applying the full range of accrual based accounting and reporting standards.

Audit arrangements

Independent audits by appropriately qualified auditors provide assurance on the reliability of financial reports and that aid is used for its intended purposes. Donors should accept the audit arrangements of partner countries where these are considered to be of acceptable quality. Where weaknesses are identified, donors should support capacity building measures.

- **Auditing budget support programmes** – Where general budget support is provided, the annual national financial report submitted to the legislature or similar body should meet the needs of the donors, provided the budget support is identifiable as income in the financial report – including the notes to the financial reports. These financial reports are usually audited by the SAI, whose report is normally presented to the legislative assembly and made available to the public. Donors should accept these audited reports when they are prepared in accordance with acceptable auditing standards.
- **Auditing sector programmes and projects** – Donors who provide support for programmes and projects require assurance that the financial reports they receive accurately reflect the financial state of affairs of the programme/project. This assurance may be provided by the SAI – where the practices and procedures of the SAI are considered acceptable. Where the SAI is responsible for conducting the audit, the consent of the SAI should be obtained in advance.

If private sector auditors are to be used, donors require that they be of acceptable quality. A questionnaire that can aid donors in determining the quality of firms is provided in Technical Guidance Note 5.2.

- **Terms of reference** – The terms of reference for auditors should normally be agreed during project preparation. They should include a description of the project, the implementing agency, the accounting standards being followed, the reporting requirements, the audit scope, the coverage of the management letter and, where applicable, the required qualifications of the auditor (see Technical Guidance Note 5.3).

- **Due date for submission of audit reports** – The audited annual financial report should be submitted within an agreed period after the fiscal year end. A period ranging from four to six months represents good practice. In some cases, for example projects with relatively short implementation periods, the accounting period might be the life of the project.
- **Single audit report** – Where project financial reports reflect all sources of funds, the audit report should normally fulfil the requirements of all donors. A single audit report meeting the needs of both government and donors thus constitutes good practice. If the international funding agreement includes specific financial performance covenants, compliance with the covenant is implied if non-compliance is not disclosed in the in the Notes to the Financial Statements and is therefore covered in the standard audit report (see Technical Guidance Note 5.5).
- **Management letter** – The auditor should prepare and submit a management letter upon completion of the audit. It should address deficiencies noted in the system of internal controls. Although the management letter is a report issued by the auditor, it does not contain an audit opinion (see Technical Guidance Note 5.3).
- **Audit findings** – Findings from the audit of the financial reports or material issues raised in the management letter will normally be project specific. As project accounting and internal control systems are usually applicable to the entire executing agency of government, these findings may also provide useful information on broader systemic issues at the institutional level. Project audit findings may therefore facilitate the government, with donor support as appropriate, to address these systemic issues.
- **Auditing standards** – The national SAI may follow national auditing standards or international auditing standards. International standards are issued by the International Organisation of Supreme Audit Institutions (INTOSAI) for the public sector, and the International Federation of Accountants (IFAC) through its International Auditing and Assurance Standards Board (IAASB) for the private sector. Donors may support efforts to develop and strengthen national capacity, systems and procedures in order to meet international standards over time.

Notes

1. Unless otherwise stated in the text, the term "project" is also used to include sector programme. The practices described in this chapter are considered broadly appropriate where aid is provided to non-government organisations.
2. Country diagnostic reviews in financial management can assist in forming judgements on audit capacity. See *Measuring Performance in Public Financial Management*.
3. Good Practices regarding comparison of financial information with physical progress is found in *Reporting and Monitoring*.
4. Good Practices regarding the review and evaluation of Government accounting and internal control procedures are discussed in *Measuring Performance in Public Financial Management*.

TECHNICAL GUIDANCE NOTES

Note 5.1
Indicators of Good Practice in Financial Reporting and Auditing

Good practices	Success criteria	Source of information
Reduce the number of audit opinions partner countries are required to provide to donors.	One audit report per project to meet the needs of all co-financing donors, except where circumstances justify a greater number.	Donor information on the number of audit reports received.
Enhance partner country capacity in accounting and auditing.	Increase the proportion of audited financial reports provided to donors that come from normal partner country processes. Increase donor financing for capacity building.	Periodic studies – including partner country as well as donor perspectives – of reporting and monitoring in partner countries.
Donors seek to include reporting and monitoring arrangements in the design of all donor-supported activities.	Statements of reporting and monitoring arrangements in agreements for donor supported activities. Periodic study of sample of agreements for donor-supported activities.	Partner governments, donors in country.

Note 5.2
Private Sector Audit Firm Application for Eligibility Questionnaire

Basic information

1. Legal name of firm.
2. Street and postal address of firm.
3. Telephone (include country and area code).
4. Fax (include country and area code).
5. Email address.
6. Address and telephone of branch offices (use attachment if necessary).

Branch name	Address and telephone	Officer in charge

7. Practice license or permit number.
8. Date of license/permit issuance.
9. Expiry date of license/permit.
10. Name of licensing/permit agency.
11. State the legal nature of the firm.
12. Fully describe the ownership structure and management structure of the firm.

The firm's independence

13. Does the firm have a written independence or conflict of interest policy? (If yes, provide a copy. If no, provide a brief description of the policy with comparison to the relevant IFAC Code). Are all professional staff provided training in the firm's independence or conflict of interest policies? Have staff members attended training courses in professional ethics, including training in IFAC's International Professional Practice Statements or Code of Ethics for Professional Accountants?
14. Does the firm provide consulting services involving accounting or internal control matters to audit clients?
15. Has the firm, any partners of the firm or any staff of the firm ever been subject to disciplinary action by any national accounting body to which the firm or its partners belong? If so, please indicate the nature of the disciplinary action and the reasons for it.

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16. Has the firm, any partner of the firm or any staff of the firm ever been subject to a court order involving the provision of professional services? If so, please indicate the nature of the court order and the reasons for it.
17. Has the firm, any partner of the firm or any staff of the firm ever been barred from auditing firms listed on any securities exchange or otherwise been subject to sanction or penalty by any securities exchange?
18. Are the firm's partners or staff members allowed to hold shares or other investments in audit clients?

Affiliations with other firms

19. Does the firm have an affiliation or association with any other foreign or local professional firm(s) such as accountants, auditors, consultants or lawyers etc? If so, please provide the following:

Firm name	Legal address	Home country	Contact person

20. Please describe the general nature of the affiliation(s), as follows:
    - Are any partners of the firm also domestic or international partners of the affiliated firm?
    - Does your firm or any partner of the firm share in the profits or liability exposure of the affiliate?
    - Does the affiliate provide training courses for the firm's staff?
    - If the firm is affiliated with a foreign accounting/audit firm does the foreign firm have an audit manual/guideline, and does the firm have access to and use of that manual/guideline? Does the firm use it exclusively in relation to audits resulting from the foreign affiliation or does the firm also use it in relation to audits that do not result from the affiliation?
    - Other important matters.

Firm's professional orientation

21. Indicate which of the following services are provided by the firm and show the share of each service in relation to the firm's last complete year's total fee income. Please separate any income derived from a foreign accounting/auditing firm affiliation.

Nature of income	Derived from foreign acc't/audit affiliate(s)	National income	Total fee income
Auditing			
• In accordance with ISA	%	%	%
• In accordance with national standards	%	%	%
Accounting			
• In accordance with IAS	%	%	%
• In accordance with national standards	%	%	%
Consulting services	%	%	%
Other fee income	%	%	%
Total fee income	**100%**	**100%**	**100%**

ISA – International Standards on Auditing.
IAS – International Accounting Standards.

22. Indicate the percentage of the firm's last complete year's total fee income attributable to foreign aid/funding agreements with international agencies, bilateral aid agencies or other sources (information may be aggregated where conversion where common audit arrangements are adopted by donors).

Nature of income	IMF/ World Bank	Regional develop't bank(s)	Bilateral aid agencies	Other int'l agencies	Private sector	National gov't	Total fee income
Auditing	%	%	%	%	%	%	%
• In accordance with ISA							
• In accordance with national standards	%	%	%	%	%	%	%
Auditing	%	%	%	%	%	%	%
• In accordance with IAS							
• In accordance with national standards	%	%	%	%	%	%	%
Consulting services	%	%	%	%	%	%	%
Other fee income	%	%	%	%	%	%	%
Total fee income	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

23. Does the firm use an audit procedures manual or guideline for staff? If so, when was it last updated? How does the firm ensure that staff adheres to the audit manual/guidelines, at all times? (Please attach a copy of the manual/guideline).
24. Is the firm aware that various multilateral and bilateral agencies have guidelines covering accounting and auditing for projects they fund? If so please list the guidelines the firm has.
25. Discuss the firm's quality assurance programme. Does the firm participate in a peer review programme on a national basis and has the firm ever participated in a peer review as a result of an affiliation with a foreign accounting/audit firm? If so, what were the results of the last national/foreign peer review(s)?
26. Describe the firm's utilisation of information technology, *i.e.* software tools and computer assisted audit techniques to support auditing assignments.

Professional services liability insurance coverage

27. Has the firm ever directly settled a claim involving professional services, that is, without utilising the insurance coverage? If so please state the main issues involved in the settlement and the amount of the settlement.

Personnel

28. Composition of staff.
29. (Attach a schedule(s) if needed. In a larger firm, individual staff profiles will normally only be reviewed for staff working on the audit of donor supported projects).

Name	Member of professional body*/year of qualification	With relevant audit experience in			
		Public sector	Construction contracts	Cash accounting systems	Other
Partners/associates					
Managers					
Supervisors					
Other prof. staff					

* Refers to a member currently in good standing with the named IFAC member accounting body.

30. For each person listed in item 28 above, provide a separate attachment with a brief summary of their qualifications and professional experience, including:
    - Academic or other qualifications.
    - Membership of foreign professional bodies.
    - Details of professional audit and accounting experience, stating relevant industry(ies), including experience in the public sector, construction contracts and cash accounting systems, separating domestic and foreign experience.
    - Mother tongue and any other languages with written and spoken fluency.
31. What has been the turnover rate of the firm's partners and personnel (partners/associates, managers, supervisors, seniors, and other professional staff) during the last 5 years?

Staff training

32. Briefly state the firms training philosophy.
33. Indicate post qualification training or professional education courses taken, year taken and total hours by each major staff category in the last three years, as follows:

Category	Training/courses/year/total hours			
	IAS	ISA	National standards	Other courses
Partners/associates				
Managers				
Supervisors				
Seniors				
Other professional staff				

International Accounting Standards.
International Standards on Auditing.

34. Does the firm have a professional training manual, and is a copy provided to each professional staff member?

Indicate types of training and number of hours of training by staff category, provided by any affiliate firm over the last three years, as follows: (Attach a schedule if necessary).

Staff category	Training year/total hours	
	In country	Out of country
Partners/associates		
Managers		
Supervisors		
Seniors		
Other professional staff		

Certification

I certify the above information is true and correct

Signed

Position

Date

The firm should feel free to submit any additional information that further describes the firm.

Note 5.3
Specimen Terms of Reference for External Auditors of Donor-supported Projects and Sector Programmes

Audit responsibilities

This "Specimen Terms of Reference (TOR) for Donor-Supported Projects and Sector Programmes" is intended to provide guidance to the staff of governments and donors in agreeing terms of reference for donor-supported activities. It should not be seen as universally applicable to all donor-supported projects. Those components that are considered appropriate for a particular project should be selected, inappropriate items omitted, and additional matters included, where considered necessary.

- **Note 5.4:** describes the qualifications of the auditor and may help in the process of selecting auditors.
- **Note 5.5:** is a sample special purpose audit report.

Background

The background section of the TOR should include a brief summary of government accounting and financial management practices. It should include a general description of the supervising agency (often a Ministry of the Government or Department within a Ministry) and the executing agency (often a department or division within a Ministry) and should include a statement of their economic goals. There should be a broad description of the project in the context of its contribution to achieving the goals of the executing agency. The auditor should understand the "purpose for which the funds are intended" in the context of project objectives as well as in terms of the specific budget for the project.

