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**A COMPARISON OF MANAGEMENT SYSTEMS FOR  
DEVELOPMENT CO-OPERATION IN OECD/DAC MEMBERS**

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*The opinions expressed in this document are those of the authors and do not necessarily reflect those of the OECD or its Member governments.*

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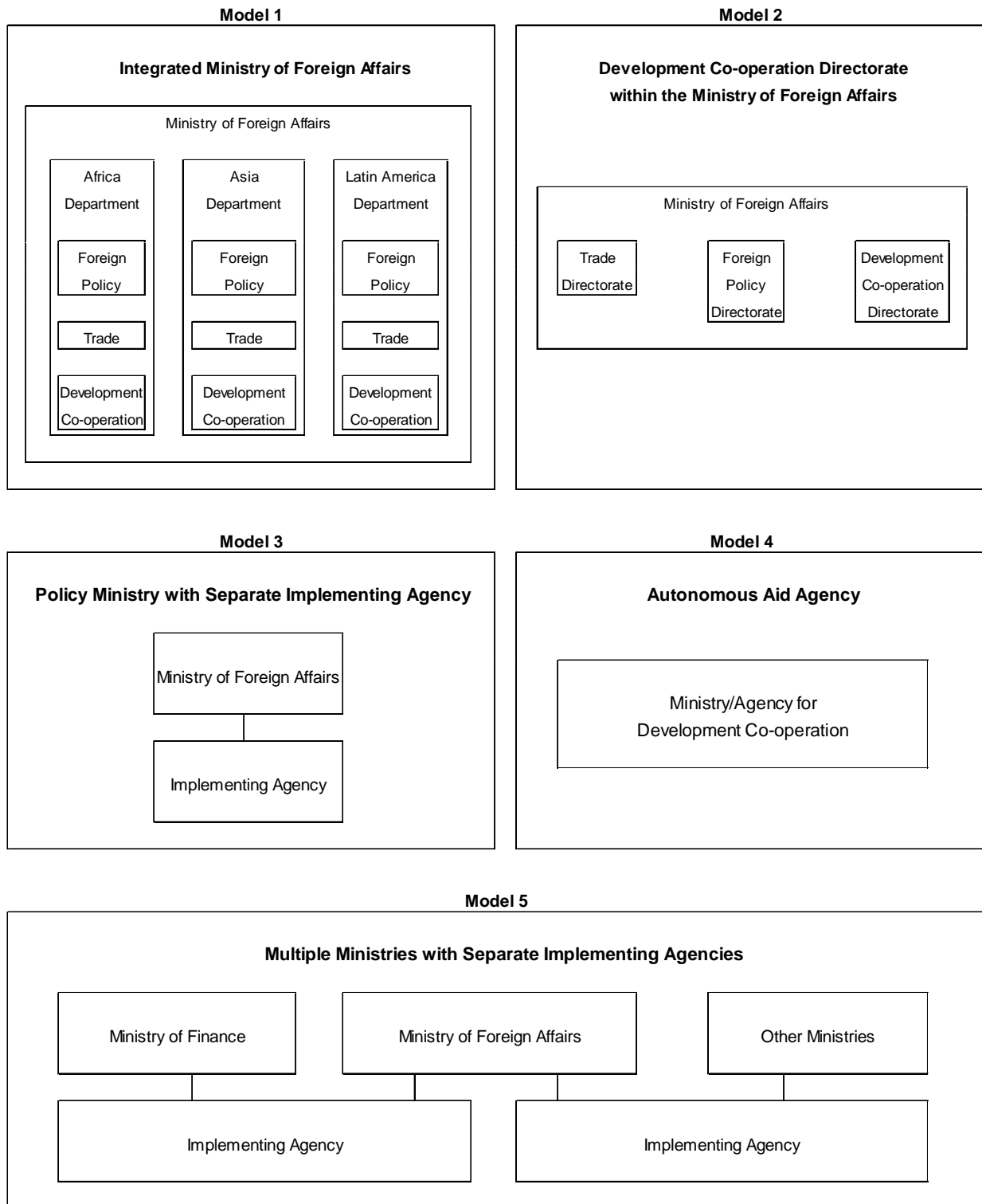
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Figure 1. Schematic representation of DAC Members' organisational structures for aid management



## CHAPTER 1

### INTRODUCTION

1. This paper provides a guide to the development co-operation management systems in Members of the OECD's Development Assistance Committee (DAC).<sup>1</sup> It describes the practices adopted by DAC Members and surveys some of the key issues aid managers need to deal with. Reference is made to relevant DAC policy statements that guide DAC Members in the conduct of their development co-operation programmes. Short examples are included of good practices or noteworthy features of particular DAC Members' aid programmes.

#### 1.1. The need for aid and the importance of aid management

##### *The need for aid*

2. Extreme poverty and human suffering still afflict considerable numbers of people in the world today. Some three billion people live on less than \$2 a day, more than one billion live on less than \$1 a day. One-and-a-half billion people do not have access to clean water while two billion people do not have access to sewerage. An estimated 130 million children are not attending school. People in developed countries have a strong moral imperative to respond to this situation.

3. People in developed countries also have a strong self-interest in fostering increased prosperity in developing and transition countries as everyone is made less secure by the poverty that exists in the world. Many of the problems linked to poverty respect no borders, including environmental degradation, migration, drugs and epidemic diseases. Aid is essentially an investment in helping people in developing countries tackle these various problems, above all by building sustainable local capacities to do so.

4. Aid is a key investment in the future, too. The world's population is expected to grow by 50 per cent over the next 50 years, from 6 billion to 9 billion people. All of this increase will take place in developing countries where there will be a massive expansion in the number of people of working age. Meanwhile, the number of people living in OECD countries will remain around 1 billion, but the working-age population is forecast to contract. For such a world to function well, it is crucial that developing countries be stable and integrated into the global economy.

5. The DAC's vision of development is one that fosters self-reliance in which countries and people are ultimately less in need of aid. In the meantime, aid serves as an important source of public sector funding for many poorer countries as they simply do not yet have access to sufficient amounts of other

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1. The 21 Member countries of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States. The European Community is also a Member of the DAC.

sources of financing to enable them to develop -- their domestic revenue base is still weak and private finance is limited or non-existent for some countries. In addition, private investments generally do not flow directly to some key sectors of priority need, such as health and education. Increased prosperity in developing countries will therefore depend upon the continued availability of aid, while these countries build-up the capacity to create and mobilise domestic resources and attract private capital flows.

6. Even when countries succeed in attracting large amounts of private investment, aid can still play an important role in improving the sustainability of progress achieved. The financial crisis in Asia in 1997 showed that development cannot be sustained if a country's financial and management systems are weak. Financial institutions need to be well-regulated, well-supervised and managed according to sound financial principles. Through development co-operation, donors can contribute to strengthening the capacity of countries to manage their financial systems well.<sup>2</sup>

#### *The importance of aid management*

7. To maximise effectiveness and impact, it is important that aid is well-managed and carefully targeted, with the collective actions of donors marshalled in support of partner countries' effective strategies for development.

8. The management of aid programmes is a special challenge given the issues at stake and the large sums of public money involved. Although public funds for development co-operation declined in recent years, with an upturn in 1998, overall more than \$50 billion of new aid is still disbursed each year in difficult contexts with complex relationships with partners in developing and some transition countries. And as in other parts of the public sector in OECD countries, aid management systems are being increasingly tested by pressures to demonstrate good use of public money and the desire to improve the effectiveness of aid. At the same time, aid is being directed, more than in the past, towards support for more stable, safe, participatory and just societies. These are difficult areas for donors to work in and it is hard to link results at a societal level to the collective efforts of the donor community, let alone particular actions undertaken by individual donors.

9. The multi-disciplinary character of development co-operation makes managing aid a considerable challenge. Box 1 presents a checklist of the variety of issues which aid managers need to take account of or be aware of in their work. These are the issues discussed in this report.

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2. For an overview of the issues related to aid and the global economy, see *The European Economist* in *The Wall Street Journal Europe* of 22 February 1999.



## Box 1. Checklist of Aid Management Issues

**I. Public opinion, information and political support**

- Public support:
  - ⇒ Development education
  - ⇒ Public awareness
  - ⇒ Monitoring public opinion
- Political support

**II. Organisational framework**

- Coherent, pro-development national policies
- Aid policy and legislation
- Ministerial responsibility
- Overall structure of aid management systems
- Management structures and issues:
  - ⇒ Geographic and functional approaches
  - ⇒ Capital and technical assistance
  - ⇒ Specialised units
  - ⇒ Representation in recipient countries
  - ⇒ Contracting-out and external implementation
  - ⇒ Human resources

**III. International context**

- Relations with recipient countries: partnership
- Relations between donors: aid co-ordination
- Planning and implementation of bilateral assistance

**IV. Funding**

- Levels of funding for aid
- Sources of funds:
  - ⇒ National budget allocations
  - ⇒ Amortization and interest payments
  - ⇒ Local and regional governments
  - ⇒ Borrowings and other sources

**V. Allocation of funds**

- Strategies for poverty reduction
- Cross-cutting and other important issues for poverty reduction:
  - ⇒ Gender equality
  - ⇒ Environmental sustainability

- ⇒ Participatory development and good governance
- ⇒ Conflict, peace and development
- ⇒ Private sector development
- ⇒ Developing trade capacity
- Geographic and sectoral priorities
- Aid channels and instruments:
  - ⇒ Bilateral assistance:
    - \* project and programme aid
    - \* technical co-operation
    - \* associated financing and tied aid
    - \* food aid and disaster relief
    - \* refugees
    - \* aid channelled through non-governmental organisations (NGOs)
    - \* debt relief
  - ⇒ Multilateral assistance
    - \* United Nations agencies and funds
    - \* development banks
    - \* European Union

**VI. Project implementation**

- Project cycle management
- Local-cost financing
- Recurrent costs
- Counterpart funds
- Procurement modalities

**VII. Relevance, effectiveness, efficiency and results**

- Managing for results
- Monitoring results: development indicators
- Statistical systems
- The evaluation function within aid agencies
- Evaluating aid projects and programmes: relevance, effectiveness and efficiency

**VIII. Monitoring and independent review of the aid programme**

- Parliament
- Ministerial advisory committees
- External auditors
- Other independent reviews

## **1.2. Public and political support for aid in DAC Member countries**

10. A constituency of support for development co-operation and aid-related issues exists in DAC Member countries. Through their choices and actions, the general public manifests its interest in development-related issues and their concerns about others and the future of the planet. These manifestations include:

- the continued growth in socially- and environmentally-responsible consumption and investment patterns;
- increased awareness and concern about issues linked to development co-operation, such as child labour, the employment conditions of workers in export-oriented industries in developing countries, anti-personal landmines, climate change, drug trafficking, and disasters with their aftermath of human tragedy and migrations ;
- participation in development-related NGOs and the undertaking of development-oriented actions as part of the activities of other NGOs and associations; and
- the provision of direct financial support to NGOs, which in turn results in private grants to developing and transition countries of approximately \$5 billion each year.

11. There is also a recognition in the business community that globalisation increases the importance of adopting and implementing internationally accepted codes of ethical conduct and codes of social and environmental standards. This is needed to respond both to the evolving expectations of consumers and investors, as well as to concerns raised by human rights and environmental groups who monitor corporate performance and publicise their findings increasingly more easily and widely.

12. At the same time and somewhat paradoxically, the public interest in these issues is by and large poorly transmitted to political leaders, hence there tends to be a low level of political attention given to development issues in many DAC Member countries.

## **1.3. Forms of financial flows to developing and transition countries**

13. Developing and transition countries receive many forms of financing from developed countries. Funding is provided by both the private and the official (public) sector. Official funds can be supplied bilaterally or channelled through international agencies active in development, such as United Nations (UN) specialised agencies or international financial institutions. (Appendix I gives more information on amounts of aid and other resource flows to developing and transition countries.)

### *Private funds*

14. Funds from private sources include foreign direct investment, bank lending, bonds, portfolio investments and grants from voluntary agencies or NGOs. The more dynamic economies in Asia, Europe and Latin America have been the main destinations of private funds in recent years and in 1997, 85 per cent of private capital flowed into just 12 countries. Private flows to countries in sub-Saharan Africa remain extremely small in quantitative terms, but may be important in relation to the size of their economies.

*Public funds*

15. Public financing for developing and transition countries, known as **official development finance**, includes **official development assistance (ODA)**, **official aid (OA)** and development-related **other official flows (OOF)**.

16. **Official development assistance** is defined as those flows to developing countries, as listed on Part I of the DAC List of Aid Recipients<sup>3</sup> (see Appendix II), provided by official agencies, including local and regional governments, which:

- are provided with the promotion of economic development and welfare as the main objective; and
- are at concessional financial terms, with loans having a grant element of at least 25 per cent.

17. **Official aid** is defined as those flows which would normally qualify for recording as ODA except that they are provided to the more advanced developing and transition countries listed on Part II of the DAC List of Aid Recipients.

18. In this paper, the term “aid” is used loosely to refer to both ODA and official aid, although in most cases “aid” refers to ODA.

19. Other flows from official sources -- including grants which are not provided for development purposes and loans with a grant element of less than 25 per cent -- are recorded as **other official flows**, irrespective of whether the recipient is listed on Part I or Part II of the DAC List.

20. Since the DAC focuses on resource flows for development, financing for military purposes, transfers to private individuals and short-term loans are excluded from these various categories.

21. The development co-operation administrations in DAC Members manage the ODA portion of official funds and, in some cases, are also involved with official aid and other official flow programmes. Moreover, their programmes often catalyse other funding and are managed in parallel with them, which increases the leverage and importance that these programmes can have.