Financial statements of the executing agency that provide sufficient disclosure of the receipts and disbursements of the project and of relevant information in the notes to the financial statements should normally meet the needs of donors. Where financial statements do not provide this information, a separate special purpose financial statement with a special purpose audit report would be expected. This would normally take the form of a Cash Flow Statement, prepared on the cash basis of accounting. This TOR is directed to the audit of special purpose financial statements.

The executing agency

This section should contain a description of the executing agency including the physical address, phone numbers, fax numbers, web sites and general e-mail addresses. A summary of the financial management assessment of the project executing agency should be included, together with a reference that the full financial management assessment would be available to the auditor. Other details would include:

- An organisation chart.

- A list of senior officers together with their contact details.
- A list of the contact persons responsible for accounting, financial management and internal audit together with phone numbers and email addresses.
- A description of the project including the project budget by major expenditure categories and the sources of all funding for the project.
- A statement that the project appraisal report (if applicable) would be available to the auditor should be included.

Accounting standards

This section should include a description of the accounting standards followed for the project and whether they are consistent with the government's accounting standards. Any deviations from standard government accounting practices should be specified. Any deviations between the actual accounting standards applied and international practice as embodied in either International Accounting Standards (IAS) published by the International Accounting Standards Board or the draft International Public Sector Accounting Standards (IPSAS) on Cash Accounting published by the Public Sector Committee (PSC) of the International Federation of Accountants may also be described.

Reporting standards

The usual format of reporting for a non-revenue project is a Cash Flow Statement. The format of the accounting report should be provided. The format should include a list of funding sources to be reported separately as well as a list, agreed during the funding agreement negotiations, of the expenditure categories for reporting purposes.

The Cash Flow Statement format should normally include the current reporting period compared with the annual budget and accumulative figures from the commencement of the project compared with the total project budget.

The date by which the project accountants will prepare a draft Cash Flow Statement together with the agreed supporting schedules should be specified. Audited special purpose financial statements should be issued within about four to six months after the end of the fiscal period.

Available facilities

There should be a description of the nature and the location of all records belonging to the project. This list should specify those records kept at the executing agency's headquarters and those that are located at other offices. If computers are used to record transactions relating to the project a description of the computer specifications needs to be provided together with a description of the operating software.

The TOR should state that the auditor would have full and complete access at any time to all records and documents (including books of account, legal agreements, minutes of committee meetings, bank records, invoices and contracts etc.) and all employees of the entity. The auditor should be advised that he/she has a right of access to banks and depositories, consultants, contractors and other persons or firms engaged by the programme/project management. If an auditor may not have unrestricted access to any records, person or location during the course of the audit, this restriction should be clearly defined, with reasons, in the TOR.

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Audit scope

Scope of work

The scope of the audit should be sufficiently clear to properly define what is expected of the auditor but not in any way restrict the audit procedures or techniques the auditor may wish to use to form an opinion. It should specify at least the following:

- A definition of the entity or the portion of an entity that is subject to audit.
- The audit will be carried out in accordance with either ISA[1] or INTOSAI[2] auditing standards.
- The audit period covered will include the current reporting period. Issues relevant for the accumulative reporting period (from inception of the project) will rely upon the audit work of previous auditors, if necessary through communication with them.
- Sufficient audit evidence will be gathered to substantiate in all material respects the accuracy of the information contained in supporting schedules attached to the Cash Flow Statement.
- If Statements of Expenditures (SOEs) were used to fund disbursements, the scope of the audit will include a sufficient sample of such disbursements to determine whether funds disbursed through SOEs were used for the purposes defined by the funding agreement.
- If a special/imprest bank account is used in conjunction with the SOEs, the scope of the audit will include gathering sufficient evidence to determine that the balance indicated as being on hand in the records is represented by unencumbered cash in a bank account.

The TOR should require the auditor to state in the audit report if the audit was not in conformity with any of the above and indicate the alternative standards or procedures followed.

The audit report

The TOR should clearly indicate expected content of the auditor's opinion. This would include at least the following:

- That it is a special purpose report and its intended use.
- Accounting standards that have been applied and indicate the effect of any deviations from those standards.
- The audit standards that were applied (either INTOSAI standards, ISAs, or national standards that comply with one of these in all material respects.
- The period covered by the opinion.
- Whether the specified Cash Flow Statement and supporting schedules present fairly the cash receipts and disbursements for the project and that the funds were used for the purposes defined by the funding agreement(s).

This section should also indicate the due date for submission of a draft audit report and the signed audit report to the management of the project, as well as the due date for the submission of the signed audit report to the donors for compliance with the funding agreement.

Compliance with funding agreement covenants

Traditionally compliance with covenants referred to meeting technically defined financial targets, such as debt service coverage in revenue producing projects. Increasingly funding agreements of programme/projects which are not revenue earning contain specific

performance targets. These are sometimes specified by a time bound action plan such as the date of the introduction of a double entry accounting system or implementation of a system of internal controls. In other cases there may be a broader action plan with specific dates to achieve a specific set of actions. In some cases funds releases are tied to meeting these targets. In other cases specific quantifiable targets such as the construction of specified numbers of rural health clinics or the provision of specific or "at least" numbers of inoculations against infectious diseases are covenanted. Some grant and loan covenants are too nebulous to be subject to audit.

The scope section of the TOR should clearly indicate whether the auditor is expected to issue an opinion on the implementing agency's compliance with any specific covenants. This section should specifically state:

- The auditor is not an arbitrator in any disagreements between the borrower and lender(s).
- The covenant(s) for which an opinion will be issued, by a very specific reference to the funding agreement section(s) and paragraph number(s).
- A copy of the funding agreement will be provided to the auditor.
- Copies of all correspondence between the Government and the funding agency/agencies relating to compliance, calculation of compliance or interpretation of definitions used in the covenants will be provided.

Management letter

The TOR should specify that the auditor will submit a management letter at the completion of the audit. Guidance should be provided regarding the topics/issues to be covered in the management letter. At least the following topics/issues should be included:

- A general review of programme/project progress and timeliness in relation to progress milestones and the planned completion date, both of which should be stated in the programme/project document. This is not intended to address whether there has been compliance with specific covenants relating to specific performance criteria or outputs. However general compliance with broad covenants such as implementing the programme/project with economy and efficiency might be commented upon but not with the legal force of an audit opinion.
- An assessment of the programme/project's internal control system with equal emphasis on *i)* the effectiveness of the system in providing the programme/project management with useful and timely information for the proper management of the programme/project and *ii)* the general effectiveness of the internal control system in protecting the assets and resources of the programme/project.
- A description of any specific internal control weaknesses noted in the financial management of the programme/project and the audit procedures followed to address or compensate for the weaknesses. Recommendations to resolve/eliminate the internal control weaknesses noted should be included.

Notes

1. International Standards of Auditing (ISA) published by the International Auditing Practices Committee of the International Federation of Accountants.
2. International Organization of Supreme Audit Institutions.

Note 5.4
Qualifications of an Auditor

The TOR should state that the auditor must be completely impartial and independent from all aspects of management or financial interests in the entity being audited or those of its implementing/supervising agency or directly related entities. The auditor should not, during the period covered by the audit nor during the undertaking of the audit, be employed by, serve as director for, or have any financial or close business relationships with any senior participant in the management of the entity. It may be appropriate to remind an auditor of any existing statutory requirements relating to independence and to require an auditor to disclose any relationship that might possibly compromise his/her independence.

The auditor should be experienced in applying either ISA or INTOSAI audit standards, whichever is applicable for this audit. The auditor must employ adequate staff with appropriate professional qualifications and suitable experience with ISA or INTOSAI standards, including experience in auditing the accounts of entities comparable in size and complexity to the entity being audited.

Curriculum vitae (CV) should be provided to the client by the principal of the firm of auditors who would be responsible for signing the opinion, together with the CVs of managers, supervisors and key personnel proposed as part of the audit team. It would be appropriate to indicate required/minimum professional qualifications necessary for the senior auditors/principals responsible for the audit. CVs should include details on audits carried out by the applicable staff, including ongoing assignments indicating capability and capacity to undertake the audit.

Note 5.5
Sample Audit Report

Auditor's report to:

The Director, ABC Project

Public Works Department of the Government of XYZ Country and

DAC Bilateral Development Assistance Agency

We have audited the accompanying special purpose Cash Flow Statement of the ABC Project for the year ended 31 December, 20XX and cumulatively since inception of the project. This statement is the responsibility of the ABC Project management. Our responsibility is to express an opinion on the accompanying statement based on our audit.

We conducted our audit in accordance with (either International Standards on Auditing promulgated by the International Federation of Accountants or Auditing Standards promulgated by the International Organisation of Supreme Audit Institutions). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

The ABC Project management's policy is to prepare the accompanying statements on the cash receipts and disbursements basis in conformity with (either International Public Sector Accounting Standard for Cash Accounting or the National Accounting Law of 19XX of XYZ Country). On this basis cash receipts are recognised when received and cash expenditures are recognised when paid rather than when incurred.

In our opinion, the accompanying statement referred to above gives a true and fair view of (or presents fairly, in all material respects) the cash receipts and disbursements of the project during the year ended 31 December 20XX and cumulatively since inception of the project in accordance with (either International Public Sector Accounting Standard XX or the National Accounting law of 19XX of XYZ Country), described in Note X.

Our audits were conducted for the purpose of forming an opinion on the special purpose financial statement taken as a whole. The accompanying special purpose Schedule of Funding Source Reconciliation and Schedule of Major Contractual Amounts Outstanding as at 31 December 20XX and 20XY, are presented for purposes of additional analyses and are not required parts of the special purpose financial statement. Such information has been subjected to the auditing procedures applied in the audits of the special purpose financial

statements and in our opinion is fairly stated in all material respects in relation to the special purpose financial statements taken as a whole.

This report is intended solely for the information and use of DAC Bilateral Development Assistance Agency, and the Government of XYZ Country as funding agencies of the ABC Project and for submission to these funding agencies and should not be used for any other purpose.

Date

Auditor's signature

Address

ISBN 92-64-19982-9
Harmonising Donor Practices for Effective Aid Delivery
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Chapter 6

Delegated Co-operation

Abstract. *Delegated co-operation occurs when one donor (a "lead" donor) acts with authority on behalf of one or more other donors (the "delegating" donors or "silent partners"). The level and form of delegation vary, ranging from responsibility for one element of the project cycle for a specific project (*e.g. *a particular review) to a complete sector programme or even country programme. Delegated co-operation can reduce transaction costs and enhance aid effectiveness through greater use of the comparative advantage of individual donors.*

The increasing use of delegated co-operation arrangements between bilateral donors makes it important that they are only pursued when the resulting benefits outweigh the costs of setting it up, and are done so in ways that support, not undermine, partner governments' leadership of the development process.

This chapter sets out good practice that bilateral donors may adopt to address these concerns. If adopted, they would help to ensure that any delegated co-operation arrangement contributes to promoting a partner government's accountability to its own people and its ownership of its poverty reduction strategy or equivalent planning framework. Arrangements would only be pursued where all parties benefit. And where pursued, they would be with the right degree of preparation – sufficient to ensure trust and common understanding between involved donors, whilst avoiding unnecessary analysis or negotiation.

Key issues

The other Good Practice Papers in this series identify ways in which donors can improve effectiveness of their aid delivery in three areas – internal procedures, relations with partner countries and relations with each other. Joint working and common procedures are the primary means by which bilateral donors can promote more effective relations with each other. At the same time this leads to a reduction in unnecessary transaction costs in ways that enhance partner governments' ownership of donor supported activities and their accountability to their own people (see also Framework for Donor Co-operation).

Joint working and common procedures can take two forms. First, bilateral donors can work more closely together but still retain their distinct identity in all stages of the project/programme cycle. Bilateral donors, for example, may co-operate on a joint review but all take part in that review. Second, a bilateral donor ("lead donor") can act with authority on behalf of one or more other bilateral donors ("delegating donors" or "silent partners") that are willing to lose their distinct identity. A bilateral donor, for example, may undertake a review on behalf of all other donors co-financing a sector or project. This second form, called delegated co-operation, is the focus of this Chapter.

The level and form of delegation may vary and take place at different phases in the project cycle. At its most modest, delegation may be limited to one bilateral donor taking the lead for a single phase of the cycle for one project (*e.g.* conducting an initial project appraisal on behalf of other donors or taking the lead in organising and conducting a review). At a more extensive level, a lead bilateral donor may act on behalf of one or more donors in all phases of the project/programme cycle, including disbursement of funds. At its most comprehensive, one donor can delegate responsibility for all aspects of a country programme to another.

The extent and nature of delegated co-operation between bilateral donors also vary according to the type of aid:

- **In projects,** delegation most frequently occurs in analytic work, project preparation, monitoring, reporting and audit. In a growing number of instances financial assistance is channelled by one bilateral donor via another to the beneficiary.
- **In general macro budget support,** donors may divide up the responsibility for taking the lead in policy dialogue and for activities like analytic work, monitoring and auditing. They may further divide up the analytic work and policy dialogue with one donor leading on a specific element (*e.g.* on financial management or macroeconomic policy). These lead roles can be rotated. It is less common for macro budget support to be channelled from one bilateral donor to another en route to a partner government.
- **Sector programmes** represent an intermediate position. Donors may provide support to specific components or as general support to a sector wide programme. In addition, therefore, to delegation of policy dialogue, analytic work, elements of the approval

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process, monitoring, reporting and auditing, a bilateral donor may also take lead responsibility for managing the disbursement mechanism.

The extent also varies according to internal constraints faced by donors and the degree of compatibility between donors. Those with more exacting procedures will be more limited in the activities that they can delegate. Donors whose objectives and culture are similar will be able to delegate to a greater extent than donors that have less in common.

Whilst it has been common for bilateral donors to delegate authority to multilateral development organisations, until recently it was rare for them to delegate to another bilateral donor. But in recent years this has become more common, which reflects the combination of closer co-operation in sector and macro programmes, greater flexibility in procedures and a stronger commitment to reduce transaction costs. It also reflects the recognition that delegated co-operation can enhance mutual learning between donors.[1]

This chapter focuses on good practice in one bilateral donor delegating authority to another. However, most of it is just as relevant to any delegation between donors be they bilateral or multilateral.

Purpose

This chapter puts forward a set of guiding principles and good practices on how bilateral donors can design and implement delegated co-operation. The objectives of this Paper are to:

- Provide clear guidance on when delegated co-operation is appropriate.
- Ensure that delegated co-operation arrangements, when adopted, support, not undermine, the ownership[2] and accountability of partner governments, and its capacity building, through appropriate consultation, design and implementation.
- Reduce unnecessary transactions costs in delegated co-operation arrangements, when adopted, for donors and partner countries.

Guiding principles

In elaborating the good practices presented in this chapter, the DAC was guided by the principles in the Framework for Donor Co-operation (see Chapter 1). In addition, certain principles are specific to determining the appropriateness and success of delegated bilateral aid co-operation:

- **Delegated co-operation arrangements should be consistent with the partner government's poverty reduction strategy** or equivalent national framework, and they should support, not undermine, partner governments' capacity building and accountability to their own people.
- **The extent of preparation for any delegated co-operation arrangement should be proportional to the scope and scale of the arrangements** – Effective arrangements require adequate preparation but the extent should vary to reflect the scope and nature of the arrangement.
- **Full use should be made of each bilateral donor's comparative advantage** – There can be substantial savings in time and costs for donors and partners from delegating responsibility to a lead donor with comparative advantage in a country, sector or in undertaking specific tasks. Different clusters of donors may have different opportunities for delegation in different partner countries.

Good practices

Good practices in delegated co-operation are practical steps to be taken towards achieving the above objectives. Some are relevant to all delegated co-operation arrangements and some are specific to more extensive arrangements or specific stages of the project/programme cycle. They are also summarised in the form of two codes of conduct – one for lead donors and one for delegating donors (see Box 6.1).

Box 6.1. **Code of conduct**

For a lead donor:

- Enable delegating donors to review policies, procedures and systems relevant to a delegated co-operation arrangement.
- Ensure that the expectations of the delegated donors are clearly understood.
- Assess whether it is feasible to meet the reasonable expectations of the delegating donors.
- Take all opportunities to be flexible, within external constraints, to adopt partner country procedures, or, where this is not possible, to adopt relevant common donor procedures.
- Consult partner governments on the proposed delegated co-operation arrangements.
- Share the details of delegated co-operation arrangements with partner governments and other interested parties, including other donors.
- Adhere to agreements reached and, in particular, fulfil any agreed consultation and reporting requirements with other donors.

For a delegating donor:

- Assess the policies, systems and procedures of the lead donor where these are important to the success of the delegated co-operation arrangement.
- State clear and realistic expectations of the lead donor in terms of its role in policy dialogue, reporting, monitoring and consultation.
- Take all opportunities to be flexible, within external constraints, to adopt partner country procedures, or, where this is not possible, to adopt relevant common donor procedures.
- Consult partner governments on the proposed delegated co-operation arrangements.
- Share the details of delegated co-operation arrangements with partner governments and other interested parties, including other donors.
- Adhere to agreements reached and, in particular, communicate with a partner government through the lead donor in the areas of responsibility delegated.

General

Good practices relevant to all forms of delegated co-operation are:

- **Donors should agree on shared objectives for a delegated co-operation arrangement** (see the examples below).
- **Donors should consult the partner country on a delegation arrangement** – A delegated co-operation agreement should be discussed with the partner government to ensure their views are taken into consideration when determining the lead donor (see Box 6.2).

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- **Delegation arrangements should be as simple as possible** – Where one donor is delegating responsibility for its entire country programme, agreement extends to all elements of country programme design and implementation. If, on the other hand, delegation is limited to one stage in the cycle of a particular project the scope is much less, particularly if no funds are channelled by one donor through another.
- **The extent to which a delegating donor assesses a lead donor's policies and procedures should be dependent on the scope and frequency of the delegated co-operation arrangements** – A delegating donor assesses relevant policies and procedures of the lead donor. Where a significant number of delegated co-operation arrangements are envisaged then a comprehensive review to establish a general framework may be desirable. A modest one-off arrangement warrants a more limited assessment (see Box 6.3).
- **A delegating donor should take account of any relevant assessment of a lead donor by another delegating donor before making its own assessment** – Whilst the requirements of one donor are not identical to another, the use of an another donor's assessment can reduce the scope of assessment needed by a delegating donor.
- **Lead and delegating donors should be as flexible as their respective external constraints permit in accepting the procedures of the partner country** – Donors determine the extent that the procedures subject to a delegated co-operation arrangement can be adjusted to comply with the requirements of the partner government involved. Most of the boxes below are examples where one donor was willing for the procedures of another donor to be used.

Box 6.2. **Delegation of a country programme**

Malawi – Norway and Sweden agreed a co-operation framework to reduce the administrative burden for Malawi and to improve the efficiency of the USD 14 000 000 development assistance programmes funded equally by Norway and Sweden. They agreed with the Government of Malawi which areas of development co-operation would be covered by this framework.

Based upon agreements in Annual Meetings, Sweden makes available an annual grant for specific development projects/programmes in Malawi based on an indicative request from Norway. Transfers from this annual grant are made half-yearly to NORAD's bank account. In addition to the annual grant, Sweden may also offer technical assistance for studies, reviews and evaluations of a project, when requested by Norway.

Norway manages Sweden's grants in accordance with the guidelines for Norwegian development assistance. This includes identifying potential projects, making appraisals, deciding on support, entering into agreements, monitoring, evaluating and reviewing each individual project in accordance with the Annual Meeting. Norway manages the grants so that disbursement at the end of the financial year reflects the proportionate distribution of contributions decided upon in the Annual Meeting.

Norway submits to Sweden in advance a financial overview and plan that includes project budgets. Norway as lead donor provides Sweden with copies of the annual report, audit reports by the Auditor General of Norway, evaluation reports and other reports requested by Sweden.

Norway has entered into a Memorandum of Understanding with the Government of Malawi, stating the scope of the development co-operation. Norway's authority to represent both countries within the areas and projects stated in the Agreement. Each subsidiary project or programme agreement also states that it is jointly funded.

- **Where it is not possible to accept the procedures of the partner country, lead and delegating donors should look to adopt common procedures** – Donors determine the extent that the procedures, subject to a delegated co-operation arrangement, can be adjusted to fit with the requirements of all donors involved. For each participating donor, such an assessment is to a large extent a one-time investment in harmonising procedures with other participating donors.
- **Donors involved in a delegated co-operation arrangement should have a clear, shared understanding of their respective roles and responsibilities** – This should be set out explicitly in writing except for simple arrangements that do not entail channelling of funds. The scope of any written agreement reflects the scope of the arrangement. Where two donors envisage extensive co-operation, then negotiation of an umbrella memorandum may reduce the transactions costs of establishing individual arrangements agreement. This is the case in the all of boxes below relating to specific arrangements.
- **Donors should make available details of a delegated co-operation arrangement to the partner government and other interested parties** – The sharing of details of an arrangement avoids any confusion between a partner government and the parties to that agreement and may be of benefit to others, including other donors, with an interest in the relevant project or programme (see in particular the boxes on Malawi and Pacific).
- **Donors should adhere to their agreed roles and procedures** – The success of delegated co-operation is dependent on the participating donors' compliance with the agreed roles and procedures reached in a delegation agreement. In particular a delegating donor must communicate through the lead donor rather than directly to the partner country in the areas of delegation. Failure to do so can impose costs on the partner country and may constrain project implementation and future co-operation efforts.

Box 6.3. **Assessment of a lead development agency by a delegating agency**

SIDA – The Swedish Development Agency (SIDA) undertook assessments of the policies and procedures of the British and Dutch development agencies prior to agreeing arrangements for them to take the role of lead donor in specific projects and programmes. The purpose of such assessments by SIDA was to ensure itself – and its oversight bodies – that management of funds by the potential lead agencies would, in the broadest context, be compatible with the requirements set out for and by SIDA. The assessments covered and documented overall objectives, policies, methods, project cycle management, systems for quality assurance, procedures, financial administration etc. The broad scope reflected the fact that extensive use of delegated co-operation with these agencies was envisaged. The assessments were based on existing documentation as well as structured interviews. They drew conclusions on whether sufficient compatibility existed and if there were areas to which SIDA should pay special attention to or mechanisms that needed to be put in place for areas or issues where a difference exists.

Specific to more extensive arrangements or particular stages of the programme/ project cycle

Where the scope of a delegated co-operation arrangement is extensive it is also good practice for:

- **The donors involved in an arrangements should agree on the status of any written agreement** – Memoranda that are not legally binding are generally less burdensome to agree than those that are, though some donors may require legally binding agreements.
- **The donors involved in an arrangement should agree the number and nature of any agreements with the partner government** – Transaction costs can be reduced if a partner government reaches a formal agreement with the lead donor on behalf of all delegated donors.

Box 6.4. **Delegating responsibility for specific activities**

Mozambique – For many years several donors provided programme aid (balance of payments support) to Mozambique guided by individual agreements. Although generally sharing the same objectives and benchmarks, the disbursement mechanisms and financial reporting requirements varied considerably. This imposed a heavy burden on the government that, as a result, was not able to provide the reporting sought by the donors.

Recognising that they were imposing an unacceptable burden, donors agreed to conduct joint programme reviews to simplify and harmonise procedures, improve the quality of monitoring and reduce transaction costs. The cost was shared among the donors, but the responsibility for organising and commissioning consultants was shifted each year to a lead donor. This step reduced the transaction costs for the donors substantially (sharing cost of a review rather than multiple review teams) and for the government (time spent on entertaining several donor initiated reviews).

This approach has also been followed in the case of the thematic working groups that have been formed with one donor acting as a lead donor and taking a proactive role in policy dialogue.

A number of good practices are specific to certain stages of the project and programme cycle:

- **Where one donor channels its funds for a project or programme through another, explicit agreement should be reached between the lead and delegating donors on disbursement, accounting and auditing arrangements, including:**
  - The value of the funds to be channelled and whether there is any burden sharing formula. Any burden sharing arrangements should specify whether they need to be met continuously through the life of the project/programme or only over the period as a whole and clarify the currencies and financial years used.
  - The triggers for disbursement, expected frequency of tranching and any linkage to reporting.
  - The way in which funds are transferred.
  - The treatment of any interest accrued on balances.
  - Procedures for returning any unspent balances.