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3. Further information on the DAC List of Aid Recipients is available on the Internet at: <http://www.oecd.org/dac/htm/daclist3.htm>

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## CHAPTER 2

### POLICIES AND APPROACHES UNDERPINNING DAC MEMBERS' DEVELOPMENT CO-OPERATION

#### 2.1. Shifts in the intellectual underpinning for development co-operation

##### *The 1960s*

22. Development strategies have evolved since the 1960s when donors approached economic development largely in economic terms, focusing on the alleviation of capital shortages in developing countries. In the belief that poor, isolated, agrarian societies dependent on primary commodity exports could not really benefit much from free trade, many domestic industries were created through subsidies and behind protective trade barriers. These industries were often operated by governments or para-statal institutions and provided employment opportunities. This approach was not markedly successful in some of the poorer countries, particularly in Africa. Development co-operation did, however, train thousands of people and assist some countries to strengthen their infrastructure, build capacity, create or strengthen a wide range of institutions and generally move their economies forward. Some eventually graduated from needing aid altogether, such as Korea, Singapore and Chinese Taipei.

23. Development aid also made some outstanding achievements in the field of health, such as preventive vaccination campaigns, improved maternal and child care, and family planning to reduce excessive population growth by preventing unwanted births. Commentators often overlook the enormous contribution of aid agencies in the eradication of smallpox. This contagious and often fatal disease was eradicated by universal compulsory vaccination. Aid and donor agencies played a critical role in its eradication in developing countries in the 1960s and into the 1970s. The disease was declared eradicated by the World Health Organisation (WHO) in 1980. Likewise, the control of river blindness, largely through ODA-funded programmes particularly in Africa, has been a significant achievement. Groundwork for this long-term programme started in the 1960s and has continued.

##### *The 1970s and early 1980s*

24. A new paradigm for development assistance gained considerable acceptance in the 1970s, aimed at satisfying basic human needs (BHN). Emphasizing the needs of poorer people, this approach was intended to improve social conditions and was sometimes termed "growth with equity". The basic human needs approach subsequently evolved more towards poverty alleviation. At the same time, the failure of state-led development was recognised widely. Although projects remained the dominant form of development co-operation, more programme funding took place to assist in economic reform or "structural adjustment" to encourage improved fiscal management, freer trade, market-based development, privatisation of state-owned enterprises and deregulation.

*The late 1980s and 1990s*

25. In the late 1980s and early 1990s, and as support for economic reform and structural adjustment continued, it became increasingly evident that free markets could not function effectively without an intricate web of institutions -- systems to protect contract and property rights; honest, effective legal systems and government bureaucracies; and adapted education systems -- and the emphasis shifted to the overall social and political framework. Donors accordingly began to give more attention to institutional problems. This was accompanied by greater emphasis on social development, poverty reduction, women in development (WID) later called gender equality, human rights, good governance, environment, population and private sector development, and less emphasis on infrastructure. Some would characterise this as relatively more emphasis on “software” and less on “hardware”.

*Shaping the 21st Century*

26. To guide development co-operation efforts into the next century, the DAC adopted in May 1996 a people-centred development partnerships strategy entitled *Shaping the 21st Century: The Contribution of Development Co-operation* (see Appendix III<sup>4</sup>). The strategy’s framework for action included four principal elements:

- a **shared vision**, defined by measurable goals of economic well-being, social development and environmental sustainability;
- a concept of **effective partnership**, with basic changes to be given effect through compacts that allocate responsibility, reinforce local ownership, strengthen local capacities and foster participation and self-reliance;
- emphasis on **qualitative foundations**, such as democratic accountability, the protection of human rights and the rule of law, as essential to the attainment of the more measurable goals; and
- need for **coherence** between aid policies and other policies which impact on developing countries.

The development partnership strategy aims to bring these elements together into a more effective system of international co-operation, with adequate resources, enhanced co-ordination, an expanded base for co-operation and improved monitoring, reporting and evaluation -- all integrated into an overall framework of coherent, pro-development policies.

27. These changes in approach have had an important impact on the organisation and staffing requirements of development co-operation systems. The staff skills, organisation and types of analysis needed for projects and programmes have evolved accordingly and will no doubt continue to do so as the demands of development co-operation continue to change.

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4. Appendix III presents the Introduction and Summary of *Shaping the 21st Century: The Contribution of Development Co-operation*. This report was adopted by the DAC, meeting at the level of Development Co-operation Ministers and Heads of Aid Agencies, on 6-7 May 1996. It is available on the Internet at: <http://www.oecd.org/dac/htm/stc.htm>

## 2.2. Goals of the development partnerships strategy

28. A number of UN Conferences held during the 1990s have addressed subjects important to development: education (Jomtien, 1990), children (New York, 1990), the environment (Rio de Janeiro, 1992), human rights (Vienna, 1993), population (Cairo, 1994), social development (Copenhagen, 1995), women (Beijing, 1995), human settlements (Istanbul, 1996) and food security (Rome, 1996). These conferences identified various targets for development in particular fields, based on broad agreement in the international community and arrived at with the active participation of developing countries. A selection of these targets, which are both important in their own right but also meaningful proxies for broader development goals, have been picked up and included in the development partnerships strategy adopted by the DAC. These goals state clearly the results expected to be achieved by 2015 (or in some cases 2005). The principal goal is a reduction by one-half in the proportion of people living in extreme poverty by 2015.

29. In order to monitor progress towards these goals, a collaborative process, involving bilateral and multilateral donors together with participants from developing countries, has arrived at a working set of core indicators<sup>5</sup> (see Box 2). These indicators are providing an impetus to the process of creating an agreed system for tracking progress in achieving key development objectives emanating from the UN Conferences, without adding to data collection and reporting burdens on developing countries. The indicators set is also serving as a focus for ongoing efforts to help build statistical capacity in developing countries.

## 2.3. Sustainable poverty reduction: the principal goal of development co-operation

30. Reducing poverty has long been one of the chief underlying goals of development assistance for many donors but the best approach to take was clouded by uncertainties. The World Bank's *World Development Report* of 1990 helped crystallise thinking on approaches to poverty reduction. In that report, the World Bank proposed a strategy for poverty reduction around which broad consensus subsequently emerged. This strategy comprised two mutually-reinforcing elements:

- promote the productive use of the poor's most abundant asset -- labour -- and ensure that policies harness market incentives, social and political institutions, infrastructure and technology in support of that objective; and
- provide basic services to the poor, especially primary health care, family planning, nutrition and primary education.

The strategy further recognised that social safety nets and other special arrangements would be needed for those not able to benefit fully from increased opportunities, such as the aged, the ill and the disabled, and for those who suffer from temporary economic shocks or set-backs.

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5. An Internet site (<http://www.oecd.org/dac/Indicators/index.htm>) has been created to give the general public an insight into the internationally-agreed goals and the challenges involved in meeting them, as shown by the working set of core indicators.

## Box 2. Measuring Development Progress: A Working Set of Core Indicators

Goals	Indicators
<b>Economic well-being</b>	
<b>Reducing extreme poverty</b> The proportion of people living in extreme poverty in developing countries should be reduced by at least one half by 2015. <i>(Copenhagen)</i>	1. Incidence of Extreme Poverty: Population Below \$1 Per Day 2. Poverty Gap Ratio: Incidence times Depth of Poverty 3. Inequality: Poorest Fifth's Share of National Consumption 4. Child Malnutrition: Prevalence of Underweight Under 5s
<b>Social development</b>	
<b>Universal primary education</b> There should be universal primary education in all countries by 2015. <i>(Jomtien, Beijing, Copenhagen)</i>	5. Net Enrolment in Primary Education 6. Completion of 4th Grade of Primary Education 7. Literacy Rate of 15 to 24 Year-Olds
<b>Gender equality</b> Progress towards gender equality and the empowerment of women should be demonstrated by eliminating gender disparity in primary and secondary education by 2005. <i>(Cairo, Beijing, Copenhagen)</i>	8. Ratio of Girls to Boys in Primary & Secondary Education 9. Ratio of Literate Females to Males (15 to 24 Year-Olds)
<b>Infant &amp; child mortality</b> The death rates for infants and children under the age of five years should be reduced in each developing country by two-thirds the 1990 level by 2015. <i>(Cairo)</i>	10. Infant Mortality Rate 11. Under 5 Mortality Rate
<b>Maternal mortality</b> The rate of maternal mortality should be reduced by three-fourths between 1990 and 2015. <i>(Cairo, Beijing)</i>	12. Maternal Mortality Ratio 13. Births Attended by Skilled Health Personnel
<b>Reproductive health</b> Access should be available through the primary health-care system to reproductive health services for all individuals of appropriate ages, no later than the year 2015. <i>(Cairo)</i>	14. Contraceptive Prevalence Rate 15. HIV Prevalence in 15 to 24 Year-Old Pregnant Women <sup>1</sup>
<b>Environmental sustainability &amp; regeneration</b>	
<b>Environment<sup>2</sup></b> There should be a current national strategy for sustainable development, in the process of implementation, in every country by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015. <i>(Rio)</i>	16. Countries with National Sustainable Development Strategies 17. Population with Access to Safe Water 18. Intensity of Freshwater Use 19. Biodiversity: Land Area Protected 20. Energy Efficiency: GDP per Unit of Energy Use 21. Carbon Dioxide Emissions
<b>General Indicators</b>	
<b>Other selected indicators of development</b> <i>For reference: Population Gross National Product</i>	GNP per Capita Adult Literacy Rate Total Fertility Rate Life Expectancy at Birth Aid as % of GNP External Debt as % of GNP Investment as % of GDP Trade as % of GDP
<p>This list is neither exclusive nor comprehensive and some elements (e.g. environment) remain under discussion. It reflects progress to date in identifying core indicators that are relevant to the development goals selected from the series of UN Conferences held in the 1990s, and which now form a wide consensus on development priorities. The goals were selected because they were important in their own right and as meaningful proxies for broader development goals. The selection does not imply any diminished commitment to other goals accepted by the international community, at international conferences or elsewhere. The list reinforces other indicator initiatives, such as the Minimum National Social Data Set of the UN Statistics Division, and the General Data Dissemination System of the IMF.</p> <p>Like the goals, the indicators are inter-related and should be seen as a whole. They constitute a core set reflecting key aspects of economic and social well-being and environmental sustainability. Thus some indicators address more than one goal, but for brevity are shown only once; for example: child malnutrition is also an indicator of health status; attended births also indicate access to reproductive health services; literacy is a key determinant of economic well-being and health; while freshwater is an environmental resource, access to it directly affects the quality of women's lives and the health of their children. Moreover, the majority of the indicators can be disaggregated by gender to measure the extent of inequality.</p> <p>There are many sources for indicators. This set will be published annually in the OECD's <i>Development Co-operation Report</i>, and put in the context of other indicators in the <i>Human Development Report</i> published by the United Nations Development Programme (UNDP) and <i>World Development Indicators</i> published by the World Bank. Those interested in more detail of development issues and indicators are referred to these publications.</p> <p><sup>1</sup> Until satisfactory data coverage is achieved on this indicator, the prevalence of HIV infection in all adults will be used. <sup>2</sup> Indicators for land use, marine environment and air quality will be added to the list later.</p>	



31. An analysis of poverty reduction prepared in 1991 by the United Kingdom's aid agency<sup>6</sup> considered some implications of this strategy. It found that economic growth is the more important factor in reducing poverty, since without such growth a substantial reduction in poverty is not feasible. The poverty reducing impact of growth is nonetheless variable, but through investments in human capital its impact can be increased. The balance between growth and the distribution of the benefits from growth is an important issue to be addressed. When a country is performing below its potential, it is possible both to promote growth and to reduce poverty by improving the efficiency of resource use. On the other hand, when resource allocation is already efficient, taxation to fund public expenditure on social services may have an adverse impact on growth. The achievement of greater equity in income distribution requires sacrifices by the richer members of society in favour of the poor. Such sacrifices are more likely to be politically acceptable when a reasonable rate of economic growth is being achieved.

32. Subsequent analyses of poverty reduction strategies have highlighted the importance of empowering people politically at the grass-roots level of society, of increasing the participation of the poor in civil society, of making public administration more responsive to the needs of the poor, and of curbing excessive population growth.

33. In the development partnership strategy, Members of the DAC have agreed to give central importance to poverty reduction and to finding the most effective ways of helping poor people improve their lives durably. Within poor countries, the poorest people are also the most difficult to engage in development partnerships and so special efforts are needed to include the poor, women, ethnic minorities and others at risk of permanent marginalisation in efforts to reduce poverty. To help reduce poverty, many DAC Members are now explicitly concentrating their aid efforts on support for gender equality, basic health and education, good governance and environmental sustainability. Simultaneously, efforts are underway to adapt organisational structures to work better in partnership with recipient countries, to improve aid effectiveness and to enhance policy coherence. DAC donors are thus working their commitment to poverty reduction through their development co-operation systems, to ensure that it also permeates the implementation of their programmes in the field.

34. The challenge for aid agencies as they strive to sharpen their focus on support for poverty reduction efforts is to ensure that their organisational systems are reinforcing such efforts. To do this, aid agencies should confirm that their incentive systems, performance appraisals and promotional prospects encourage staff to devote their energies to poverty reduction activities, which may well be complex, multi-disciplinary and time-consuming. In addition, special attention should be paid to identifying and containing activities or procedures which may accidentally have an anti-poor bias. Appropriate training programmes may also need to be established.

#### **2.4. Importance of coherent, pro-development policies for poverty reduction**

35. Achieving the goals set out in the development partnership strategy will require fuller participation by developing countries in the global economy. While the benefits of open trade and investment depend crucially on policy efforts undertaken by developing countries themselves, donors can play a catalytic role by supporting developing countries' efforts to build up sustainable economic, social and political systems.

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6. See Overseas Development Administration (now called the Department for International Development), Aid Economics and Social Department, Technical Paper No. 3, *Aid and Poverty Reduction*, 1991.

36. At the same time, the capacity of developing countries to exploit the benefits of open trade and investment will also depend on “development coherence” across the full range of donors’ policies impacting on developing countries. Donors need to ensure that what they give with one hand is not inadvertently being taken back with the other. Aid managers consequently must be prepared to participate in broader policy making in areas of importance for development and to be ready to explain the benefits of coherent, mutually reinforcing, pro-development national policies. Commercial and political pressures can be strong and potentially distort development co-operation programmes or cause them to deviate from their main objectives.