- Any procurement procedures.
- Any administrative fees to be charged by the lead donor.
- The nature and frequency of financial and narrative reports and the accounting and auditing requirements.

Box 6.5. **Delegated co-operation: consultation with partners**

Pacific – In 2000-2001, Australia and New Zealand embarked on a joint review of *Harmonising Donor Policies and Practices* in the Pacific to find ways to improve aid delivery at both strategic and operational levels, and to reduce transaction costs for partner governments.

The report recommended that a single co-funded programme be set up for Niue and the Cook Islands, with New Zealand taking on the lead partner role, and Australia acting as a "silent" partner. For the most part, Australian and New Zealand aid programme priorities were very similar. The review team found that the most significant benefits of this pilot would be reduced transaction costs and reporting burdens for partner countries, and an improved focus on the programme. It could also increase the synergy of the donors' programmes.

In late 2002, these potential benefits were being weighed up against a number of potential risks. From the Australian side, there would be a risk of a loss of presence and visibility in the region, as well as the question of how accountability could be assured. From the Cook Islands and Niue Governments there were concerns of reduced ownership of their aid programme, as well as the fear of a possible reduction in the total amount of aid. Both donors sought to allay these concerns.

Talks also began to develop a similar delegated co-operation arrangement for Tokelau, again as a joint NZAID-administered programme. In another arrangement, NZAID was already providing funds to AusAID for the fitting out of junior secondary schools in Kiribati, where AusAID would administer NZAID funds and undertake all administration. In each of these cases, extensive consultation between donors and partners was recognised as vital to address the concerns of all parties and ensure risk management strategies were in place.

- **Lead and delegating donors should agree on indicators for measuring performance of the activity at the output, purpose and goal levels** – An initial dialogue between the donors to agree on the goal of an activity and its performance indicators can reduce the risk of lengthy *ex post* discussions of what was to be achieved. The Reporting and Monitoring Good Practice Paper provides more detailed guidance on the setting of indicators in ways that promote partner country reporting and monitoring systems.

Codes of conduct

These good below practices are presented as codes of practice for a lead donor and for a delegating donor (see Box 6.1).

Box 6.6. **Delegation in two sector programmes**

Ethiopia – Norway and Sweden both support two Ethiopia sector programmes: Health Sector Development Programme (HSDP) and Education Sector Development Programme (ESDP). Sweden is arranging to delegate its donor role to Norway in HSDP, while Norway is arranging to delegate its role in terms of ESDP.

In HSDP Sweden will channel its contribution through Norway while in ESDP Norway will channel its contribution through Sweden. From the partner's perspective, the resources received and procedures they need to comply with in terms of reporting, financial control and auditing will appear as one in each sector programme rather than two different ones.

The level of delegation will include full authority to act on the other donor's behalf after bilateral agreement has been signed by both donors for both programmes. They will take the lead role in the respective sectors in terms of monitoring and reviews.

Box 6.7. **Sector programme delegation**

India – This case illustrates how co-ordinated efforts, acceptable and attractive to a partner government can be worked out in a simple format whereby one participating donor saves significant manpower and monetary resources without the lead donor taking on any significantly added burdens. Economies of scope and scale are achieved.

Canada International Development Agency (CIDA) agreed in 2002 to delegate responsibility to the UK's Department of International Development (DFID) to act on its behalf in assisting the Government of Madhya Pradesh with the formulation of medium-term state health sector strategy through the appointment of consultants. DFID India (DFIDI) administers the arrangement. Disbursements from the arrangement will be made in Sterling converted from Canadian dollars using the exchange rate on the date of transfer. A Joint Account established for the Project, is managed by the DFIDI with CIDA approval of expenditures in accordance with agreed milestones. The financial management of this Arrangement will follow DFIDI guidelines as outlined in the Contract issued to the Consultant.

Box 6.8. **North-South delegated co-operation**

JICA – Delegated co-operation can also occur between DAC donors and emerging non-DAC donors. One example is Japan's triangular south-south co-operation through JICA in collaboration with advanced developing countries such as Singapore, Thailand, Chile and Tunisia. In the case of Thailand, the Government of Thailand has provided between 20% and 40% of the cost of training programmes undertaken in its institutions, providing appropriate technologies and know-how to surrounding developing countries such as Laos and Cambodia. In the year 2001, JICA co-financed 133 training courses in this way, and 2 189 trainees from 33 countries benefited from this programme.

Box 6.9. **Support to primary schools**

Mali – This programme was co-financed in an agreement between AFD (France) and KfW (Germany), with KfW delegating leadership to AFD and GTZ responsible for technical assistance (co-financed with AFD as minority participant).

A special agreement supported by the Mali government was signed whereby KfW and GTZ formally granted AFD the mandate to implement the infrastructure investments on behalf of KfW, whereas GTZ was charged with the provision of technical assistance for the entire programme. The Agreement specifies the investments to be implemented according to AFD rules and regulations and that AFD is the focal point for the Ministry of Education (MoE) regarding all issues related to infrastructure investments. Furthermore, the donors agreed on common and simplified standard requirements for procurements.

While the lead for the implementation, monitoring and reporting is undertaken by AFD, the reporting formats should comply with requirements of the German ministry for Economic co-operation and development in order to avoid duplications. Reports from MoE and the monthly financial report are prepared and submitted to AFD who in turn hands it on to KfW and GTZ. Progress reports are prepared by AFD for the Germans as far as investments are concerned, and by GTZ even for French technical assistance components.

Simplified and unified tendering, implementation and monitoring procedures saved time and resources of all donors and the partner country, and lead to economies of scale.

Notes

1. The term "delegated co-operation" does not extend to a managing agent relationship whereby a bilateral donor or agency administers an operation financed by another bilateral donor but does not directly co-finance that operation.
2. Ownership over a process involves a high degree of leadership, control, motivation and initiative in managing the process.

TECHNICAL GUIDANCE NOTE

Note 6.1
Indicators of Good Practice in Delegated Co-operation

Good practices	Success criteria	Source of information
1. General		
Donors agree on the shared objectives of the delegated co-operation.	Delegated co-operation written agreements where scope warrants.	Donors in country.
Donors consult a partner country on a delegation arrangement.	Partner government aware of arrangement.	Periodic surveys of partner governments.
The areas of common agreement required between donors reflect the scope of the arrangement.	Delegated co-operation written agreement covers areas where explicit agreements required.	Donors in country.
The extent to which a delegating donor assesses a lead donor's policies and procedures is dependant on the scope and frequency of the delegated co-operation arrangements with that lead donor.	Periodic surveys of assessments.	Donor HQs.
A delegating donor takes account of any relevant assessment of a lead donor by another delegating donor before making its own assessment.	Evidence of use of existing assessments.	Donor HQs.
Lead and delegating donors are as flexible as their respective external constraints permit in accepting the procedures of the partner country.	Evidence of acceptance of partner country's procedures.	Donors in country.
Where it is not possible to accept the procedures of the partner country, lead and delegating donors assess the opportunity to adopt common procedures.	Frequency of adoption of common procedures.	Donors in country.
Donors involved in a delegated co-operation arrangement have a clear, shared understanding of their respective roles and responsibilities, which is set out explicitly in writing except for simple arrangements that do not entail the channelling of funds.	Clarity and comprehensiveness of delegated co-operation arrangement agreement.	Donors in country.
Donors make available details of a delegated co-operation arrangement with the partner government and other interested parties including other donors.	Awareness of arrangements by partner government and other interested parties.	Periodic surveys of partner governments and other donors involved in project/programme.

Good practices	Success criteria	Source of information
Donors adhere to their agreed roles and procedures.	Partner country beneficiaries are not subject to any confusion about the roles of the lead and delegating donors.	Periodic surveys of partner governments.
2. Specific to particular stages of the programme/project cycle		
Where the scope of a delegated co-operation arrangement is extensive: ● The donors involved agree on the legal status of any written agreement. ● The donors involved agree the number and nature of any agreements with the partner government.	Delegated co-operation written agreement and any agreements between them and the partner government.	Donors in country.
Where one donor channels funds an activity through another, explicit agreement is reached between the lead and delegating donors on disbursement, accounting and auditing arrangements, including: ● The value of the funds to be channelled and whether there is any burden sharing formula. Any burden sharing arrangements specify whether they need to be met continuously through the life of the project/programme or only over the period as whole and clarify the currencies and financial years used. ● The triggers for disbursement and the expected frequency of tranching. ● The way in which funds are transferred. ● The treatment of any interest accrued on balances. ● Procedures for returning any unspent balances. ● Any procurement procedures. ● Any administrative fees to be charged by the lead donor. ● The nature and frequency of financial reports and the accounting and auditing requirements.	Extent to which these issues explicitly addressed in the delegated co-operation written agreement.	Donors in country.
Lead and delegating donors agree on indicators for measuring performance of the activity at the output, purpose and goal levels.	Delegated co-operation written agreement.	Donors in country.

ISBN 92-64-19982-9
Harmonising Donor Practices for Effective Aid Delivery
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APPENDIX

Needs Assessment Survey

Abstract. *The Needs Assessment Survey was designed to establish the views of 11 partner countries, representing different geographical regions and levels of development, on two main questions: How can donors improve development assistance in ways that support country-owned and led development strategies? And which donor practices, in the current state of affairs, are most undermining the effectiveness of these strategies? In order to establish these views, the consultants charged with carrying out the survey conducted more than 400 interviews with key officials, experts and donor staff.*

The survey was structured in two parts. The first examines partner country views of donor practices that place the highest burdens on partner countries. The second identifies priority areas identified for improving donor practices.

Introduction

This document

This report was contracted by the OECD on behalf of the DAC Task Force on Donor Practices. It was commissioned to a consortium of consultants led by the University of Birmingham.

The views and analysis presented in this report are the responsibility of the University of Birmingham. They do not reflect positions of DAC members, nor do they represent the official position of the governments of the countries examined in the study.

Terms of reference

The objective of the study[1] was to consult partner countries on their perceptions and priorities regarding donor practices. This study sought to identify and analyse the following:

- Practices that place the highest burden on partner governments in terms of ownership, aid transaction costs and aid effectiveness.
- Opportunities to cost-effectively improve aid delivery.

Study methodology

The following methodology of the study was stipulated within the TOR.

- A visit programme to eleven developing partner countries representing different geographic regions and levels of development. These countries, represented within the DAC Task Force on Donor Practices, were Bangladesh, Bolivia, Cambodia, Egypt, Mozambique, Romania, Senegal, [Fiji, Samoa and Vanuatu], Tanzania, Uganda and Vietnam.
- In the course of these visits the consultants interviewed more than 400 officials – predominantly government officials from central ministries and line ministries. NGOs and donor field staff were also interviewed.
- The interviews were carried out using a semi-structured interview method. Consultants also completed a score-sheet in order to establish a ranking of priorities and burdens.

Following the visit programme eleven country reports were elaborated presenting an analysis of the situation in each country studied. The present report is a synthesis of these country studies.

Structure of report

This report is structured into four sections:

- **Section 1: Burdens by category** – Describes and analyses the burdens as reported.
- **Section 2: Burdens by geographical region** – Examines the burdens disaggregated by continent and level of aid dependency.
- **Section 3: Interpretation of burden** – Provides a conceptual framework for analysing burdens.

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- **Section 4: Description of the improvements** – Describes and analyses the improvements suggested to address the burdens put forward in section 1.

Burdens by category

Main findings

The survey was designed to establish partner country views on two main questions: How can donors improve development assistance in ways that support country-owned and led development strategies? And which donor practices, in the current state of affairs, most undermine the effectiveness of these strategies?

In order to establish which donor practices were perceived as the most burdensome, each respondent was asked to name the three most important burdens with regard to effective aid delivery. Responses were then categorised and ranked under seven headings (see Box A1).

Box A1. **Burdens as ranked by respondent**

Rank	Type of burden	Frequency of mention
1	Donor driven priorities and systems (28%)	
2	Difficulties with donor procedures (20%)	
3	Uncoordinated donor practices (14%)	
4	Excessive demands on time (12%)	
5	Delays in disbursements (12%)	
6	Lack of information (8%)	
7	Demands beyond national capacity (4%)	

Note: Each unit under *frequency of mention* represents 2% of the weighted average responses. Percentages do not total 100%.