37. The experience of DAC Members is that a number of common tools and mechanisms can be identified as being effective in taking into account the development dimension in overall policy making. These include: a common vision for articulating and evaluating policies; an effective framework of inter-ministerial co-ordination within capitals; research and analytical capacities to support efforts to improve the developmental coherence of policies; and mechanisms for consultation with civil society to promote consensus-building in society. Simple matters can also improve performance, such as the possibility for frequent and informal interchanges between the range of people dealing with issues impacting on developing countries. However, the paramount tool for policy coherence is informed decision making and commitment from political leaders.

38. Most DAC Members have one or more inter-ministerial committees whose role may include co-ordinating policies on aid. In the best of cases, these committees can be an important means of seeking coherence between aid policy and other policies impacting on developing countries. However, the extent to which these committees are able to fulfil this role varies. Inter-ministerial co-ordinating bodies function with varying degrees of intensity, ranging from weekly meetings to *ad hoc* activities. Sometimes one inter-ministerial committee covers aid while another handles export credits and associated financing or trade and environmental questions, which further complicates efforts to achieve intra-governmental coherence.

*An example: The Netherlands*

To ensure that Dutch policies relating to developing countries are coherent, the Bilateral Department in the Ministry of Foreign Affairs now takes responsibility for all aspects of relations between the Netherlands and developing countries. The aim of this “de-compartmentalisation” is to create synergies within all parts of the Dutch government and so improve aid effectiveness. The Bilateral Department integrates development co-operation with other aspects of foreign policy and trade relations to produce medium-term policy documents for each country or region. These policies are prepared on the basis of inputs from other departments within the Ministry, as well as from other ministries in the Dutch government. Dutch policy coherence is monitored by a committee established by cabinet, called the Council for European and International Affairs.

*An example: The United States*

The United States Agency for International Development (USAID) has organised a series of meetings on Trade, Investment and Development Co-operation. These meetings brought together experts from the OECD, professionals from United States government agencies and their partners, and constituents to discuss trade, investment and development aspects of activities in developing countries. The purpose of these meetings was to foster greater co-operation and policy coherence among government agencies, to share information and to broaden the viewpoints of people in the trade, investment and development communities.

## CHAPTER 3

### PUBLIC OPINION, INFORMATION AND DEVELOPMENT EDUCATION

#### 3.1. The public: stakeholders in development

39. Providing development co-operation is a unique function for a government and may be seen by the general public as only helping people in other countries. From this perspective, it is in a precarious, sensitive situation *vis-à-vis* public opinion and the political system.

40. There is, however, another perspective, consistent with the development partnership strategy, which views the general public as stakeholders in development co-operation, being both “clients” and “shareholders” of their aid programme. The public are “clients” in the sense that, in an increasingly interdependent world, it is not just the people in developing and transition countries receiving assistance who are made better off by actions which fight environmental, social, cultural and political problems that may ultimately respect no borders. The public are “shareholders” in the sense that it is their taxes which fund aid programmes and their elected representatives who monitor aid policies, management and implementation. The “return” the public receive on their investment is increased prosperity and human security throughout the world.

41. Some DAC Members explicitly acknowledge the role of the general public in their aid programmes. For instance, Ireland describes the Irish people as its aid programme’s “principal stakeholders” and undertakes information activities with the aim of giving the public a sense of ownership of the aid programme. The United States Agency for International Development (USAID) recognises that, as taxpayers who pay for its activities, the public -- along with Congress, donor partners, NGOs and contractors -- are “process customers” of the aid programme (as opposed to “ultimate customers”: aid recipients and beneficiaries of assistance).

42. Seen from either perspective, aid managers need to make sustained efforts to inform the general public about their aid programme and demonstrate that it is well-managed and achieving results, both for the people actually receiving the assistance as well as the people funding the programme. At the same time, aid managers need to acknowledge that achieving sustainable results is a challenge and should try to foster understanding of the many risks inherent in development co-operation. Acknowledging any failures or results below expectations is part of an open information policy and ultimately generates better understanding and confidence in the programme. Because it may be harder for the public to follow and appreciate the range of issues involved with development co-operation, it may require more effort than in most other parts of government to keep the public informed.

### 3.2. Public knowledge about aid

43. An important activity for aid managers is informing the public about development issues and the aid programme and ensuring that there is a solid base of political support for development co-operation. Taxpayers have the right to know how their money is being spent for development co-operation. Aid managers can also contribute to building and maintaining support for development co-operation by bringing together the different constituencies which already exist and are predisposed to supporting development-related issues. This will result in improved and wider communication throughout society of the results and benefits of aid programmes, and ultimately should lead to increased political support for more adequate resources to sustain effective development co-operation partnerships.

#### *An example: Denmark*

Denmark has sustained a ratio of ODA to gross national product (GNP) in excess of the 0.7 per cent target set by the UN for more than 20 years, and has been on several occasions the leading DAC donor on a GNP-share basis. In 1997, Denmark devoted 0.97 per cent of its GNP to development assistance. This exemplary performance can be explained in part by strong public and political support. Aid managers have contributed through their transparency in publishing their policies and country strategies and by implementing these stated policies successfully in the field. An active NGO community is also found in Denmark and this motivates the parliament to become involved in the aid programme and to debate policies and strategies. Parliamentarians' knowledge of aid matters, and the support they see for it among the public, translates into a generous aid effort.

44. An informal experts' consultation on "Public Knowledge and Attitudes Towards International Development" was organised jointly by the DAC and the OECD's Development Centre in 1994. This consultation found that the principles of local ownership and participation, which were appreciated as important elements of success in work with people from developing countries, had too often been neglected in engaging the publics of developed countries.<sup>7</sup> Participants concluded that strengthened public understanding and support were essential in order to sustain development co-operation and called for:

- the establishment of clear goals for development policy, so that the people will know the standards against which performance should be measured and will understand the stakes involved;
- a reorientation of development education so that the challenges and obstacles, as well as the progress, are portrayed realistically rather than in sensational terms, and so that development issues are addressed in school curricula in greater depth than is possible in traditional media coverage;

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7. See Development Centre, *Public Support for International Development*, OECD, 1996. Pages 137-172 of this publication contain information for each of 15 DAC Members on their surveys of public attitudes, support for aid among socio-professional categories, development education, information activities and budget for information activities.

- an intensified effort to assure efficient and effective programme management, including emphasis on achieving set aims, in order to demonstrate that greater public confidence is merited by results; and
- a continued awareness that development co-operation deserves support not only because of the mutual interests that it serves, but also because of the moral imperative of helping others to help themselves in overcoming poverty and achieving a decent standard of living and social justice.

### 3.3. Information dissemination

45. Some aid administrations release a large amount of information to inform the public and others interested in what is being done, especially since the advent of the Internet which has greatly facilitated the task of getting information into the public domain.<sup>8</sup> Information found on the Internet can include latest news about the programme, annual reports, ministerial speeches, press releases, aid policy statements, information on major recipients, country strategies, evaluation reports, statistics and details of business opportunities available through the aid programme.

46. Providing an annual report on development co-operation is a helpful discipline for an aid agency and can play an important role in informing parliaments and the general public about the programme. Unfortunately, this is not a universal practice by DAC Members, although there is a trend for more agencies to do so. Sometimes there are annual reports from one section of an aid agency (evaluation for instance) reporting on performance or from one specialised aid-related organisation. Since the DAC requires Members to provide it with an annual memorandum, some Members use this as a basis for their annual report or, on the other hand, if the annual report is sufficiently complete, it can serve as the annual memorandum to the DAC.

47. Unpublished information about the aid programme can also be obtained through the national “Freedom of Information” legislation that exists in some DAC Member countries (for instance Australia, Canada, Ireland, the United States and soon in Japan).

48. Some DAC Members have established a separate organisation dedicated to promoting knowledge about development issues in general while others rely on NGOs to conduct their development education programmes. In some cases, NGOs are contracted explicitly to fulfil this function. In other cases, NGOs who receive funding as part of the aid programme are required to inform the public about their activities.

#### *An example: Ireland*

Ireland has a formal, structured approach to development education. The National Committee for Development Education<sup>9</sup> was established in 1994 with the aim of encouraging and promoting development education in all sectors of Irish society. The Committee distributes funding to both governmental and non-governmental organisations. These grants have been used to produce

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8. Appendix IV lists the Internet addresses of DAC Members’ aid and aid-related organisations.

9. More information on the National Committee for Development Education is available from the Internet at: <http://homepage.tinet.ie/~ncde/>

development education resources and materials; conduct campaigns, courses and seminars; produce drama and audio features; work with schools and students; provide training and in-service development for teachers; and engage in a range of activities designed to get people to think about and act upon development issues. The Committee also runs a public resource centre which can provide reference and resource materials for educational purposes.

49. Other ways DAC Members promote knowledge about aid include preparing material for use by the media or in schools and organising presentations by senior aid administration officials to targeted audiences, such as decision makers. A public “shop front” for the aid programme is another means used.

*An example: Japan*

The “Plaza for International Co-operation” in Tokyo, created by the government in 1993, is run by the Association for the Promotion of International Co-operation activities. People are free to drop into to the Plaza to get information about aid. The Plaza provides the general public, NGOs, academics, journalists, companies and school children on excursions with publications and other materials, including photographs and videos, and data on aid. It also produces and makes available information and documentation for other development education activities. Branches of the Plaza have been set up in 17 locations throughout Japan.

### **3.4. Monitoring public opinion**

50. Keeping abreast of public opinion about aid is a function many aid agencies do as a matter of course. While other parts of government do this too, for aid managers it is a particularly important activity. Some DAC Members carry out regular public opinion polls about aid which provide an indication of fluctuations in the level of public support over time. Other donors conduct surveys less frequently but which tend to be large, and so enable an in-depth investigation of people’s knowledge and the motivations for the answers they give. Large, frequent surveys are of course possible, but more costly.

51. The OECD’s Development Centre and the Council of Europe’s North-South Centre jointly published *Public Attitudes and International Development Co-operation* in 1998 which, *inter alia*, presents information on the findings from public opinion polls and development education activities in each DAC Member.

## CHAPTER 4

### ORGANISATIONAL FRAMEWORKS: AID POLICY AND LEGISLATION

52. Overall aid policy may be primarily formulated by the Parliament, based on proposals from the government, by the government itself or by the ministry or agency charged with responsibility for development co-operation management. Some DAC Members' Parliaments have passed legislation which defines their aid policies, as well as associated administrative procedures.

53. Aid managers must be attentive to issues related to the legal foundations for development co-operation and other relations with parliament. Aid agencies generally have staff who work on these types of issues, which can also absorb considerable time and energy of senior aid managers.

#### 4.1. Aid policy statements

54. The main purpose of an overarching, general aid policy statement should be to offer a set of organising principles for the development co-operation programme and to inform Parliament and the general public about its purposes. Since these policies are normally debated with civil society and submitted to Parliament, the consultative process through which they are prepared may be as important as the written document itself, as the process can provide a foundation in public opinion for the programme and stronger inter-ministerial co-operation leading to better overall policy coherence. Other motivations also exist for issuing policy statements. For instance, new policies are sometimes announced by an incoming government to differentiate itself from its predecessor or policy statements may serve as warnings to recipient countries or be designed to fend off criticism.

55. The general thrust of DAC Members' aid efforts is increasingly guided by an overall strategy for their development co-operation programme. Appendix IV shows that a majority of DAC Members now have an overarching strategy statement for their aid programme. These strategies typically specify a guiding principle or mission statement for the programme as a whole and particular areas or sectors where the programme will focus. In a number of cases, a target for aid volume is also included, with milestones along the way to its achievement.

56. In some cases policy statements relate exclusively to aid while others form part of the country's general policy on external relations. There are merits to both approaches. A specific aid strategy can be more detailed and comprehensive. On the other hand, a broad foreign policy strategy which includes development assistance would, other things being equal, tend to favour greater coherence across the range of relationships that exist between a donor and developing countries.

#### *An example: Canada*

A comprehensive process of consultations and deliberations to review Canada's foreign policy culminated in 1995 with the release of a new foreign policy

statement entitled *Canada in the World*.<sup>10</sup> This statement identifies international assistance as a vital instrument, complementing diplomacy and trade, for the achievement of Canada's foreign policy objectives: promoting prosperity and employment in Canada, protecting Canada's security by contributing to global security and projecting Canadian values and culture. *Canada in the World* sets out four key commitments for Canada's ODA programme:

- a clear mandate and set of priorities;
- strengthened development partnerships;
- improved effectiveness; and
- better reporting of results to Canadians.

The mandate for Canadian ODA is:

*“The purpose of Canada’s ODA is to support sustainable development in developing countries, in order to reduce poverty and to contribute to a more secure, equitable and prosperous world.”*

To achieve this, *Canada in the World* mandates the ODA programme to concentrate available resources on six programme priorities:

- basic human needs, including emergency humanitarian assistance (to which Canada will commit 25 per cent of its ODA);
- women in development;
- infrastructure services;
- human rights, democracy and good governance;
- private sector development; and
- the environment.

The Canadian International Development Agency (CIDA) is producing separate policy statements to guide its activities in each of these areas<sup>11</sup> and, since 1996, has conducted a performance review of one programme priority each year. *Canada in the World* also commits Canada to continuing to provide most of its

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10. Available on the Internet at: <http://www.dfait-maeci.gc.ca/english/foreignp/cnd-world/menu.htm>

11. See *CIDA's Policy on Poverty Reduction* (1996), *CIDA's Policy on Meeting Basic Human Needs* (1997), *CIDA's Policy on Gender Equality* (1999), *Government of Canada's Policy for CIDA on Human Rights, Democratisation and Good Governance*, and *CIDA's Policy for Environmental Sustainability* (1992), available from CIDA's Internet site (<http://www.acdi-cida.gc.ca/index.htm>). CIDA is developing policy statements on private sector development and infrastructure services.



ODA to low-income countries, to devote the highest share of its resources to Africa and to focus efforts on a limited number of countries. The statement reaffirms the Canadian government's commitment to making progress towards the ODA target of 0.7 per cent of GNP when Canada's fiscal situation allows it.

57. Some countries do not have an overarching policy paper as such, but rather release policy statements from time to time outlining major changes in the aid programme. These statements have sometimes become a White Paper tabled in Parliament. In other cases, statements are made on particular policy issues and are used as references for aid policy or programme management. For instance, the President of France made a statement on policy towards democratisation and the rule of law at the 1990 Franco-African Summit in La Baule, which became a point of reference for the French aid programme. In the Netherlands, a government agreement has been released which gives clear directions about the distribution of ODA funds.

*An example: The Netherlands*

In order to sustain the Netherlands' ODA performance, the Dutch Coalition Government felt the need to set clearer targets for aid budgeting and has enshrined these in a formal coalition agreement. As of 1997, 1.1 per cent of GNP is assigned for expenditures relevant to foreign policy, with 0.8 per cent of GNP being reserved for net ODA expenditures. To give substance to the main objective of Dutch ODA -- combating poverty while protecting the environment -- sub-targets for several special areas have been established within the overall budget for ODA:

- two targets in the area of social development:
  - 20 per cent of the ODA budget should be spent on basic social services; and
  - 4 per cent of the ODA budget should be spent on reproductive health;
- two environmental targets:
  - 0.1 per cent of GNP should be spent on environmental activities; and
  - at least Gld 50 million (approximately \$25 million) should be spent on the conservation of tropical rainforests; and
- one target for least-developed countries:
  - least-developed countries should receive ODA of at least 0.25 per cent of GNP.

These sub-targets are partly overlapping. All targets were met in 1997 with the exception of the target for environment-related aid, which amounted to 0.092 per cent of GNP.

## 4.2. Legislation

58. Some DAC Members have legislation governing their development co-operation programme. Whether a basic law is necessary, the extent of its coverage and whether it would favour improved aid effectiveness is country specific and a matter for consideration and debate within each country.

59. One value of having legislation is that parliamentarians must concentrate on development co-operation and provide a political stamp of approval for the programme. Having a basic law provides a long-term foundation for development co-operation, which is beneficial, but it can also create rigidities which may be difficult to remove once they have been established by law. The legislative process can become politicised and used to make development co-operation an arena for political contention. Thus, the flexibility of operating without a basic law, with development co-operation continually reviewed and approved by successive governments, may have some positive aspects.

60. The existence of a basic law has the advantage of setting out a framework for funding and operations of the programme and demonstrates clearly the long-term importance of development co-operation for a given country. But, obviously, some countries have achieved these goals through Cabinet decisions, White Papers and policy statements -- which are not basic laws -- and by relying on appropriations legislation for the legal authority to implement their programmes.

### *An example: Luxembourg*

Luxembourg's *Development Co-operation Act* came into force on 21 January 1996 and amends or replaces legislation passed in 1985 and 1989. The Act covers five areas:

- first, it sets out three objectives for Luxembourg's development co-operation programme:
  - the lasting economic and social development of developing countries, especially the most disadvantaged ones;
  - the gradual and harmonious incorporation of developing countries into the global economy; and
  - the reduction of poverty in developing countries;
- second, it defines more explicitly the role of the Development Co-operation Fund, a mechanism for funding bilateral development projects outside of the annual budget process and whose priority action areas are:
  - social action, including health, housing, education, vocational training and women's rights;
  - technical assistance;
  - specific activities in the fields of economic, industrial, environmental, regional, cultural and scientific co-operation;
  - action to promote human rights and democracy; and

- development education; and
- third, it describes the conditions of co-operation with NGOs, which may receive both cofinancing as well as block grants or specific subsidies, especially for their development education activities;
- fourth, it defines the status, pay and social security coverage of co-operation officials employed by the government and voluntary co-operation workers employed by NGOs; and
- fifth, it institutes an inter-ministerial committee for development co-operation to co-ordinate the overall thrust of development co-operation policy.

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## CHAPTER 5

### ORGANISATIONAL FRAMEWORKS: THE STRUCTURES OF GOVERNMENT

61. The organisational framework adopted for managing development co-operation varies across DAC Members, both at the political and administrative levels. While aid management systems should be designed around the objectives expected to be attained, and in particular those of the development partnerships strategy, organisational structures also need to take account of the specific political and public sector management systems within which they operate. Political exigencies can sometimes prevail over other considerations. It is therefore unlikely that an “ideal” organisational framework for the management of DAC development co-operation programmes can be defined.

#### 5.1. Ministerial responsibility within the government

62. Among DAC Members, different patterns of ministerial responsibility for development co-operation can be identified. In many countries, development co-operation is the responsibility of the Minister of Foreign Affairs, often assisted by a junior minister, secretary of state or parliamentary secretary with special responsibility for development co-operation. A variation on this sometimes occurs where there is a minister for development co-operation separate from the Minister of Foreign Affairs, who is one of several ministers jointly overseeing the foreign affairs portfolio. Alternatively, the minister responsible for development co-operation can be completely distinct from both the Minister for Foreign Affairs and the foreign affairs ministry. In these circumstances, the minister may be assisted by a junior minister. In other cases, responsibility for development co-operation is divided between a number of ministers who take responsibility for those matters falling within their particular ministerial portfolio. Appendix IV lists the ministers responsible for DAC Members’ development co-operation programmes.

63. Having the minister responsible for development assistance sitting in the government’s (inner) cabinet or council of ministers is sometimes taken as an indication of the importance accorded to development co-operation by a particular government. However, even when aid appears to be at the forefront of a government’s concerns, it may not, in practice, get much attention because it is crowded out by other issues. If aid is handled at a lower ranking minister, it may receive the entire attention of those in charge.

64. When responsibility for aid is shared among several ministers, it is particularly useful for donors to establish some sort of ministerial level committee to co-ordinate the country’s overall aid effort and discuss matters of common interest, including general policy orientations. For instance, France created such a committee in 1998, the Inter-ministerial Committee for International Co-operation and Development (CICID), which is chaired by the Prime Minister and replaces the former Inter-ministerial Committee for Development Assistance (CIAD). Portugal has an Inter-ministerial Commission for Co-operation (ICC) which is chaired by the Secretary of State for Foreign Affairs and Co-operation.

65. The European Community (EC), the only multilateral DAC Member, is *sui generis*. The main policy making body for the EC programme is the Development Council, composed of the ministers responsible for development co-operation from each European Union (EU) Member State. The Development Council usually meets twice a year to discuss issues relating to the development policies of both the EC and its Member States. Responsibility for managing most of the EC's aid programme is shared by a number of Commissioners at the European Commission.

## **5.2. Overall structure of aid administrations**

### *Aid involves a multitude of ministries and agencies*

66. Within a nation's public sector, development co-operation is not a domain reserved for just one or a limited number of specialised agencies. While one agency may normally take the overall lead on development co-operation issues, many other agencies and ministries are also involved. These other ministries and agencies may provide policy advice related to their specific areas of expertise, manage and implement a particular aspect of the programme or be involved through the provision of technical assistance or their participation in the activities of specialised multilateral agencies.

67. For instance, in Japan until recently, four main ministries and 17 other ministries and agencies have been involved in the aid programme, with many of these receiving specific allocations from the ODA budget. A similar broad involvement can also be found in programmes with a large, autonomous aid agency. An analysis conducted for the 1998 DAC Peer Review of the United States found that two-thirds of the United States' gross ODA disbursements in 1996 were channelled through USAID, while the remaining third was channelled through 10 other departments and agencies.

68. The trend towards broader public sector participation in the aid programme is also evident from the growing involvement of local and regional governments in the aid activities in several DAC Member countries.

69. To the extent that aid management is splintered or scattered among different organisational units, both co-ordination and coherence become more difficult and costly. In fact, when too many administrative units are involved in the conception and delivering of aid, effectiveness and efficiency are quite likely to suffer. The Public Management Service of the OECD stresses the importance of a central overview and co-ordination capacity in any given management system.

### *Recent trends in DAC Members' organisational structures*

70. The organisational structures adopted by DAC Members for their development co-operation programmes are not just complex but dynamic. As the role of aid and international circumstances continue to change, DAC Members' aid management systems evolve and adapt in their own way to those changes. In recent years, three trends can be noted among DAC Members:

- major restructurings -- within aid agencies, by the amalgamation of previously distinct organisations or by the creation of new bodies;
- the creation of integrated regional/country desks within some foreign ministries to deal with all aspects of relations with developing countries: foreign policy, trade relations and development co-operation; and

- the increased use of separate executing agencies for aid implementation.

Appendix IV lists each DAC Members' principal aid agency and other aid organisations.

*The relation between development co-operation and foreign policy*

71. Development co-operation is inseparable from a country's foreign policy. However, the extent to which the ministry dealing with the wider issues of foreign policy is involved with aid is an area where DAC Members' aid management systems differ. The decision by three DAC Members (Denmark, the Netherlands and, to a lesser extent, Finland) to integrate development co-operation fully with other aspects of their trade and foreign relations with developing countries is consequently noteworthy. Development co-operation needs to be predictable so it can be effective on a sustained basis. Political and commercial objectives can sometimes be narrow and short-sighted and can potentially undermine the discipline and stability that development programmes need. Moreover, the administration of large sums of money for development programmes requiring specific technical inputs, and the accounting for such funds, is not a traditional activity of foreign ministries. While development co-operation is of concern to the foreign ministry, there is nonetheless a strong case for managing aid so that the vicissitudes of other aspects of foreign relations do not distort or deviate the aid programme unduly. For this reason, DAC Members often have aid management systems which are, to some degree or in some operating respects, separate from the foreign policy function, even when situated within the foreign ministry itself.

*DAC Members' aid management structures*

72. While DAC Members' overall aid management systems vary considerably, there is somewhat more uniformity in management systems for multilateral assistance than for bilateral aid. Often, although not always, the Ministry of Finance<sup>12</sup> is responsible for international financial institutions -- such as the International Monetary Fund (IMF) and the World Bank -- while the Ministry of Foreign Affairs<sup>13</sup> often takes the lead in relation to the major UN agencies and funds. Bilateral aid systems are more diverse, sometimes involving the Ministries of Finance and Foreign Affairs while in other cases there is a large, autonomous aid agency. Some countries also have a separate organisation for loan financing (capital projects or "hardware"), technical co-operation ("software"), research, volunteers or aid to a specific geographical area. Aid to Central and Eastern European countries and the New Independent States of the former Soviet Union is increasingly managed within the same structure as traditional aid to developing countries.<sup>14,15</sup>

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12. The term "Ministry of Finance" is used generically here and in some countries may be known as the Treasury or the Ministry of Economics.

13. The term "Ministry of Foreign Affairs" is used generically here and in some countries may be known as the State Department, the Ministry of External Relations or the Ministry of Foreign Affairs and (International) Trade.

14. See *Assistance Programmes for Central and Eastern Europe and the former Soviet Union*, OECD, 1996 for a description of the assistance programmes of OECD Members, including 19 DAC Members. Aid to Central and Eastern European countries and the former Soviet Union is recorded either as ODA or official aid, depending on whether the recipient country is listed on Part I or Part II of the DAC List of Aid Recipients.

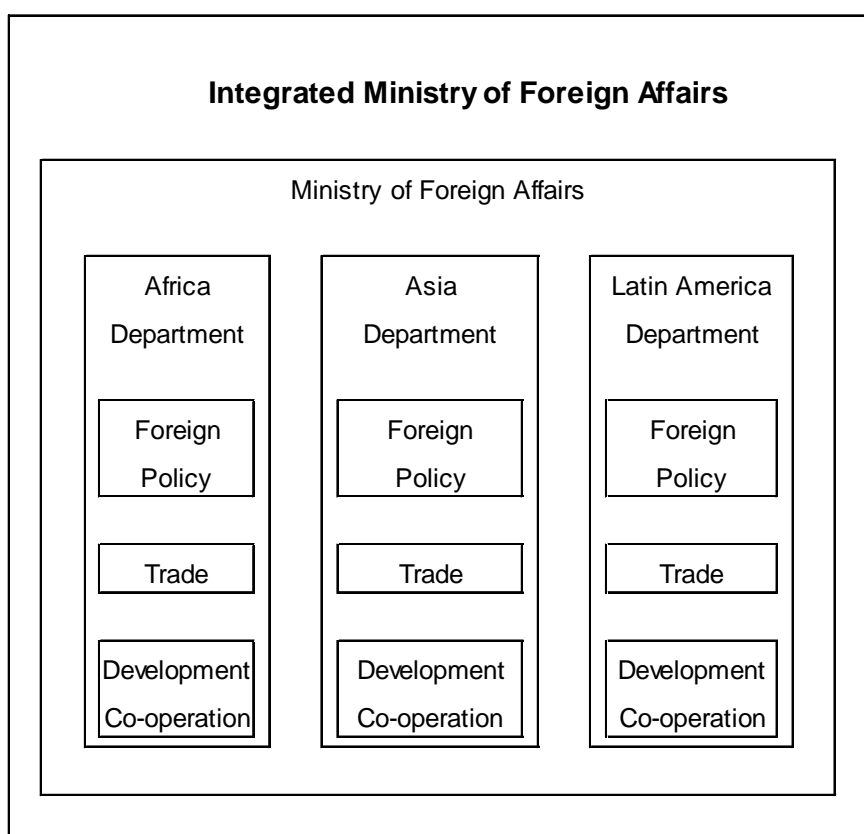
15. See *Aid and Other Resource Flows to the Central and Eastern European Countries and the New Independent States of the Former Soviet Union (1990-96)* for a survey of resource flows to these countries. The survey is available on the Internet at: <http://www.oecd.org/dac/htm/pubsfoc.htm>

*Five categories of organisational structures for aid management*

73. Broadly speaking and in particular in relation to bilateral assistance, the overall organisational structure adopted by DAC Members for their development co-operation programmes falls into one of five categories:

- an integrated Ministry of Foreign Affairs;
- a development co-operation directorate or division within the Ministry of Foreign Affairs;
- a policy ministry with a separate implementing agency;
- an autonomous aid agency or ministry; and
- multiple ministries, with a separate implementing agency.