These findings need, however, to be qualified. It should be noted that a negative question summons a negative answer. This is why the results of the survey contradict to a certain extent the overall impressions of the research team. In effect, many respondents described the relation with donors as generally good. One particularly positive comment made by a respondent in Mozambique captures this sentiment: "Fundamentally, I do not see donors as imposing burdens but as partners in a joint enterprise of increasing government responsibility." Furthermore, the impression gained was that the situation was improving – in no cases were the burdens sufficiently large to outweigh the general benefits of aid. The following paragraphs discuss in detail the main burdens presented in the box above.

Donor-driven priorities and systems

This was one of the most frequently mentioned burdens across all the countries. It covers *inter alia* poor fit of donors' activities with national priorities and systems – including the fiscal cycle – and poor understanding by donors of the local context in which they work.

Vietnam provides an example of divergence between government and donor policy – including donors being unwilling to follow government policy in a sector. A further problem reported by respondents in several countries, particularly Vietnam, was that donors and partners disagreed over the appropriateness of different systems. The issue was not one of donors not fitting with national systems, but rather it related to the tension resulting from donors and partners wanting to do things in different ways. An example

from Vietnam and Bangladesh relates to attitudes towards the resettlement of people and disagreement over the mechanisms for compensation for those affected by resettlement.

In Bolivia, a particular problem with donor driven priorities and systems relates to parallel management systems – with consequences for capacity building – as Box A2 illustrates.

Box A2. **Parallel management systems**

Bolivia – According to Government of Bolivia officials, the surprisingly large number of aid projects that still use parallel management systems impose a major burden on the government. Under the co-financing arrangements used by multilateral donors, this usually involves a separate "project office" operating out of the respective ministry. As a result, the reporting and monitoring system also becomes "projectised". These parallel management systems undermine national institutions and contradict the objective of capacity building.

The problem of donor-driven priorities and systems is often heightened when partner countries have designed frameworks for co-ordinating donor assistance such as Poverty Reduction Strategies (PRS). These frameworks all attempt to establish the "rules of engagement" between donors and partner countries. In most cases, donors have agreed on, or indeed encouraged, such frameworks. The experience of Uganda (see Box A3) and Bolivia

Box A3. **Fitting into Uganda's framework: the devil is in the detail**

Uganda – This problem was put into much sharper focus in Uganda than in other countries as the intended relationships between the Government of Uganda and donors have been clearly stated in the Poverty Eradication Action Plan (PEAP): *Building partnerships to implement the PEAP* (Vol. 3).

This is an ambitious, perhaps unique, attempt to develop detailed principles of partnership for the relationship between donors and a recipient nation. A few points are worth noting. First, the World Bank has accepted the PEAP as equivalent to a PRSP. Secondly, there is a clear commitment to budget support, as the main aid disbursement mechanism; it also calls for the phasing out of projects. Thirdly, there is a specific commitment to donor harmonisation. This means: joint analytical work, appraisal and reviews; joint output and outcome indicators; uniform disbursement rules and accountability rules.

In many of the interviews the respondents noted that the donors had accepted the PEAP but in practice were still setting up new systems or going through different channels. The contrast between the reality and the rhetoric was noted with some officials complaining of double standards being practised by donors.

It was not clear to what extent donors had collectively or individually agreed to all the terms outlined in the PEAP. It is likely that the donors had generally agreed to support the PEAP, which is different to agreeing to all the details of the above principles. In such situations the practice of implementation is more important than official statements of support or agreement. It is also unrealistic to imagine that all the donors can be expected to support and accept all the guidelines and policy implications of a document of 103 pages.

Nevertheless, from the Ugandan perspective there was a strong feeling that donors were setting up separate systems or were not fitting into the prevailing system. Not only was this time-consuming, it was also felt to be wrong and contrary to mutually agreed positions.

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suggests, however, that implementation of the arrangements stipulated by these frameworks is often difficult. It is somewhat of a paradox that the growing number of these frameworks may aggravate this problem when, in fact, it sought to curtail it.

In some contexts – notably in Japanese Aid and the South Pacific – respondents noted that the problem of dealing with incompatible donor and government systems was less of a challenge to the government as consultants shouldered it. This observation also applied in relation to some other administrative burdens.

Difficulties with donor procedures

The second most frequently mentioned problem was the difficulties recipients came across with specific donor procedures. This category includes restrictions over procurement (50% of responses), inappropriate technical assistance (40%) and the problem of donors frequently changing their systems, policies and staff (10%).

On the issue of frequent turnover of donor staff, an anecdote from Uganda is enlightening; a tired-looking official remarked how exhausting it was having to explain yet again to new individuals how the system worked.

The perceived lack of flexibility over procurement – and by implication the untying of aid and technical assistance – is a well-known and important problem with aid disbursement. Box A4 below illustrates how donors' procedures in Vietnam – in particular relating to technical assistance and procurement – can reduce the value of aid and the sense of ownership experienced by partner governments.

Box A4. **Donors' procedures reduce aid value**

Vietnam – All government respondents in Vietnam highlighted technical assistance as problematic. This was mainly due to foreign consultants' lack of knowledge of local context. Tension was also generated by donors' inadequate consultation of government views when deciding on the type, role and selections of technical assistance.

Procurement was also identified as a problem area. There were three reasons for this:

- Procurement is complicated, time-consuming and the procedures differ from one donor to another.
- Many restrictions prevent local companies from participating in competitive bidding. Some donors, for example, would not let state-owned enterprises bid if they were connected to the ministry organising the call for tender; at the same time, only contractors that were not based in the province where the project was implemented were allowed to put in a bid. This was felt to exclude those firms with the most appropriate local experience.
- In the case of tied-aid, there are further restrictions: imported equipment was not deemed of adequate quality or compatible with existing equipment. It was also more expensive. Tied aid was cited as a factor that most diminishes the value of aid.

In addition respondents emphasised that donors' lengthy and cumbersome procedures at project preparation stage caused delays. Consequently projects were often out of date by the time they began – project objectives were no longer relevant or appropriate, technology specified in the project design was obsolete.

It was suggested that tied aid implied a lack of confidence in local systems. The following comment from Romania is illustrative of the frustration expressed by a number of respondents: "It is difficult to work with consultants. The bad practice seems to consist in the use of a list of companies which are the only ones that can bid for a contract. It may also be a problem in the selection procedures!" A government official in Egypt perceived in donors a lack of confidence in local decision-making, illustrating her point with a story on the procurement of textbooks, noted in Box A5.

Box A5. **Procurement procedures: who decides on textbooks?**

Egypt – Some donor procedures can constitute a barrier to ownership and participation since they reflect a lack of trust and respect for the decision-making abilities of partners. A respondent noted: "Donors will not say that they don't trust you but you feel it. They will not let you make a decision unless they agree to it." She then explained how a donor had objected to two books selected by the Ministry of Education for school libraries in Upper-Egypt – the poorest region of Egypt and one with a reputation for producing radical Islamic activists. The basis for the donor's objection was that the books promoted violence and hatred. They were *Anna Karenina* and *The Brothers Grimm* – both are already widely known in Egypt and are classics of European literature. She ends the story thus: "Do they think that we would choose inappropriate books? They do not trust us. They are over-concerned about the content of the books. It has come to the point where we can't even choose the books for our own children to read!"

Uncoordinated donor practices

Essentially uncoordinated donor practices illustrate a problem within donor systems and relates closely to domestic accountability issues and individual donor policies. Some donors, for example, argued that their ability to take part in basket funding arrangements was constrained by their responsibilities to account for public expenditure to their domestic governments, parliament, audit agencies and public opinion.

Understanding the multiple procedures and fulfilling the different requirements of each donor drains the resources of partner governments. Box A6 below illustrates such a situation in Bolivia.

Box A6. **Competing reporting systems**

Bolivia – There has been enormous donor interest in monitoring the impact of Bolivia's anti-poverty strategy. Since 1999, five donors have funded an annual survey, known as MECOVI, in order to measure changes in household poverty levels. This survey is carried-out by the National Statistical Institute (INE).

Each donor, however, demands a separate financial and technical reporting system. The head of unit responsible for MECOVI heads a twenty-person team. She estimates that half of her time is spent complying with different donor reporting and monitoring demands. The nature of the MECOVI task is highly integrated, it includes planning, training, operational activities, data processing and dissemination of information.

Yet donors are inflexible and impose many requirements regarding the use of their funds – like earmarking funds for foreign consultants. Donors have also refused to finance the fieldwork that lies at the heart of the sampling exercise of the household survey.

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There are often generic similarities between donors' procedural requirements for managing aid. Most donors, for example, use some form of logical framework. While there are some specific differences between frameworks, the underlying logic remains the same. The study was unable to establish whether the knowledge of one donor system, helped understand other donor systems. If this were the case, it would mitigate the problem of multiple donor systems.

Compliance with different reporting formats resulted in the governments of Vietnam and Bangladesh spending more time producing reports. Respondents in these countries, however, did not feel that this was an important issue because it did not cause the kinds of delays or problems as those experienced at project preparation or implementation stages. Further, it seemed to be accepted as a fact of life by interviewees. A government respondent from Bangladesh noted: "We simply have to live with this… Besides the government cannot ask for anything different – donor is high, government is low."

Excessive demands on time

This may be one of the most unspecific of the burdens mentioned and was often an outcome of several other burdens. The extent to which donor practices impose excessive demands depends to some extent on whether the demands are seen as "necessary" or "unnecessary" – a difficult judgement. The specific ways that donors work are evidently part of the problem, in particular the "mission approach". A mission usually involves a team of individuals or consultants – typically both partner and international – who review a particular subject in an extremely short time period and timed at the donor's convenience.

This mission approach, with its short timetable, often leads the consultants to demand almost instant reactions from partner officials. This amounts to a kind of "institutional impatience". As a government respondent in Bangladesh put it: "Donors tell you when they are coming and you have to clear your diary, regardless of your schedule."

Some respondents expressed irritation at donors for having to explain the same point endlessly. The mission approach seems to inevitably involve "reinventing the wheel" and going around the same circuit repeatedly. This problem is compounded, according to respondents, by the frequency and timing of missions. Box A7 illustrates this problem. Similarly, respondents in the South Pacific underlined the challenge of having to deal with inappropriate information requests made by foreign missions who may for example lack awareness of local situations.

At best, a single multi-donor mission can reduce the transaction costs of multiple and uncoordinated donor programme visits. At worst, they can compound burdens – especially when donors insist on pursuing their own agenda. One way of avoiding these problems is when one donor relies on another donor's analytic work.

Disbursement delays

Delays in disbursements of development assistance are typically caused by three factors.

- **Bureaucratic procedures** – In some countries, concentration of authority at headquarter level was quoted as being a significant factor entailing bureaucratic delays. In effect, additional problems were often created when country offices were required to clear decisions with headquarters. Box A8 illustrates this kind of situation in Tanzania.
- **Complications related to pooled funding arrangements** – The need to involve all donors in designing and agreeing arrangements can result in substantial delays, particularly from setting up the instruments.

Box A7. **Uncoordinated aid missions**

Uganda – An official in the Ministry of Finance noted that at one point recently they had five missions visiting at the same time. Thus they were "hosting" missions associated with the PRSP, PRSC, CDF, Capacity Building and Education. With the possible exception of the last two, the missions were all asking the same questions to the same individuals on behalf of the same agency. Each mission insisted on individual appointments – it was unclear if this was with ulterior motives or simple secretarial ease of organisation. It was also noted that the process completely overloaded the agency's country office.

The respondent also noted that these missions by talking to different people about the same thing attempted to "play one official off against another". It was observed that this was not treating the Government of Uganda with the respect due to a sovereign state but was an attempt to get it to buy-in to a particular approach on a piecemeal way.

In conclusion it is worth noting the problems created by the timing of missions; the practice of using short term missions as a way of collecting information; and the difficulties of co-ordination even within a single donor.