**5.2.1. Integrated Ministry of Foreign Affairs**



74. Denmark, the Netherlands and, to a lesser extent, Finland have “de-compartmentalised” their Ministry of Foreign Affairs and, in their relations with developing countries, have grouped development co-operation together with foreign policy and trade relations in integrated country/regional desks.



### *Denmark*

75. Denmark reorganised its Ministry of Foreign Affairs in 1991. The new organisation operates along geographical rather than functional lines. The ministry is divided into a North Group and a South Group, with the South Group taking responsibility for all aspects of Danish relations with developing countries including the administration of the ODA programme. The South Group was created by merging DANIDA, the previously separate aid implementing agency, with the relevant parts of the former political and economic departments within the ministry. The Ministry of Foreign Affairs is also responsible for most ODA-related multilateral assistance, including relations with the World Bank and the regional development banks.

### *Finland*

76. Finland's aid programme is managed by the Ministry of Foreign Affairs. With the aim of making the entire Finnish foreign service more responsive to changing international circumstances, a reorganisation of the ministry took place in 1998. This resulted in the creation of geographical divisions to deal with development co-operation together with trade relations and what had traditionally been called foreign policy. The ministry also contains a Department for International Development Co-operation, which is responsible for policy, planning, budgeting and financial decision making for development co-operation as well as for multilateral assistance. Finland has therefore gone some of the way towards "de-compartmentalising" its Ministry of Foreign Affairs, but also maintains some of the characteristics of the "development co-operation directorate/division" structure presented below.

77. Finnish ODA is channelled through two other organisations. The Finnish Fund for Industrial Co-operation (FINNFUND) provides equity capital, long-term investment loans and guarantees. It receives interest subsidies for its long-term lending from the Ministry of Foreign Affairs. The Service Centre for Development Co-operation (KePa), an NGO umbrella organisation, has been contracted to run some programmes in the field and undertakes activities related to NGOs and public awareness raising. KePa was previously responsible for implementing the Finnish Volunteer Service (FVS), which was discontinued in mid-1998.<sup>16</sup>

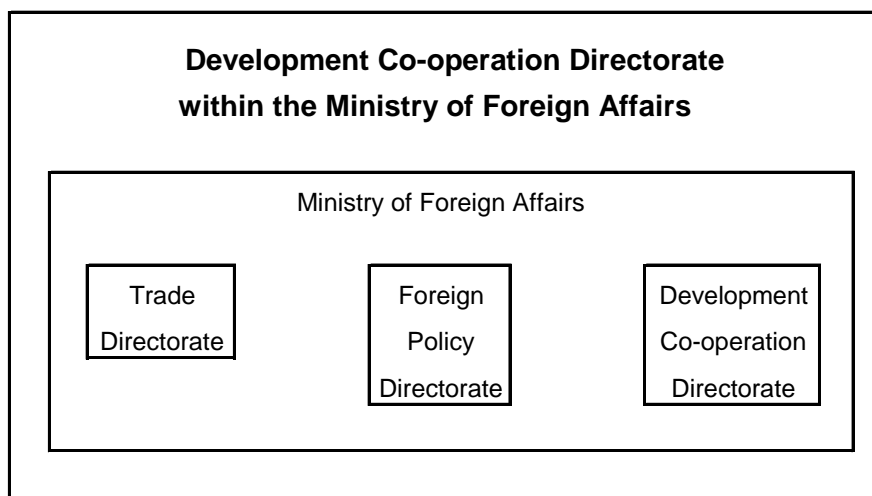
### *The Netherlands*

78. The Ministry of Foreign Affairs in the Netherlands was restructured in 1996, with regional departments created to take over responsibility for bilateral relations including foreign policy, trade and, in the case of relations with developing countries, development co-operation. At the same time, the Netherlands delegated to its embassies in the field greater responsibility for designing and managing development co-operation programmes, and for conducting policy dialogue with recipient countries.

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16. The decision to phase out Finland's volunteer programme was taken following an independent evaluation conducted in 1995 which suggested that the programme was not cost effective. See *Evaluation of Finnish Personnel as Volunteers in Development Co-operation*, Report 1995:3.

### 5.2.2. *Development co-operation directorate/division*



79. Among some DAC Members, the structure adopted for aid management is a Directorate or Division responsible for development co-operation located within the Ministry of Foreign Affairs. This structure is found in Ireland, New Zealand and Switzerland, and was the structure found in Finland prior to the recent restructuring. Currently, Belgium and Italy also have such a structure but, in both cases, reforms announced but still under consideration propose the creation of an independent implementing agency. If these reforms are implemented, the structures found in Belgium and Italy will fall into the category “policy ministry with separate implementing agency”, the next category listed below.

#### *Belgium*

80. Aid management in Belgium is undergoing restructuring. Currently, the development co-operation programme is managed by the General Administration for Development Co-operation (AGCD) in the Ministry of Foreign Affairs, Foreign Trade and Development Co-operation. Plans have been made to reorganise this Administration and to create an independent implementing agency for bilateral aid.

#### *Ireland*

81. In Ireland, bilateral and most multilateral development co-operation is managed by the Development Co-operation Division (DCD) within the Department of Foreign Affairs. Ireland’s Agency for Personal Service Overseas (APSO) manages Ireland’s volunteer programme, but also provides skilled personnel for Irish technical co-operation projects. The National Committee for Development Education (NCDE) encourages and supports development education activities.

#### *Italy*

82. Italy currently operates its programme under the Ministry of Foreign Affairs, with a Directorate-General for Development Co-operation (DGCS). The *Reform Bill of Italian Development Co-operation* was tabled in Parliament in 1998. The centre-piece of this reform is the establishment of a

new agency to take responsibility for implementing aid programmes planned and negotiated by the Ministry of Foreign Affairs. The Treasury supervises relations with the multilateral development banks.

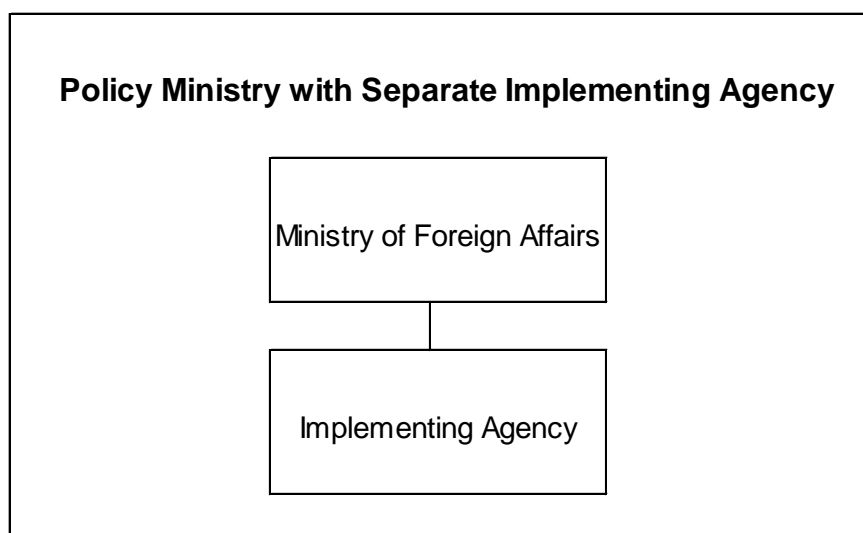
#### *New Zealand*

83. In New Zealand, overall co-ordination and aid implementation is primarily the responsibility of the Development Co-operation Division (DEV), a division within Ministry of Foreign Affairs and Trade. DEV oversees both bilateral and multilateral assistance.

#### *Switzerland*

84. The Swiss Agency for Development and Co-operation (SDC), a Directorate in the Federal Department of Foreign Affairs, is the main aid planning and implementing body in Switzerland. The SDC is responsible for technical co-operation, financial co-operation and humanitarian aid, some three-quarters of Swiss ODA. The remainder of the programme is handled by the Federal Office for Foreign Economic Affairs (FOFEA) in the Federal Department of Economic Affairs. FOFEA is responsible for economic aid and aims to encourage policy reforms which will induce trade and private sector development. Both the SDC and the FOFEA are involved with Switzerland's multilateral aid programme and assistance to transition countries.

#### **5.2.3. Policy ministry with separate implementing agency**



85. Another model has aid policy guidance as the responsibility of a lead Ministry -- the Ministry of Foreign Affairs or the Ministry of Development Co-operation -- with bilateral aid implementation entrusted to one or more separate agencies. This model is found in Germany, Luxembourg, Norway and Sweden. The aid management systems proposed for Belgium and Italy (see above) also conform to this model.

*Germany*

86. In Germany, aid policy guidance, both bilateral and multilateral, is the responsibility of the Federal Ministry for Economic Co-operation and Development (BMZ). As the Federal Foreign Office (AA) is responsible for overall German foreign relations, the BMZ and AA jointly elaborate development co-operation principles and programmes and co-operate closely on implementation.

87. Aid implementation in Germany is handled by a range of autonomous agencies. Germany's main bilateral aid channels are the Bank for Reconstruction (KfW), which carries out financial co-operation, loans and a somewhat smaller grants programme as part of the overall financial co-operation framework, and the Agency for Technical Co-operation (GTZ), which implements technical co-operation. A number of smaller semi-public agencies are also involved in the German aid programme:

- the German Development Service (DED) administers the German volunteers programme;
- the German Foundation for International Development (DSE) and the Carl Duisberg Gesellschaft (CDG) offer advanced training courses to specialists and executive personnel from developing and transition countries; and
- the German Institute for Development Policy (DIE) provides post-graduate training for development professionals, undertakes research on development policy issues and provides consultancy services based on its research.

*Luxembourg*

88. In Luxembourg, the Co-operation Division of the Ministry of Foreign Affairs, Trade and Co-operation is responsible for development aid matters, both multilateral and bilateral. Luxembourg's bilateral projects, which are all in the form of grants, are implemented by a company set up under private law, "Lux-Development". Lux-Development works closely with the government in identifying projects, but has a large degree of freedom of action when implementing them.

*Norway*

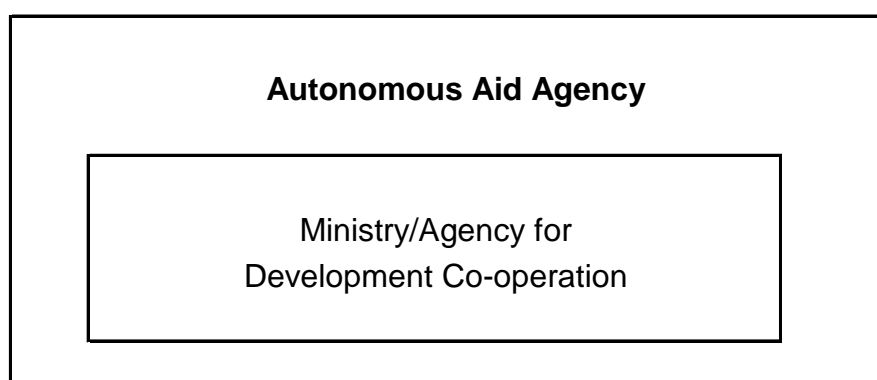
89. In relations between Norway and developing countries, both bilaterally and through multilateral agencies, the Norwegian Ministry of Foreign Affairs has overall responsibility for foreign policy, trade and development assistance matters. Subordinate to the Ministry is an executing agency, the Norwegian Agency for Development Co-operation (NORAD), which implements Norway's bilateral development co-operation.

*Sweden*

90. In Sweden, the Ministry of Foreign Affairs has overall responsibility for the policy direction of Swedish development co-operation, both multilateral and bilateral. This includes assistance channelled through UN agencies, the World Bank, regional development banks and the European Union. Under the Ministry of Foreign Affairs, the Swedish International Development Co-operation Agency is the executing agency for bilateral development co-operation. Following a comprehensive organisational reform in 1995, five development agencies were merged into the new Sida:

- the Swedish International Development Authority (SIDA), which concentrated its efforts on the poorest developing countries;
- the Swedish Agency for International Technical and Economic Co-operation (BITS), which had responsibilities for aid activities outside of Sweden's core programme countries;
- the Swedish Agency for Research Co-operation in Developing Countries (SAREC), whose activities included research co-operation and support to international research programmes;
- the Swedish International Enterprise Development Corporation (Swedecorp), which contributed to private sector development through the transfer of know-how as well as trade and investment promotion; and
- the Swedish Centre for Education in International Development (Sandö), which conducted training courses for aid workers as well as the general public.

#### 5.2.4. *Autonomous aid agency or ministry*



91. Another structure adopted by some DAC Member countries is to give an autonomous agency or ministry broad responsibilities in both aid policy and implementation. This model is found in Australia, Canada, the United Kingdom and the United States.

#### *Australia*

92. The management and administration of Australia's aid programme is the responsibility of the Australian Agency for International Development (AusAID), an administratively autonomous agency within the Foreign Affairs and Trade ministerial portfolio. With the aim of improving Australia's ability to deliver a responsive and outward-looking aid programme focused on results, AusAID underwent a major restructuring in 1998. Australia's relations with the multilateral development banks are co-ordinated by the Treasury.

93. Australia's aid programme also finances the Australian Centre for International Agricultural Research (ACIAR), which aims to improve food security and reduce poverty by mobilising Australia's research capacity to help solve agricultural research problems of developing countries.

*Canada*

94. The Canadian International Development Agency is the lead government organisation responsible for Canada's development co-operation. CIDA is an administratively autonomous agency within the Foreign Affairs and International Trade ministerial portfolio. It has a broad mandate for both bilateral and multilateral aid (except for the World Bank, which is the responsibility of the Department of Finance, and some UN programmes, which are the responsibility of the Ministry of Foreign Affairs and International Trade).

95. Canada has created an autonomous research body, the International Development Research Centre (IDRC), which initiates, encourages, supports and conducts research into the problems of the developing regions of the world. Canada has also established the International Centre for Human Rights and Democratic Development (ICHRDD) which supports the promotion, development and strengthening of democratic and human rights institutions and programmes.

*The United Kingdom*

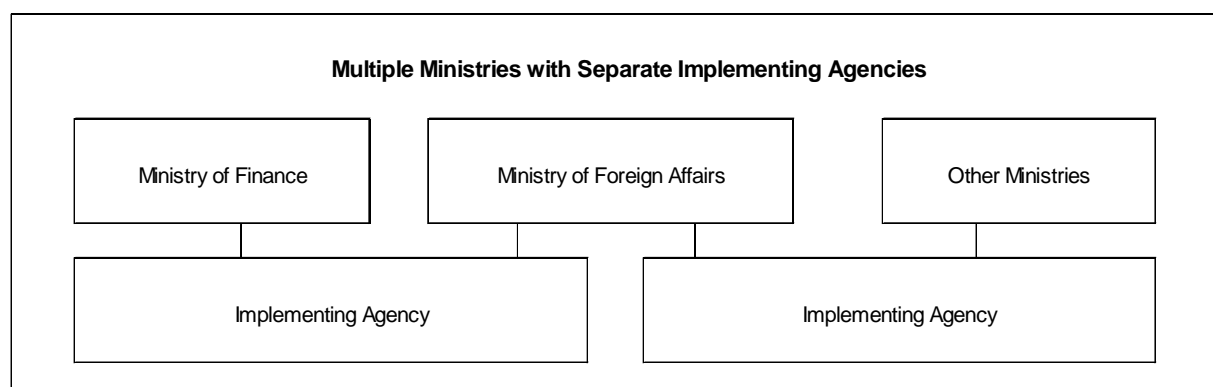
96. The British Government elected in May 1997 created the Department for International Development, placed under the ministerial responsibility of a cabinet-level Secretary of State, to administer Britain's bilateral and multilateral development co-operation programme. The Department for International Development (DFID) replaced the former Overseas Development Administration (ODA), which was part of the portfolio responsibilities of the Secretary of State for Foreign and Commonwealth Affairs. Britain consequently now has separate Departments for aid and foreign relations, each reporting to a cabinet-ranking minister.

97. Britain's aid effort also assists other countries to develop their economies by helping them create long-term self-sustainable businesses. Through the Commonwealth Development Corporation (CDC), Britain provides long-term financing and assists in structuring business proposals, providing management for industrial companies and manages funds for third-party investors.

*The United States*

98. The United States Agency for International Development is the main instrument of the United States' bilateral aid effort. USAID is an independent agency and has primary responsibility for promoting sustainable development, providing humanitarian assistance on a bilateral basis and managing bilateral aid programmes and activities. The United States' aid programme is also channelled through the Treasury (for multilateral development banks), the State Department (for UN programmes and some refugee and humanitarian programmes) and the Peace Corps (for the volunteer programme). Food aid is budgeted by the Agriculture Department but, for the most part, managed and implemented by USAID. A draft reorganisation bill for the State Department, supported by the current administration, would keep USAID as an independent agency but in future it would report directly to the Secretary of State, rather than the President, as in the past.

### 5.2.5. *Multiple ministries*



99. In the remaining DAC Members, a range of ministries is involved with development co-operation with each taking responsibility for a particular aspect of the programme. In some cases, implementation is entrusted to independent executing agencies. With such a structure, a greater-than-normal effort needs to be made to ensure co-ordination among the various entities involved and coherence of the policies they pursue. A multiple ministry structure is found in Austria, the European Commission, Japan, France, Portugal and Spain.

#### *Austria*

100. The Department of Development Co-operation (DDC) in the Federal Ministry of Foreign Affairs is formally charged with overall co-ordination of Austria's aid policy and manages bilateral project and programme grants, a major part of the scholarship programme, a small loan scheme and contributions to some of the UN programmes. However, this constitutes only a small share of Austria's ODA, less than one fifth in recent years. The largest part is administered by the Federal Ministry of Finance, which is in charge of contributions to multilateral development banks, debt forgiveness and concessional export credits. Aid for refugees during their first year in the country, another large component of the programme, is administered by the Ministry of the Interior. The Federal Chancellery administers projects in Albania, Bosnia and Herzegovina, and the Federal Republic of Yugoslavia, the Ministry of Science and Research is involved with the scholarship programme and the Minister of Agriculture with food aid and funding for the World Food Programme.

#### *The European Community*

101. The European Community's aid programme is managed principally by three Directorates-General (DGs) of the European Commission:

- DG VIII implements the European Development Fund (EDF), which has a special budget under an overall international agreement (the Lomé Convention) and focuses on 69 African, Caribbean and Pacific (ACP) countries and South Africa;
- DG IB implements the aid programme to Asian, Latin American and Mediterranean (ALA-MED) countries; and
- DG 1A administers the programme for Central and Eastern European countries and the new independent States of the former Soviet Union (known as TACIS and PHARE).

102. A reform of the Commission's aid management structure occurred in 1998 with the establishment of a "Common Service" to take over management of the implementation phases of EC aid. This work was previously handled by the Directorates-General with external relations responsibilities.

103. Two other entities contribute to the overall European Community development effort. The European Community Humanitarian Office (ECHO) manages humanitarian and emergency assistance while a portion of the EC programme is also channelled through the European Investment Bank (EIB), which provides interest-rate subsidies and risk capital.

#### *France*

104. Following reforms made in 1998, France's aid management system now includes:

- the Treasury Directorate of the Ministry of Economic Affairs, Finance and Industry, responsible for investment project funding (both loans and grants), aid for structural adjustment and the multilateral development banks;
- the Ministry of Foreign Affairs, Co-operation and the Francophonie, responsible for technical co-operation, food aid, emergency aid and UN programmes; and
- the French Agency for Development (AFD) -- previously known as the French Development Fund (CFD) -- which became the principle implementing agency for French ODA.

105. Bilateral French aid is now concentrated in a "priority zone of solidarity" consisting of more than 50 African, francophone and other ACP countries.

106. A number of other ministries also participate in France's aid effort in fields related to their specific area of expertise. These other ministries include National Education, Research, Agriculture and Public Works. France's ODA to its overseas territories is the responsibility of a separate Secretariat of State within the Ministry of Home Affairs.

#### *Japan*

107. In Japan, the Economic Co-operation Bureau of the Ministry of Foreign Affairs plays a central role in policy and management of grant aid and technical co-operation. Policies on loans are formulated by the Ministry of Foreign Affairs in consultation with the Ministry of Finance, the Ministry of International Trade and Industry, and the Economic Planning Agency. Some 14 other ministries and agencies receive ODA budget allocations, in particular the ministries of Education, Agriculture, Health and Welfare, and Labour. The Ministries of Finance and Foreign Affairs are responsible for relations with the multilateral development banks.

108. Japan has two main implementing agencies for its bilateral ODA. The Japan International Co-operation Agency (JICA) manages the technical co-operation and volunteers programmes and is involved with the implementation of grant-funded projects. JICA is under the supervision of the Ministry of Foreign Affairs. The Overseas Economic Co-operation Fund (OECF) provides ODA loans and private sector investment finance.



109. Non-concessional loans, i.e. loans not sufficiently concessional to qualify for recording as ODA, are handled by the Export-Import Bank of Japan (JEXIM). The Japanese Cabinet decided in 1995 to merge OECF and JEXIM.

### *Portugal*

110. In Portugal, ODA is provided by several ministries and other institutions. With effect from 1999, when the government approves the overall budget it also approves the integrated budget for development co-operation, defining the allocation for each ministry and secretariat of state involved with the aid programme.

111. The Institute for Portuguese Co-operation (ICP) ensures the planning, co-ordination, monitoring and evaluation of development co-operation as an integrated part of Portuguese foreign policy. The ICP reports to the Ministry of Foreign Affairs, but has administrative and financial autonomy.

112. The Ministry of Finance is in charge of the vast majority of Portuguese ODA. The Ministry of Finance deals with financial assistance (both bilateral and multilateral), grants for budget support and technical co-operation related to its areas of expertise. The Economic Co-operation Fund (FCE), which is financed by the Ministry of Finance but under the responsibility of both the Ministries of Finance and Foreign Affairs, promotes Portuguese investments and business interests in developing countries. Among the other institutions involved with the aid programme are the Ministries of Planning, Youth, Employment and Social Security and some municipalities.

### *Spain*

113. The Ministry of Economy and Finance plays a large role in Spain's aid programme. This ministry is responsible for more than half of Spain's ODA and manages a soft loan scheme [the Development Aid Fund (FAD)], debt matters and contributions to multilateral development banks and the European Development Fund. Within the Ministry of Foreign Affairs, the Secretariat of State for International Co-operation and Latin America (SECIPI) manages a considerably smaller, but growing, share of ODA. SECIPI funds the Spanish Agency for International Co-operation (AECI) -- the primary operational unit for Spain's aid activities -- as well as a grant scheme and UN contributions. Other ministries and regional authorities also provide ODA.

114. Two inter-ministerial committees exist to co-ordinate the various instruments of the Spanish programme. The Inter-ministerial Commission for International Co-operation (CICI) has representatives from twelve ministries and meets twice a year to discuss the annual plan of aid activities to be carried out and their funding. The Inter-ministerial FAD Commission, with representatives from several ministries, meets monthly to consider proposals for FAD credits, following which it forwards recommendations to the Council of Ministers for approval.

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## CHAPTER 6

### ORGANISATIONAL FRAMEWORKS: MANAGEMENT STRUCTURES AND ISSUES

115. As mentioned previously, the organisational framework of DAC Members' aid management systems vary and those systems have a strong tendency to evolve and adapt to changing international circumstances. Similarly, the organisational structure of aid agencies and other aid-related bodies also vary and evolve. A number of basic issues concerning internal structures are discussed in this chapter, including:

- whether to adopt a geographic or functional approach;
- how to structure management systems for technical and capital assistance;
- the use of specialised units, for example, to promote particular issues or handle certain subject matters;
- decentralisation and the strength and responsibilities of donors' representation in the field;
- the extent to which parts of the aid programme can be contracted out to external service providers; and
- the management of aid agencies' human resources.

There are no right or wrong responses to these questions and the same response may work better in one national context than another. These questions do, however, merit consideration as well as reassessment from time to time.

#### **6.1. Geographic vs. functional approach**

116. Aid administrations have had to deal with the question of whether aid should be country-specific, in which case a geographical focus predominates, or whether it should be implemented along functional or sectoral lines (such as education, health, population, infrastructure, agriculture, private sector development, etc.). At various times, agencies have been organised on either geographic or functional lines or a mix of the two.

117. Giving more weight to a geographical focus enhances the prospects of better co-ordinated and more coherent country strategies. On the other hand, the geographic approach has drawbacks, too. It may be more vulnerable to political pressures and, by giving relatively less power to technicians, there could be some loss of professional acumen in the choice and design of projects. There could also be more pressure to "help" particular countries, for example, by insisting less on technical discipline.

118. Giving primacy to a functional or sectoral organisation puts technicians in the driver's seat, which has some positive aspects. There can then be a good sharing of technical expertise across experience in different countries and a premium is placed on technical analysis of development problems. Under the functional approach, there is, however, a tendency for technicians to assume major responsibilities for projects, which may make it difficult to maintain a coherent country strategy.

119. Most aid agencies now combine elements of both a geographic and functional focus to form a hybrid structure, with a definite tendency towards putting the geographic office in the driver's seat. Sectoral or technical inputs are then provided as needed. This reflects the increased attention of donors on country programming to guide all efforts in a given recipient country. It also reflects a shift in recent years from project assistance to more programme aid, and aid planned and provided on a sectoral basis.

*An example: Sweden*

When the Swedish International Development Co-operation Agency was created in 1995 from the merger of five previously separate entities, a matrix structure was adopted with four "staff" departments (Administration, Policy, Evaluation and Internal Audit, and Information), three geographic departments (Africa, Asia and Latin America) and five sector departments (Democracy and Social Development, Infrastructure and Economic Co-operation, Natural Resources and the Environment, Research Co-operation, and Co-operation with NGOs and Humanitarian Assistance). Sida also has an integrated Central and Eastern Europe Department, with both country desk officers and sector specialists.

## **6.2. Capital and technical assistance**

120. Another issue for aid administrations is how to manage the provision of capital assistance (infrastructure or "hardware") as opposed to technical co-operation (technical assistance or "software", know-how, training), which may be investment-related or free-standing. Some DAC Members have separate organisations for capital assistance and technical co-operation while other donors entrust the main aid agency to provide both capital and technical assistance. Programme assistance or financial assistance may be provided by either type of organisation.

121. A certain logic exists for having separate organisations for hardware and software, based on two premises. First, capital assistance is often for revenue producing entities and so could be serviced by loans. A bank-like structure or fund, able to take a rate-of-return approach, is therefore well adapted. On the other hand, technical co-operation, which is not revenue producing, has typically been funded by grants. Second, the skills required to elaborate, plan and implement capital assistance projects are different from those required for technical co-operation. On the other hand, the existence of separate capital and technical assistance organisations does not facilitate the emergence of the new types of aid programmes being pursued in many developing countries, for example sector-wide approaches in areas such as agriculture, education and health, or social development programmes.

122. The line between these two types of organisations has become increasingly blurred and problems, such as co-ordination difficulties, can arise from this division of labour. Capital projects often require technical co-operation inputs, and *vice versa*. For example, feasibility studies are sometimes prepared with technical co-operation, but their destination may be a capital assistance project. As a result, capital assistance agencies are now also providing some software, and technical co-operation institutions are also providing some hardware.

*An example: Germany*

The main channel for Germany's technical assistance is the Agency for Technical Co-operation (GTZ). Capital assistance is exclusively administered by the Bank for Reconstruction (KfW), which also finances some project-related technical assistance to its counterparts. Co-operation between the KfW and GTZ has been increasing in recent years at the country and sectoral levels and on individual projects, with each institution contributing its specific know-how. At the end of 1996, 142 projects were jointly supported in 58 countries, mostly in the areas of resource protection, primary health care, basic education and rural water supplies. In the future, co-operation will be even closer following the opening of KfW field offices which will share premises with GTZ. Although closer co-operation between two institutions with different instruments and procedures poses some challenges, the degree of overlap now between capital and technical assistance is such that KfW and GTZ are bound to develop even closer links.