Box A8. **Delays in disbursement of aid and unpredictable aid flows**

Tanzania – Complaints were raised that donors were slow at delivering what they promised. Both the preparation and implementation stages were consequently seriously affected. Donors are quick to make funding pledges, but as soon as one gets to the details of the intervention and the conditions for delivering funds, serious delays built up. At the preparation stage, examples delays of as much as five and ten years were mentioned in the water and road sectors, exacerbated by the fact that feasibility and design studies became obsolete and had to be redone. At implementation, the main complaint was excessive time taken to issue "no-objection" in connection with procurement processes. One procurement operation usually involves 4-6 approvals by the donor, and any one could take a year.

- **Political and economic matters delaying disbursement** – These kind of problems were particularly significant in the budget support programmes and sector-wide approaches (SWAps) in Tanzania and Mozambique. The process of withholding large scale funding creates serious problems for partner countries.
  - In Tanzania, it was noted there was no agreed approach between donors on how to deal with slippages, politically motivated delays or cancellation of funding. The government is well aware of the volatility of budget support and is concerned about the substantial variations in the bilateral funding arrangements, particularly over disbursement conditionalities.
  - In Bolivia, disbursement delays related mainly to conditionalities. However, problems were also experienced when disbursement was cut prior to national elections. Both of these problems are discussed in Box A9.

Lack of information

This burden reflects the concern that donors are not always transparent with partner countries, especially in the areas of financial information and analytical work. In Mozambique, for example, government respondents observed that donors did not report

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Box A9. **Political and economic matters delaying disbursement**

Bolivia – Conditionalities of multilateral agencies impose a major burden on the Government of Bolivia as they often cause delayed disbursements. This leads to a failure to meet implementation targets, and also incurs interest charges. Conditionality takes two forms:

First, there are technical conditions specific to the project itself that must be fulfilled prior to disbursement. The government now takes the view that it is preferable to negotiate such conditions prior to signing the contract thereby averting subsequent problems.

The second form relates to conditionalities embedded in structural adjustments where loans are disbursed in tranches on completion of specific conditions. It is often the case that compliance with some conditions is beyond government's control – where, for example, approval of new legislation is required. In December 2001, one multilateral suspended its financial support to the poverty reduction programme because a new income tax law was not approved.

Delayed disbursement leads to a vicious circle. Government revenues are less than originally estimated. This leads to a worsening of the fiscal deficit. As the fiscal deficit itself is a condition for structural adjustment, the government fails to meet the original macro targets, and as a result donors delay further payments. This is one of the major complaints of the government.

Another donor practice is to slow down disbursement during the pre-election period. During the first half of 2002 the overall disbursement rate fell by 80% of the expected level. Donors provided two reasons for this:

- Fear that funds might be diverted for political campaigning.
- Concentrating aid flows at the start of a new administration is seen as a way of signalling the importance of aid to the new administration and applying political leverage on fundamental policy issues.

aid disbursement to the Treasury, making budgeting and financial management difficult. The case from Senegal, described in Box A10 is illustrative of this problem.

Greater use of Internet provides in a number of cases a simple and cost-effective way of sharing information between donors and aid recipients. An official in Uganda remarked that obtaining donors' manuals for reporting is now easier as they can be downloaded from the web. The respondent noted that "before Internet, hardcopy manuals were prized possessions which colleagues had a tendency to borrow!" Ministries in Bangladesh and Tanzania are successfully using Internet to share information including key government documentation.

Box A10. **Inadequate exchange of information**

Senegal – Three specific points were made. The first touched on the lack of information, with the example of two donors who removed Senegal from their list of priority countries without providing an explanation. The second referred to the lack of information-sharing on aid disbursements. The third point described the culture of relative secrecy of a number of donor agencies.

Demands beyond national capacity

This burden refers to donor demands that go beyond the capacity or resources of a partner country. The problem is particularly significant when donors encourage public sector reforms. Another dimension of this burden relates to information technology. In Bangladesh, computer systems allow donors to respond almost instantly to information requests. Respondents felt that this often created the expectation that the government could respond equally quickly; however, with limited technology and technical experts, this was not feasible. Many respondents in Romania also reported this burden where the administration was expected to deliver at the speed and level of performance of a Western European country.

Burdens by geographic region

In the previous section of this report on burdens, no distinctions were made by country. In this section, burdens are disaggregated by continent and levels of aid dependency.

Burdens by continent

Box A11 disaggregates burdens for two continents:

- **"Africa"** – 108 respondents from five countries: Egypt, Uganda, Senegal, Tanzania and Mozambique.
- **"Asia"** – 69 respondents from three countries: Bangladesh, Cambodia and Vietnam.

Box A11. **Burdens – Comparing "Africa" and "Asia"**

Initiative suggested	Continent	Rank	Frequency of mention
Donor driven priorities and systems	Africa	1	
	Asia	1	
Difficulties with donor procedures	Africa	3	
	Asia	2	
Uncoordinated donor practices	Africa	2	
	Asia	3	
Excessive demands on time	Africa	4	
	Asia	5	
Delays in disbursements	Africa	5	
	Asia	4	
Lack of information	Africa	6	
	Asia	6	
Demands beyond national capacity	Africa	7	
	Asia	7	

The box clearly shows that "Africa" and "Asia" rank burdens in the same order. This order is also very close to the overall aggregated ranking of burdens. This is not surprising due to the respective weight of both "continents" in the survey. Given the variations within these regions between Mozambique and Egypt, for example, it was suggested that analysis by grouping the countries together according to aid-dependency might be more insightful. This is done below.

Burdens by level of aid dependency

The following boxes look at burdens by level of aid-dependency defined as the volume of aid (Net ODA) as a percentage of Gross National Income (GNI). Countries were grouped according to two levels of aid dependency (see Box A12):

- **Low Aid Dependency (ratio < 3%)** – Includes countries whose ratio (ODA/GNI) is less than 3%. Three countries (46 respondents) in the survey fall into this category: Egypt, Romania and Bangladesh.
- **High Aid Dependency (ratio > 9%)** – 115 respondents from five countries: Mozambique, Tanzania, Uganda, Senegal and Cambodia. Unsurprisingly, the high aid dependency case looks similar to the overall case since five out of eleven countries fall into this category.

Box A12. **Burdens – Comparing low and high aid-dependent countries**

Initiative suggested	Ratio	Rank	Frequency of mention
Donor driven priorities and systems	Low	2	
	High	1	
Difficulties with donor procedures	Low	1	
	High	2	
Uncoordinated donor practices	Low	3	
	High	3	
Excessive demands on time	Low	4	
	High	4	
Delays in disbursements	Low	6	
	High	5	
Lack of information	Low	5	
	High	6	
Demands beyond national capacity	Low	7	
	High	7	

Only findings from high and low aid-dependent countries have been compared – middle-dependency is an intermediate category that proves to be inconclusive. The overriding conclusion finds that low and high aid-dependent countries similarly rank burdens: the top three burdens for both categories are the same, and closely mirror the list of total burdens across all countries.

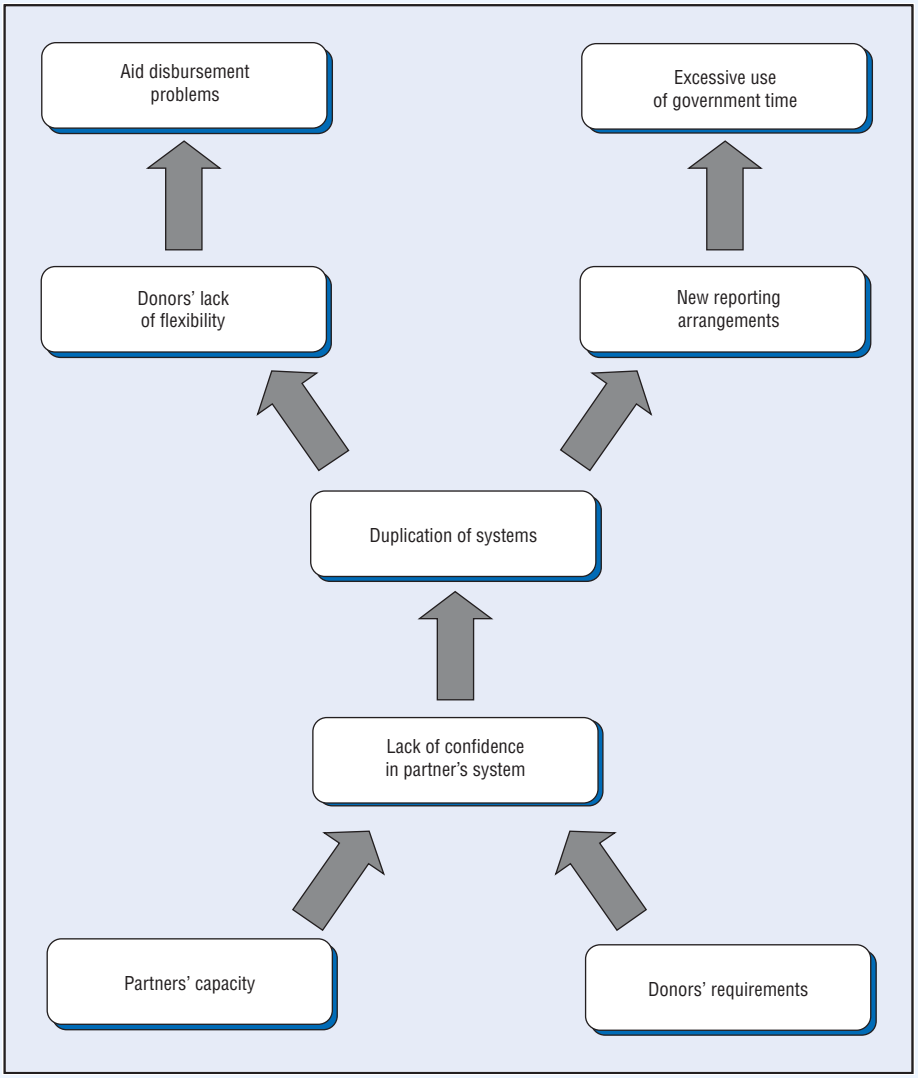
In summary, the disaggregation of the burdens by regions and aid dependency has been carried out. While there are some differences it should be noted that generally the findings are consistent with the overall picture. This observation supports the general robustness of the overall analysis of the burdens in the section above.

Interpretation of the burdens

The burdens are all related to each other

In the course of the survey it has become increasingly clear that many of the burdens are related to each other. The figure below is an attempt to connect – in a simplified form – the most frequently reported burdens.

Box A13. **Interconnectedness of donor-partner burdens**



Is there a core problem?

The figure above suggests that the core problem lies within the heart of the donor-partner relationship. It is not a by-product of multiple donor procedures and systems but results from the combination of three factors:

- **Partner countries' institutional capacity and policies** – In this case, institutional capacity refers to the skills, knowledge and competence of partner countries to manage and plan development assistance. It plays a critical role in partner countries' ability to respond to donor demands. Another issue deals with the partners' development policies and the scope for mismatch with donors' policy objectives. The main issue focuses on the way in which disagreements in the policy arena are mediated. Some of the apparently procedural problems disguise real policy

differences. Partner countries, especially the most aid-dependent, have a tendency to yield to donor preferences in order to gain funding rather than to openly discuss potential policy differences. It is politically easier to talk about procedural differences than policy differences.

- **Donors' requirements and policies** – Donors have their own procedures and policy directions, which are often adapted from their domestic procedures. For example, donors have a mechanism through which the expenditure of public funds is made accountable to their own taxpayers. This accountability is often the responsibility of an intermediary audit authority or reporting to a democratic assembly. The different traditions, mechanisms and arrangements determine the way donors operate in practice and constitute a key factor in the harmonisation process. This is particularly the case with multi-donor initiatives and budget support. A related issue – highlighted in the studies of Bolivia, Uganda, Tanzania and Mozambique – is the extent to which the local office of a donor has autonomy in following donor systems, procedures and policies. The evidence suggested that the greater the autonomy of the local office, the easier it was to be flexible and to make arrangements at the local level, according to local conditions.
- **Lack of fit between donor demands and partners' capacity** – At its simplest, donors lack confidence in the partner countries' systems which, in turn, weakens partner countries' ownership. This is made more problematic as the relationship is often donor driven and there is currently no common mechanism or incentive to resolve disputes. A digression may help to illustrate the issue. In many countries central governments transfer substantial funds to local governments. For example, in the UK local government receives approximately 80% of its funding from the centre. In all systems there is a mechanism through which the centre can intervene if the local tier goes seriously "off the rails". In a federal system the local tier is protected by a written constitution but there still remains a mechanism, ultimately via a Supreme Court, to adjudicate in such disputes. The donor-partner relationship has no such mechanisms.