123. The same type of problem can arise within an agency or ministry with separate divisions or organisational units in charge of different functions, including capital assistance and technical co-operation. Some observers believe that taking a geographic approach and placing primary responsibility with country desks helps to overcome this problem, since programmes can be built more readily around a country strategy. All inputs and technical expertise are brought to bear as and when needed and co-ordinated around the strategy. This tends to give focus to the programme, reduces the possibility of overlap and facilitates the co-ordination role of the recipient country.

### **6.3. Specialised units**

124. Aid administrations have found it useful, if not necessary, to establish distinct units to focus on particular aspects of their programme. For example, one organisational principle derived from DAC discussions indicates the need for a special unit, independent of project managers, to carry out the evaluation and audit functions. This is necessary so that evaluations and audits can be conducted with impartiality and candour.

125. Experience suggests that in order for new development issues to take root within an aid organisation, such issues need to be specifically delegated to a specialised unit which can play an advocacy role within the system. When no one is assigned specific responsibility for these issues, they may fail to receive the support they need, either in individual project designs or in free-standing projects. New subject areas -- for example participatory development, good governance and human rights -- may also call for particular skills and sometimes these capacities are grouped in specialised organisational units.

126. Cross-cutting issues, such as gender equality, environment and participatory development and good governance, are often entrusted to a specialised unit. In DAC Member aid organisations, many of these issues have now taken root and are a "mainstreamed" component of the programme as a whole. Once issues have been mainstreamed and the associated specialised unit has successfully completed its task, the question then arises whether to disband this unit. In some cases, and in relation to important issues such as gender equality, some aid agencies have preferred to maintain a specialised unit to monitor activities and play an oversight role.

127. The elaboration or design of projects is a special discipline calling for both technical inputs and, equally important, an overall, generalist view to synthesise technical aspects (organisational, financial, economic, social, engineering) so that the project will be coherent. This suggests the need for special project design skills. Some agencies recognise this as a special discipline in its own right and build this factor into their organisational structure. Other concerns, such as procurement and contracting of goods and services, legal, administration, training, public relations and development education, also need to be included in the system and are often housed in specialised units.

#### **6.4. Donor representation in recipient countries**

128. Aid representatives posted in the field may have extensive authority or be little more than letter drops to pass information. Most commonly among DAC Members, field representation consists of one or two aid representatives, not always aid professionals, integrated into the diplomatic mission in major recipient countries. These staff may work part-time on aid issues, carrying out other duties as well. These staff can also be responsible for aid matters in neighbouring countries without resident aid representatives. Managing partnerships in the field is a challenge for all donors. This is all the more so when donors -- and this applies in particular to smaller donors -- have limited representation in recipient countries.

129. At least two other models of field representation are found among DAC Members:

- special missions or offices with more substantial aid staffs, for example:
  - Australia has a large aid office in Papua New Guinea, its largest aid recipient;
  - Denmark has special missions in India and Tanzania;
  - the EC has delegations in many recipient countries;
  - Ireland has strengthened its aid management capacity in priority countries with the appointment of Programme Officers;
  - Spain has set up technical co-operation offices in most countries that receive significant amounts of grant aid;
  - Switzerland has ten co-ordination or liaison offices in the field; and
  - in 1998, the United States had 72 USAID Missions world-wide, (down from 101 in 1993); and
- regional missions with a high degree of autonomy covering several recipient countries. USAID has at various times had large regional missions both providing field management and services to other field offices (e.g. the Regional Economic Development Services [REDSOs] in Africa).

#### *An example: The United Kingdom*

The United Kingdom has devolved the majority of its overseas operations to offices in the field. These offices operate with a significant delegation of authority, which helps promote dialogue with recipient countries and build the

partnerships necessary for effective development co-operation programmes. Six overseas offices with regional responsibilities, known as “British Development Divisions”, are located in:

- Barbados (for the Caribbean);
- Fiji (for the Pacific);
- Kenya (for East Africa);
- South Africa (for Southern Africa);
- Thailand (for South-East Asia); and
- Zimbabwe (for Central Africa).

“Development Assistance Management Offices” with country responsibilities are found in Bangladesh and India. Programmes to other parts of the world are managed from London.

130. The pros and cons of decentralisation have long been debated. Current opinion favours a strong, competent in-country capacity as a means of improving development partnerships. The DAC has endorsed the idea that co-ordination in-country may be improved by donors’ own delegation of decision-making authority from headquarters to field missions.

#### *Decentralisation*

131. Decentralisation ensures the availability of a dedicated team. If it is large enough, it can be composed of multi-disciplinary professionals. The field usually provides a better climate for teamwork and better country or regional focus. A team in the field can eliminate the duplication between advisors and administrators by using advisors as project managers. Most importantly, a strong presence in the recipient country with on-the-spot authority facilitates the aid process, in particular, dialogue and partnership with the recipient country and aid co-ordination with other donors. While it also provides field staff with a better environment for understanding local cultural and political realities, donors are wary of having their representatives in the field co-opted by the local government or placed under pressure.

#### *Centralisation*

132. Retaining a centralised system in headquarters also has advantages. It can provide a sense of objectivity, because of the distance between decision making and the field, although this advantage is counter-balanced by the risk of being “out of touch”. It can facilitate high-level and even ministerial concern and greater political involvement. More staff support can be guaranteed, which liberates senior staff for strategic work, and it can allow access to the wider range of specialist advice found in headquarters. Finally, costs are lower and there are no staff posting problems, although head-office staff may need to accept to travel extensively as part of their normal work.

### **6.5. Contracting-out and external implementation**

133. However large an aid administration may be, it cannot do everything and some tasks are inevitably contracted out. The issue for an aid administration is to determine how far the process of

contracting out can be taken, i.e., distinguish those aspects of the programme which could be contracted out from core activities which should not be. There must also be a capacity within aid administrations to do the contracting-out and to manage the work of contractors.

134. Members of the DAC differ in the degree to which they use and rely on external resources and the tasks which are contracted out. Many donors use “in-house” staff to undertake project identification, development and appraisal work and occasionally use outside expertise to supplement this capacity when required. Negotiations with recipient governments on commitments must be done by “in-house” staff. On the other hand, consultant firms are often contracted to carry out major feasibility studies and to supervise project implementation. Some donors now rely quite heavily on contracted services to both manage and implement their programmes.

*An example: Austria*

In most DAC Members, statistical work, including reporting data to the DAC, is carried out within the lead aid agency. In Austria, however, this task has been contracted out to a private foundation, the Austrian Foundation for Development Research (ÖFSE). This foundation produces an annual report on Austria’s development co-operation programme and compiles data for submission to the DAC, through the Federal Ministry of Foreign Affairs.

135. The Public Management Service of the OECD has produced a set of Guidelines which identify a series of key success factors for achieving the benefits of contracting out (see Box 3<sup>17</sup>). While not designed exclusively for aid agencies, several factors are of particular relevance for aid managers:

- Service requirements should be specified in terms of outcomes and outputs, not inputs. This means that specifying *what* the activity is, not *how* the activity is to be performed. Operational flexibility is essential for the contractor to be innovative in performing the activity, and thereby securing efficiency gains. These outcomes or outputs should be specified as fully as possible, and include appropriate service quality measures.
- Contracting out an activity does not diminish, in any way, the responsibility of the organisation for the performance of the service. This is especially relevant when that service is being provided to a third party.
- The organisation should regularly and formally monitor the performance of the contractor to ensure that the performance standards stated in the contract are fulfilled. When performance information originates from the contractor, it should be audited to ensure its accuracy.
- Competitive supplier markets are key to achieving the benefits of contracting out. The government should foster competitive markets by recognising that its contracting out practices can play a major role in the development of markets for the relevant services.
- Organisations that contract out activities need to maintain their knowledge of the market and their technical knowledge of the activity. This is imperative in order to be able to communicate with the contractor on equal terms, and to be in a position to effectively tender the activity again. This is especially relevant in the case of contracting out complex activities.

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17. The *PUMA Best Practice Guidelines for Contracting Out Government Services* are available on the Internet at: <http://www.oecd.org/puma/mgmtres/cards.htm#cgs97>



### Box 3. Best Practice Guidelines for Contracting Out Government Services

At the 1996 Meeting of the OECD's Public Management Committee, a series of *Best Practice Guidelines for Contracting Out Government Services* were approved. The purpose of these Guidelines is not to identify which activities should be contracted out, but rather to identify best practices for evaluating whether government services should be contracted out and how the process can best be managed once the decision to contract out has been made.

Under eight headings, these Guidelines identify the key success factors for achieving the benefits of contracting out. The eight headings are:

- secure top management involvement and encourage re-engineering;
- focus on staff issues;
- specify service requirements in terms of outcomes or outputs;
- monitor performance and foster co-operative relationships;
- ensure valid comparisons;
- evaluate in-house bids;
- foster competitive markets; and
- develop and maintain the necessary skills.

## 6.6. Human resources

### *The employment basis for aid agency staff*

136. DAC Members staff their aid agencies in various ways. Numerous factors explain this variation, such as differences in the structure of national governments, how aid agencies fit into that structure, the size and type of aid programme managed, the degree the programme is contracted out and the employment basis and mobility of staff.

137. In some DAC Member aid agencies, staff are civil servants recruited and promoted through general selection procedures. These staff are employed by the national government and their careers are expected to encompass responsibilities in a number of areas, perhaps spanning several ministries. In these circumstances, staff are prized for their generalist skills, adaptability and ability to oversee and monitor the implementation of aid programmes. This situation occurs particularly with ministries responsible for development co-operation or, for example, when career diplomats are involved in managing DAC Members' aid programmes.

138. In other DAC Member aid agencies, staff are hired directly by the agency itself, sometimes on fixed-term contracts, to perform particular tasks or provide specialist expertise. Such situations appear to be more common when aid is managed through specialised implementing agencies. In these circumstances, staff are prized for their technical expertise and the experience they can bring to the organisation. Neither the aid agency, nor the staff members themselves, may be looking for a long-term professional association and staff have primary responsibility for managing their own careers.

139. Each system has advantages and disadvantages. Smaller programmes cannot always offer unlimited scope for people to pursue a career and reach high levels of responsibility. Consequently, they may well benefit from a flexible staffing system which does not raise employees' expectations unrealistically high and which enables staff to leave and return to the aid programme as their careers unfold. On the other hand, larger aid programmes managed by an autonomous aid administration may be

able to offer their staff a challenging, varied and rewarding working environment, with the potential to reach high levels of responsibility, and may need to make efforts to retain a core group of experienced and dedicated staff within the aid agency.

140. The employment basis for aid agency staff is often determined by the way the DAC Members' public sector is structured and managed, and aid managers may have little control over how staff are employed. This can be regrettable, as ideally the nature of the aid programme should determine the organisational structure and employment basis for staff, and not *vice versa*. Clearly, an aid programme which relies overly on generalists with limited experience will be different in nature from one managed by career development specialists.

141. Another factor of relevance for aid agencies is that staffing requirements for development co-operation have changed and are likely to continue changing in the future. When reliance is placed on staff employed with civil service conditions, aid agencies need to ensure that their training activities are sufficiently well developed so that their generalist staff remain informed and up-to-date. In such circumstances, agencies will also inevitably need to contract in short-term expertise and will need a budget and efficient structures in place for this. Employing experts on a contract basis enables aid agencies to up-date and renew their selection criteria to ensure that the staff they hire have the range of skills needed. For example, there has been growing demand for people with skills in social and institutional development to advise on programme management. Similarly, the skills required of technical assistance staff now place more emphasis on facilitating knowledge acquisition by counterparts. The success of such an approach is predicated on the assumption that there will usually be an abundant supply of experts available with up-to-date knowledge and experience.

#### *Size of aid administrations*

142. The number of staff that aid management requires is difficult to estimate or to compare, even in rough terms, as different DAC Members have different oversight and management requirements and styles. Each uses a variety of staff from different sources (aid agencies, diplomatic services, technical ministries, consultants, third-country nationals and locals) to manage their aid programmes and drawing the line as to who to count as part of aid management or administration is hazardous.

#### *Professionalism, training and career prospects*

143. An aid management system is only as good as its people and no such system could function properly unless staff can be upgraded, trained, motivated and well-informed. The stronger and more dedicated the staff, the better chance it has to resist undue political and commercial pressures.

144. One of the best ways of upgrading the effectiveness and professionalism of staff is to institute a training programme. Many aspects of aid management are specialised so that a subject called "development studies" broadly encompasses the kind of training required. This can range from language, economics, financial analysis, gender analysis and country studies to the tools required for project and programme design, implementation and analysis. A unit or directorate in the system should be charged with the training function.

145. It is desirable for development co-operation staff to have attractive career paths open to them. Many DAC Members whose aid programme is closely attached to the Ministry of Foreign Affairs, such as Ireland, New Zealand and Norway, are able to provide some of their staff with career opportunities equal to those in other disciplines employed in the Ministry. Another motivating factor is sufficient opportunities, for those staff who so wish, to go on field postings on several occasions during their career.

## CHAPTER 7

### ORGANISATIONAL FRAMEWORKS: THE INTERNATIONAL LEVEL

#### 7.1. The importance of partnership and aid co-ordination

146. Development co-operation is a complex, multi-dimensional business involving a wide range of people from different backgrounds and with different expectations. There are risks, but the potential gains can be considerable. It is clear that development co-operation has been most successful when the people and institutions of developing countries have made sustained efforts to help themselves. To ensure the effectiveness of aid, therefore, people in developing countries must be “owners” of their development policies and programmes. This is why donors promote the establishment of “partnerships”, with local actors progressively taking the lead while external partners back their efforts to assure greater responsibility for their own development process.

147. Ensuring the effectiveness of aid also requires good co-ordination of external assistance. Aid coming from many sources and subject to different regulations and policies has the potential for creating confusion and overlap. The DAC has made aid co-ordination a central concern from its inception in the early 1960s and clearly took the position, in 1986, that the central responsibility for aid co-ordination lies with each recipient government (see Box 4<sup>18</sup>).