Underlying problems and costs in the aid relationship

The nature of underlying problems and costs in the aid relationship are set out in Box A14. The types of costs in the aid-relationship and the objectives for managing aid costs beneficially are summarised in Box A15. Box A16 highlights the problem of the **low ownership trap**. Low capacity in the partner government leads to low trust by donors in working with the partner government. Donors set up their own parallel aid implementation systems which lead to low ownership problems in partner governments. Low ownership by partner governments reinforces low trust by donors in partner governments, and so the cycle is repeated.

The problems experienced by government and donors in the aid relationship change as the relationship develops. Box A17 sets out three scenarios summarising the changing problems encountered in the aid relationship as the aid dependent partner country moves out of the low ownership trap and takes increasing control of aid co-ordination.

- **Scenario 1** – Aid-dependence is high and aid is poorly integrated into partner governments. The chief problem experienced by government is low ownership as donors set up parallel structures (*e.g.* management units run by consultants) to manage their aid. Both donors and government have a low level of mutual trust. In such environments,

Box A14. **Underlying problems in aid relationships**

Low Trust – There is often a problem of low trust on both sides of the aid relationship:

- *Donors* often fear their aid will not be well managed by government, either because of inadequate policy or inadequate management. Donors reduce this risk by bypassing government, or by seeking additional assurances.
- *Partner governments* often distrust donors, owing to unpredictable aid flows (short term, variability, conditionality changes, suspensions, unreliable disbursement). Governments reduce this risk by accepting all offers however incompatible, by maintaining multiple channels of aid, by seeking assurances (*e.g.* longer term commitments by donors) or by reducing reliance on aid.

Low ownership by recipient governments – Donor practices that bypass government maintain or worsen the problem of low ownership.There are two reasons for this. First, it causes low participation by government; and second, parallel structures set up by donors compete scarce skills away from government. The result is less development of government capacity that, in turn, contributes to sustaining low trust.

Low incentives to good donor practice – Incentives in donor agencies (rules, rewards, staff selection, training and evaluation) have traditionally focused on maximising allocation of development assistance rather than raising capacity of government and collaborating with other donors.

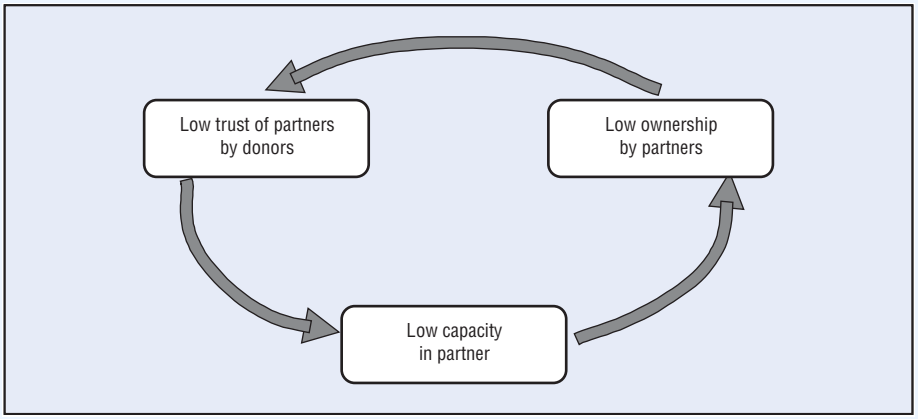
Box A15. **Types of costs in the aid relationship**

- **Administrative costs of aid** – This includes the costs of transferring aid from donors to recipients and the costs of planning aid and monitoring its progress and impact.
- **Costs of foregone development of partner institutions** – The efficiency losses (due to lowered morale and initiative and loss of scarce skills to donors' parallel structures) associated with low ownership by government, when donors bypass government. The foregone development of partner institutions raises future transaction costs and encourages donors to continue working through parallel structures. This is the low ownership trap, described in the figure below.
- **Objectives** – The objectives for aid costs are *i)* they should be low, and *ii)* they should result from carrying out administrative, planning and monitoring tasks in a way that helps the development of efficient systems for managing resources in partner countries. These objectives may sometimes conflict with each other, and sometimes have to be compromised (*e.g.* in emergency relief aid). But they remain the key objectives for beneficial management of aid costs.

basic work might remain to be done in establishing shared long-term objectives and strategies and clear organisational arrangements for communication and negotiation, to provide the foundation for government and donors to work together.

- **Scenario 2** – Donors and partner governments have escaped from the low ownership trap. Aid dependence remains high but ownership problems are decreasing as donors and government work more closely with each other. Aid is better integrated into government and recipients take on more of the burden of managing aid. As a result they

Box A16. **The low ownership trap**



Box A17. **Changing problems in the aid relationship**

Aid relationship	Main features	Main problems
Scenario 1 High aid dependence, but aid poorly integrated into government.	• Low government capacity. • Aid poorly integrated into public service.	• Low ownership by govt as donors bypass government. • Low trust between government and donors. • Risk of 'low ownership trap.
Scenario 2 High aid dependence, with aid better integrated into government.	• Government capacity low but rising. • Aid better integrated into public services (SWAps, Budget support).	• Government increasingly undertakes management of aid. • Assurance arrangements to reduce risk to both government and donors.
Scenario 3 Lower aid dependence, aid integration into government less of a problem.	• Government capacity higher. • Lower dependence of public services on aid. • Aid becomes decentralised once more, going to specific organisations and purposes.	• Aid integration less of a problem for govt since core public services are funded principally from own revenues.

face increased aid management and co-ordination costs (Batley 2002). They also face an increased risk of concerted aid suspension if sector programmes and budget support are increasing. Donors seeking to provide greater assurance to recipients who are relying on single channels of assistance (*e.g.* budget support) may also face increased costs in the form of reduced discretion (*e.g.* longer-term commitments, less unilateral change). Assurance arrangements become the focus of concerns in aid management for both donors and partner governments.

- **Scenario 3** – Better management in government has increased public revenues and aid dependence has fallen. With government services now less dependent on aid the task of integrating aid into government becomes easier. Countries in this scenario tend to have rising incomes. There is less need for a close working relationship between donors and partner governments.

Donor harmonisation: reducing or moving costs around?

In at least three of the African countries studied (Tanzania, Mozambique and Uganda) the reports noted a suspicion that some attempts at donor harmonisation, particularly those associated with moves to Budget Support and SWAps, have moved costs around rather than reduced them. The experience of Tanzania and Uganda suggests that the move to SWAps – which may reduce costs for the partner country – often seems to increase the costs for the donors. These costs are often unevenly distributed between donors. Thus, for example, the chairs of sector committees or donor co-ordination committees often spent a substantial amount of their time in making such arrangements work. This was particularly clear in the case of the Health SWAp in Uganda. However it is important to realise that evidence suggests the start up time and management are vital in ensuring these new arrangements are successful.

The second related issue focuses on the costs within the partner country government system. In Tanzania there seemed to be an increase in the costs to the central financial ministries (see Box A18). In other cases – particularly in countries adopting an explicit decentralisation strategy – there were processes that resulted in costs being minimised at the central level but increased at the next tier of government. The Poverty Action Fund in Uganda, which allocates HIPC funds through the Poverty Eradication Action Plan via line ministries to districts, would be a case in point. The process of donor harmonisation and funding through the budget to the centre has clearly reduced transaction costs at the centre. However when the funds are turned into "earmarked funds" that are then administered via complex guidelines by the line ministries to the districts, administrative costs on the districts are substantial. Furthermore this process is undermining local

Box A18. **Reducing costs or moving them around?**

Tanzania – Many donor representatives have expressed their concern about increasing transaction costs on their side in connection with the development and monitoring of SWAps and similar co-ordinated aid arrangements (while at the same time appreciating the higher levels of transparency, information sharing and therefore potential quality of their support). It is clear that those developments, if followed in any detail, require an intensive participation from the local donor community. Likewise the Ministry of Finance and other central ministries will find that the pressure on them will increase. These increased transaction costs should be compared to savings that may mainly occur elsewhere.

In an ideal SWAp/budget support arrangement, sector ministries will have no direct and separate dealings with individual or groups of donors. They will interact through joint processes (sector planning, public expenditure review, annual sector reviews) and obtain all funding through normal government systems. The shifting burden from donor interaction at sector institution level to Ministry of Finance should be accompanied by changes in staff complements and qualifications. Donors should benefit from reduced inputs and missions from headquarters and a much-reduced workload (locally as well as at headquarters) on tedious administration such as tendering, contract and payment processing. For those savings to be fully reaped, a restructuring of the local donor organisations will be needed. Devolution of powers to the local offices for deciding mission schedules and negotiation of joint arrangements and funding releases, combined with a staffing structure more focused on policy, planning and monitoring issues will be necessary ingredients.

decision-making at the district level – and the logic of decentralisation – since each local department in the district (health, education, etc.) is now orientated to the central line ministries rather than the district itself.

Suggestions for improvements to donor practices

This section examines the suggestions that were made by respondents to address the issue of burdensome donor practices. The methodology is broadly the same as the one used in the section on burdens. Respondents were asked to suggest changes to donor practices that they viewed as highest priority for reducing the burdens experienced. This was on the basis of an open response – no specific number of suggestions was stipulated. As a result, the number of responses from different interviews varied substantially. Responses were classified under 13 headings (see Box A19).

Box A19. **Consolidated ranking by initiative**

Rank	Initiative suggested	Frequency of mention
1	Simplify procedures and systems	
2	Harmonise procedures	
3	Align procedures on partner systems	
4	Share information	
5	Untie aid	
6	Respect national priorities and strategies	
7	Strengthen local capacity	
8	Use a co-ordination structure	
9	Rely on budget support	
10	Rely on SWAps	
11	Better use of technical assistance	
12	Understand local context	
13	Decentralise to local office	

Simplify donor systems and procedures

The most frequent suggestion made by respondents in most countries is that donors should simplify their systems and procedures. This suggestion related in particular to the number and complexity of demands made of partner governments – for example reports to be completed, procedures to be followed. In addition to reducing the number of annual missions and reports, donors should also consider limiting other missions and reports to mid- and end-of-term evaluations.

In Vietnam, a further suggestion was to increase continuity between project preparation and management units. There was general concern about improving the current problems of dealing with lengthy, cumbersome donor procedures. In Fiji, Samoa and Vanuatu, greater flexibility was the most common suggestion for reform. Typically this was flexibility over project identification and procedures especially when this involved preparing reports.

In Tanzania, a further suggestion was to simplify the review process – in particular the annual bilateral consultations. Many respondents on both government and donor side saw

these consultations as unnecessary rituals of the past. The large meetings and preparation of briefs placed serious demands on staff time. Furthermore the briefs often contained information the donor had already received through current sector programme management processes. This was also a suggestion in Uganda in relation to the SWAps in Education and Health where it was felt that the large donor biannual reviews could be replaced by an annual review.

Use common procedures

Another frequent suggestion was the need to resolve the difficulties associated with donors and partner governments using different procedures. Problems had been encountered particularly where the partner government had to cope with different procedures and demands from each donor, involving a high time and resource cost. Suggestions were made both for donors to use common procedures and for procedures of donors and the partner government to converge. Respondents in Romania suggested standardisation could be achieved through convergence around international practices, where applicable. In Vietnam, it was suggested donors should converge around, and develop, government procedures.

Converging around host nations' systems is an option often advanced by both government officials and donors – in part to enhance ownership, but also to avoid potential problems of donor rivalry with regard to convergence around one donor's system. Convergence may not be feasible in countries where government systems are insufficiently developed. When this was the case it was suggested establishing a new set of procedures – combining the strengths and avoiding the weaknesses of each donor's system. There were doubts, however over the feasibility of this option. Would all donors' needs be included? Would donors be willing to adopt a new system? And would headquarters give the necessary authorisation?

Respondents in Senegal suggested that when countries channelled aid through different agencies (*e.g.* France and Germany) they should seek to harmonise practices between agencies before acting to simplify and standardise procedures.

Harmonising donors' requirements and procedures was particularly important in the tasks of procurement, reporting and auditing in Tanzania. One respondent noted that convergence between members of the European Union (EU) was a "natural expectation", and could make a significant difference to reducing transactions costs – particularly given the large volume of aid Tanzania receives from the EU.

Most of the people who advocated greater harmonisation of donor procedures felt there was insufficient political will in the donor community to achieve this. One respondent in Senegal noted that past efforts to harmonise procedures had failed because one donor tried to impose its procedures on others.

Rely on partner countries' systems and procedures

Some respondents suggested that donor practices should converge around partner country systems, where those systems are sufficiently developed. It was suggested that this was a way of raising government ownership in the aid process.

In Senegal five specific proposals were made in relation to greater integration with national systems:

- Match donor financial/budget cycles with the national budgetary cycle.

- Integrate donor planning and evaluation missions into a national calendar.
- Make greater use of the PRSP as a donor co-ordination mechanism.
- Make greater use of national procedures through the more widespread adoption of budget support.
- Evolve towards greater use of national implementation bodies (*i.e.* phase out donor project or programme created parallel implementation structures).

It was also suggested that the government should inform itself better of existing donor procedures, as this would also reduce the burden imposed on government (in terms of fewer delays in processing donor requests).

In Vietnam, the burdens most frequently mentioned related to discrepancies between government and donor systems – particularly in project preparation. It should be noted that in Vietnam the priority improvement suggested was for harmonisation *between* donor and government systems and not for donors to necessarily harmonise around the government's current systems. For example, international procedures, where applicable, could be used to enhance government procedures for donors then to converge around.

Communicate more effectively

Greater communication was quite frequently mentioned in several countries as a priority change to donors' practices, and was especially important in Bolivia, Cambodia and Mozambique. Many respondents highlighted a problem of lack of information from donors regarding decisions of aid allocation and financial matters. Respondents highlighted the need for greater information sharing especially with regard to donor-government agreements, current and planned activities, procedures, reports and evaluation results. It was noted in Vietnam that greater transparency is a two-way process and could be increased by both donors and government.

Disseminating lessons could improve the effectiveness of future aid activities. Sharing information about activities could also benefit co-ordination efforts and reduce duplication. In Tanzania, greater transparency (to the government) was suggested in the areas of in-kind procurement and disbursement in particular. Bolivian respondents did note however a particular reluctance among donors to share financial information with each other.

In Egypt, there was concern with increasing the frequency of communication between donors and government implementation agencies – at all stages of the planning process. Government officials would also like more information on donors' rationale for their aid allocations – which links to the suggestions of ensuring donors' actions fit with national priorities.

Untie aid

In Vietnam, it was believed that tied aid resulted in either personnel or equipment that was at a higher cost and often of an inferior quality than if it had gone out to competitive tender. It was therefore recommended that the aid recipient be given the responsibility to decide the origin of project inputs. In Egypt four respondents perceived an underlying problem of poor trust by donors of partners' decision-making.

Respect national priorities

In Bangladesh, several respondents in sector ministries highlighted a desire for donor conditions to complement, government policies and for government to retain policy "sovereignty" and a degree of ownership over aid activities.

As a pre-requisite for maintaining government ownership of aid activities and imposing greater discipline on donors, respondents in Vietnam preferred that the government first specify its own policy frameworks and investment priorities, with donors then taking appropriate convergence actions.

Mozambican officials were keen to ensure donors respect the PRSP process as a framework of priorities, into which donors should ensure their actions fit.

Respondents in a number of countries also mentioned the need for donors to advise them of any funds directed through non-government channels. This was not related to a desire to direct the operations of NGOs but rather to have a better overview of who was doing what, where, and avoid duplicated projects.

Box A20 below describes the donor-partner relationship principles specifically designed for Uganda's PRSP (known as the PEAP). It is important to understand that these are not universal principles and are very specific to the Ugandan context and history. The relationships between donors and the Government of Uganda are the result of a detailed discussion ongoing for almost fifteen years.

Strengthen local capacity

Many respondents believed that strengthening local capacity was vital to enabling the partner government to exert more ownership and develop its aid management systems. Specific suggestions made by Senegal included the following:

- Establish more capacity building funds.
- Improve, with the help of donors, the capacity of sector ministries and local government – perhaps through greater use of long term external consultants working within the government.
- Concentrate on skills required by sector ministries to manage SWAps and in contract formulation and management skills of government – particularly if use is made of contracting out of development work to the NGO and private sectors.
- Design an exit strategy for donors from the beginning.

With regard to missions and evaluations, some respondents in Senegal suggested that donors should do more to support the development of national monitoring and evaluation capacity so that all donors could eventually use nationally produced information and reports. However, others felt that donors should continue to carry out independent annual audits, especially for large programmes.

Concerns expressed by Mozambique related to the strengthening of local capacity necessary for the government to expand its leadership role in aid management, and especially financial management. Respondents in Vietnam suggested capacity building should be an underlying principle of all donor actions, specifically those aimed at increasing government ownership. More specifically, donors should always seek to build government capacity rather than substitute for it.

Box A20. **Partnership principles – Uganda's PRSP**

Shared commitment

Donor support will only be sought/provided for programmes that are in the Poverty Eradication Action Plan.

In addition government will:

1. Heighten focus on poverty eradication.
2. Reinforce tax revenue efforts.
3. Assume full leadership in donor co-ordination process (at central, sector and district level).
4. Decline any offers of stand-alone donor projects.
5. Strengthen monitoring and accountability (including value for money evaluations).
6. Continue to improve transparency and combat corruption.
7. Continue to strengthen district capacity.
8. Develop comprehensive, costed and prioritised sector wide programmes eventually covering the whole budget.
9. Further develop participation and co-ordination of all stakeholders (including Parliamentarians).
10. Strengthen capacity to co-ordinate across government (so it speaks with one voice).

In addition donors will:

1. Jointly undertake all analytical work, appraisal and reviews.
2. Jointly set output/outcome indicators.
3. Develop uniform disbursement rules.
4. Develop uniform and stronger accountability rules.
5. Ensure all support is fully integrated into sector wide programmes and is fully consistent with each sector programme's priorities.
6. Continue to increase level of untied budget support.
7. Increase level of delegation to country offices.
8. Abolish topping up of individual project staff salaries.
9. End individual, parallel country programmes and stand-alone projects.
10. Progressively reduce the tying of procurement.

Use co-ordination structures

Several respondents encouraged the use of co-ordination structures (*e.g.* consultative groups, round tables). While some respondents referred to the need to co-ordinate priorities and activities between donors, others suggested the co-ordination between donors and partner governments. Suggestions also varied as to whether co-ordination processes should be at the national or sector level.

Respondents in Senegal suggested that principal donors in various sectors should take a lead role in co-ordinating with all the donors active in a certain sector, so that, ideally, they could serve as a single contact point or intermediary for the government. However,

several donors noted that this should not preclude collective donor meetings – including those with government – as these were deemed to be most useful. A related suggestion was to increase the current work of sector-focused donor groups.

A number of people proposed that, in the longer term, governments should adopt a more proactive approach on policy as well as programme design, implementation and evaluation. Governments should also seek to engage more collectively with donors, on a sector basis, through the planning or finance ministries and sector ministries concerned.

Suggestions were also made that donors and government should go through the sector planning and co-ordinating units more systematically, rather than having direct relationships with the other (implementing) organisations concerned, which makes the work of these units more difficult and less effective.

The health sector in Bolivia uses a donor co-ordination committee for joint formulation and evaluation of activities. Three technical sub-committees have been established to focus on each of the pillars in the sector strategy. Respondents believed this initiative could be expanded to other sectors. Problems have been encountered though the committee has been affected by inter-donor rivalry between donors responsible for co-ordinating actions in areas that overlap resulting in a delay in fund disbursement.

In Romania, two respondents proposed a similar donor co-ordination unit. Donor respondents were keen for such co-ordination to be undertaken by the government, to improve their control of donor activities. However they highlighted numerous obstacles for example, deciding the exact location within government for a co-ordination unit would have difficult political implications. They also suggested sector ministries, rather than central government better achieve co-ordination. Finally they noted that donor co-ordination in general is difficult without first resolving the problem of donors' different procedures, agendas and ideologies.

Budget support and SWAps

Given their experience of budget support and SWAps, the four African countries of Uganda, Mozambique, Tanzania and Senegal, strongly suggested that future donor practice widen the use of these aid modalities. This was more a reflection on their own country experience than an overall policy suggestion.

Government respondents in the above countries believed many existing burdens could be overcome by using sector and budget support. They perceived improvements in national ownership of the development process when actions were focused around government policies and systems and greater national autonomy in resource allocation. In Tanzania respondents underlined the reduction in burdens resulting from bringing all aid on budget and the use of one set of management, procurement, and accounting standards.

Reduced transaction costs for government officials, particularly regarding disbursement, were thought possible with these aid delivery mechanisms. However, with these possible advantages come the additional costs of conversion, more complex management requirements and new demands by donors on government for deeper reform and better reporting. Thus, respondents in Mozambique suggested that benefits to the partner of budget support were more likely to be stronger government systems rather than lower costs of aid.

Budget support and sector agreements, including formal SWAps, had facilitated the improvement of donors' co-ordination with each other and with the government.

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Respondents in the above countries perceived burdens could be significantly reduced through SWAps,[2] given the necessary co-ordination inherent in them – subject to: *i)* donors successfully harmonising their requirements and procedures; and *ii)* all donors operating within a sector fully respecting the sector programme and not continuing *ad hoc* operations in parallel.

One area of concern regarded the higher volatility of budget aid. This is a particular risk in situations where budget support decisions are finalised by the donor when the government is already into the year of budgeted support. There were examples of these problems in Mozambique and Tanzania.

Understand local context

In discussing burdens of current donor practices, several respondents mentioned problems encountered when donor staff lacked awareness of local conditions, particularly capacity constraints. This could result in inappropriate activities or demands. Bangladeshi respondents proposed that donors needed to be more appreciative of the difficult operating circumstances in Bangladesh, especially regarding institutional inertia. In particular, donors should understand that the institutional changes necessary to raise efficiency cannot happen overnight.

Make better use of technical assistance

Respondents raised concerns that current donor practices resulted in inappropriate technical assistance, particularly over lack of partner country involvement in decision making and delivery mechanisms. Utilising more locally sourced goods and local expertise[3] in technical assistance was a particular priority in Egypt, Cambodia and Romania – to retain economic growth benefits of aid and because local experts often had skills on a par with external consultants, but also had greater knowledge of the local context. In Senegal one respondent advocated greater government control over whether foreign technical assistance was necessary and, if so, who should be contracted. While generally critical about the usefulness of external consultants, Romanian government respondents did note the growing appreciation of external consultants – when they worked within government structures for sustained periods. They believed such practices should be extended.

They suggested a priority was also to increase partners' involvement in procurement processes and increase partners' choice options. Similar sentiments were expressed in Bangladesh although respondents were not optimistic about donors changing their policies.

Decentralisation in favour of the local office

Donor and partner government officials raised the issue of giving more autonomy to the donor agencies' country offices. Procedural delays have been encountered when donor staff has to refer decisions back to headquarters. Decentralisation may also allow donor agencies to become more involved in country-specific initiatives such as SWAps. In Senegal several respondents recommended more decentralisation of in-country donor offices and felt that one of the benefits would be faster and more effective aid co-ordination.

Notes

1. Terms of Reference, list of respondents, interview guidelines and individual country reports are all available on demand. Please send an email to: *dac.contact@oecd.org*
2. Some donors noted that sector programmes – without the pooled funding arrangements of SWAps – were widely used in aid management and contributed to the reduction of burdens as discussed in this paragraph. This view was endorsed by respondents in many of surveyed countries.
3. Donors generally agree that utilising local expertise is important, but in some cases there may not be sufficient, adequately experienced personnel available locally, and in such circumstance, use of external expertise is appropriate.

OECD PUBLICATIONS, 2, rue André-Pascal, 75775 PARIS CEDEX 16
PRINTED IN FRANCE
(43 2003 02 1 P) ISBN 92-64-19982-9 – No. 52855 2003