148. Donors must consequently try to facilitate co-operation with recipient governments and other donors. Doing this effectively is a challenge because of differing policies, procedures, budgets, timing and other factors such as rivalries, disagreement over approaches and sometimes unwillingness of recipient governments to co-ordinate donors.

149. Many aid agencies are now taking a more explicit and systematic approach to co-operation arrangements and techniques based on ownership and participation by the authorities and civil societies of developing countries themselves. Aid agencies are also paying more attention to co-ordination and harmonisation of donor practices in-country, including through the decentralisation of decision-making authority to field offices. In parallel, some developing countries have begun, in varying degrees, to exercise their own leadership in producing their strategies and in co-ordinating with their external partners. All the same, much needs to be done to help many developing countries strengthen their capacities to set the development agenda, design and implement appropriate policies and programmes, and lead the co-ordination process. In general, external aid partners need to gear themselves better to support these changes.

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18. Box 4 summarises the essential elements of the *Guiding Principles for Aid Co-ordination with Developing Countries* which were adopted by the DAC, meeting at the level of Development Co-operation Ministers and Heads of Aid Agencies, in 1986.

#### Box 4. Guiding Principles for Aid Co-ordination with Developing Countries

The DAC *Guiding Principles for Aid Co-ordination with Developing Countries* incorporate the following essential elements:

- Central responsibility for aid co-ordination lies with each recipient government.
- Developing countries need well designed policies and carefully appraised investment and expenditure programmes for effective and co-ordinated use of both their national and external resources.
- There is a need for aid agencies to help developing countries strengthen their analytical and management capacity to design and implement effective policies and programmes.
- There is a need for continuing discipline by both recipients and donors in adhering to carefully appraised and productive investment programmes. Such programmes will provide a particularly useful basis for aid allocations if they have been the subject of careful review and discussion with donors with the help and advice of the international financial institutions. They are a good basis for aid co-ordination.
- There is a need for close co-operation between recipient governments and the multilateral lead agencies but the processes of consultation and co-ordination should provide an opportunity for bilateral donors to express their views during the formative stages of policy and programme consultations between recipients and the international agencies.
- Full and frank exchanges of pertinent information on on-going and planned activities among donors, and between donors and recipients, are essential to the successful co-ordination and effective use of aid.
- There is a need to strengthen aid co-ordination at the local (i.e. recipient country capital) level, and to establish stronger links between central and local co-ordination arrangements. Central co-ordination arrangements should give the lead to local and sectoral co-ordination, *inter alia*, by identifying issues to be addressed at the local/sectoral level. Policy dialogue should be an intrinsic element of aid co-ordination at the local/sectoral level. Recipient governments should be at the centre of the process.
- Effective participation both in the policy dialogue and in aid programming at the local level will be facilitated by the presence of policy-oriented staff stationed in recipient countries in which individual Members have major aid interest.

150. As part of the DAC's continuing work aimed at effective implementation of the development partnerships strategy, a Forum of Development Partners, with involvement from developing country representatives, was convened in January 1998 to address some key implementation issues relating to ownership and donor procedures. The Forum was held back-to-back with the Committee's Senior Level Meeting. At this latter meeting, an eleven-point working checklist was agreed to guide efforts towards improving partnerships and simplifying and harmonising donor procedures (See Box 5<sup>19</sup>).

151. The DAC recognises that it can be difficult and complex for donors to adjust their procedures to those of host countries, even in those cases where sufficiently strong local procedures are already in place. Nonetheless, DAC Members are proceeding by flexibly adapting their policies in a small number of experiments to work through the problems encountered, test the feasibility and benefits of change and share good practice.

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19. This checklist is also available on the Internet at: <http://www.oecd.org/dac/htm/strength.htm>

## Box 5. Strengthening Development Partnerships

### A Working Checklist

1. Donors should encourage recipient partners to formulate their own development strategies -- setting out the local priorities, plans and instruments for implementing such strategies. This process should systematically involve civil society, as well as consultation with external partners. Where such locally-owned strategies are compatible with internationally-agreed goals, donors should work to implement their aid programmes in a co-ordinated manner on the basis of such locally-owned strategies and accept their discipline.
2. Donors should stimulate and help strengthen recipient partner led co-ordination of development co-operation. The capacity for local co-ordination (which can and should also strengthen the international process) may be improved by donors' own delegation of decision-making authority from headquarters to field missions. At the international level, the possible advantages and disadvantages of organising Consultative Group (and Round Table) meetings in the capitals of the recipient partners concerned, should be further tested in practice.
3. Transparency of donor and recipient partner interests and mutual trust should be increased through continuous dialogue, both informal and through systematic work on themes and sectors through standing sub-groups, preferably led by the host government.
4. External partners should agree in principle to adjust more to local procedures, where necessary helping recipient countries to bring their procedures and management capacities up to international standards. There may be useful DAC roles in identifying best practices and helping organise pilot exercises to move toward the simplification and harmonisation of procedures.
5. Practices involving tied aid are prominently identified among procedures that can impair local ownership and capacity-building, with substantial economic and credibility costs. The proposal for a DAC Recommendation to start with untying aid to least-developed countries could be a step toward improved partnerships in this area, yielding additional tangible benefits for partners from competitive bidding and from local procurement.
6. Donors share the objective of ending the proliferation of projects and providing their aid increasingly in forms of programme and budget assistance to support the country's strategic priorities for development. To this end, they need to help strengthen partner countries' capacities to manage such aid, and further test the various approaches and conditions under which they can pool their contributions in country funds for major sectors or key goals, e.g. poverty eradication. The integration of aid spending into the overall budget context may require donors to manage their own significant inputs differently to help strengthen local revenue pools.
7. There is a widely felt need to support local capacity building by changing the existing modalities for providing technical co-operation, which often appears expensive and excessive, hampering true ownership and the use and development of local capacities.
8. The practices of joint monitoring and evaluation of development programmes by donor and recipient partners should be further developed and applied, with a view to learning together the lessons of achievements and failures.
9. Improving the coherence between external partners' development co-operation policies and their other policies (such as those affecting trade and investment) affecting recipient partners is clearly seen as increasingly important to help the developing countries concerned move toward reduced dependence on aid.
10. Innovative ways of financing should be constructed so as to have ODA play catalytic and leverage roles in generating and attracting other forms of domestic and foreign investment; the roles of grants, loans, forms of support for the local private sector, and "matching" contributions by beneficiaries merit further careful assessment and coherent policies.
11. External partners should continue to help lessen the debt burden of recipient partners; in this context, among others, the modality of various types of "debt swaps" should be considered.

## **7.2. Mechanisms for partnership and aid co-ordination**

### **7.2.1. Co-ordination mechanisms**

152. Annual or biannual Consultative Group (CG) meetings, organised by the World Bank, and Round Tables, sponsored by the United Nations Development Programme (UNDP), have for many years been the principal formal mechanisms for dialogue between donors and recipient governments and co-ordination of donors' activities. These meetings may be supplemented by more frequent meetings of formal or informal groups established in-country to co-ordinate donors' activities in specific sectors and, in some cases, liaise with recipient government authorities. Other fora also exist with a regional focus, such as the Special Programme of Assistance for Africa (SPA), or a sectoral focus, such as the Consultative Group on International Agricultural Research (CGIAR). The DAC has been another forum for its Members to co-ordinate activities, especially at the policy level. Member States of the European Union are now more formally consulting each other and co-ordinating their aid programmes.

153. Participating in these various fora requires preparation and staff time on behalf of donors, at headquarters and in the field. Aid managers must realise that such co-ordination is an increasingly important part of their work and aid agencies should recognise and reward those staff who make significant contributions in this area.

#### *World Bank Consultative Group meetings*

154. The World Bank sponsored its first Consultative Group meetings in 1963. The principle aims of the Consultative Group meetings are to promote policy dialogue between donors and an individual recipient country and to mobilise resources in support of its development. One of the primary functions of these meetings has been the pledging of commitments by donors to fill a recipient country's identified financing requirements and discussion of general economic and development questions. In recent years, discussions have centred increasingly on both sectoral planning and issues relating to governance and participatory development. CG meetings are chaired by the World Bank, often the relevant Country Director, and have mostly been held at the World Bank office in Paris. Some CG meetings for Latin American countries have been held in Washington while those for some Asian and Pacific countries have taken place in Tokyo. CG meetings are now increasingly being organised in-country, which enables broader local participation, including from members of parliament, the private sector, civil society and NGOs.

#### *UNDP Round Tables*

155. The UNDP's key instrument for policy dialogue and resource mobilisation in the least-developed countries is the Round Table. These meetings started in the early 1970s and grew out of individual recipient country's own efforts, with support from the UNDP, to discuss aid requirements with the donor community. Consequently, and in contrast to Consultative Group meetings, Round Tables are led by the recipient government. The UNDP monitors Round Tables closely to ensure that the meetings are results-oriented and that pledges are followed up. The Round Table mechanism consists of a conference held every two years, usually in Geneva, which addresses broad, long-term development issues requiring technical and financial support from donors. Sectoral Round Tables are convened in-country as the need arises. In recent years, participation in Round Tables has expanded to include representatives from the private sector and NGOs, with more emphasis being placed on resource mobilisation.

### *Special Programme of Assistance for Africa*

156. The World Bank's Special Programme of Assistance for Africa was established in 1987 and has been one of the most important fora for the co-ordination of aid to sub-Saharan Africa. Its objectives are to mobilise adequate and timely financing in support of countries undertaking economic reforms and to improve the effectiveness of donor assistance. The agenda of the SPA has evolved to include the developmental context of economic reform with the formation of working groups on particular themes to support this. The SPA has also begun to explore ways of improving the design, sequencing and implementation of economic reform programmes in order to promote greater local "ownership" and strengthen impact.

### *The Consultative Group on International Agricultural Research*

157. The Consultative Group on International Agricultural Research was established in 1971. It is an informal association of public- and private-sector organisations from both developed and developing countries. The CGIAR is structured as a network of 16 international agricultural research centres that specialise in strategic and applied research on agriculture, food policy and natural resources management. The Group's mission is to contribute through research to sustainable agriculture for food security in developing countries. The CGIAR is co-sponsored by the UN's Food and Agriculture Organisation (FAO), the UNDP, the United Nations Environment Programme (UNEP) and the World Bank.<sup>20</sup>

### *Development Assistance Committee*

158. The major bilateral donors work together in the DAC to increase the effectiveness of their common effort to support sustainable development. Through this work, the DAC plays an important policy co-ordination role among its Members. The DAC undertakes four principal types of activities:

- the adoption of authoritative policy guidance<sup>21</sup>;
- the conducting of periodic critical peer reviews of Members' development co-operation policies and programmes;
- the provision of a forum for dialogue to exchange experience and build international consensus on policy and management issues of interest to Members; and
- the publication of statistics and reports on aid and other resource flows to developing and transition countries.

Further information on the functioning of the DAC is presented in a pamphlet entitled *How the OECD's Development Assistance Committee Works*.<sup>22</sup>

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20. Further information on the activities of the Consultative Group on International Agriculture Research is available on the Internet at: <http://www.cgiar.org/>

21. DAC Guidelines adopted prior to 1992 were published that year in a compilation entitled *Development Assistance Manual: DAC Principles for Effective Aid* (also known as the *DAC Manual*), while Guidelines adopted subsequently have been published individually.

22. Available on the Internet at: <http://www.oecd.org/dac/htm/hdw.htm>

*The European Union*

159. Fourteen of the 21 DAC Member countries are also Member States of the European Union. The 1993 Maastricht Treaty on European Union stipulates that the European Commission and EU Member States must co-ordinate their policies on development co-operation and consult each other on their aid programmes. To put this requirement into effect, work to improve co-ordination between the Commission and Member States on policy issues and operational matters has been continuing. Co-ordination is now occurring at several levels, for example, between the aid missions of EU Member States in recipient countries, between the headquarters of EU Member States' aid agencies in capitals, and between EU Member States' development co-operation ministers, meeting as the Development Council.

**7.2.2. Aid co-ordination at project and programme levels**

160. When implementing their development co-operation activities, donors can co-operate in a variety of ways on projects and programmes:

- **Cofinancing** involves the co-operative financing of projects by two or more donors, although normally each donor retains control of its own financing. Donors sometimes provide cofinancing in support of World Bank projects.
- **Joint financing** involves the pooling of resources of several bilateral or multilateral donors with one usually taking the leadership, including for procurement.
- **Parallel financing** is the provision of aid in direct support of the same general project by two or more donors. Different donors may finance separate physical components or units of a project or finance complementary projects within the same sector or geographic region. They may co-operate over time with one donor doing the master plan, another a feasibility study and another execution. One may provide infrastructure and another technical co-operation.
- **Multi-bi projects** refers to a case where a bilateral donor makes a special financial contribution to a project administered by a multilateral agency. The bilateral donor's contribution is exclusively financial and involves no administrative or executive responsibilities (multi-bi projects are usually financed in collaboration with UN agencies).
- **Associate experts** programmes arise where donors place staff at the disposal of a multilateral agency, with costs borne by the bilateral donor.
- **Integrated experts** programmes exist where experts are placed at the service of a government by different donors.
- **Ad hoc collaboration** between donors takes place within the framework of an inter-governmental body or regional organisation.
- **Donor groups**, such as the Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) finance projects in co-operation or through a joint institution (i.e. the Nordic Development Fund); and other groups -- such as the "like-minded group" which can include Belgium, Canada, Denmark, Finland, the Netherlands, Norway, Sweden -- discuss general approaches to development co-operation.



- **Joint evaluations** are often launched by two or more donors, sometimes of a multilateral programme.

### 7.2.3. *Review of the international aid system in Mali*

161. With the objective of determining how the principles of partnership, co-ordination and local ownership were being applied in a particular country, the DAC launched, in 1996, a review of the international aid system in Mali. This pilot exercise, undertaken in collaboration with Malian authorities, examined how donors collectively interact with Malian institutions and how their interventions impact on the overall ability of Malian authorities to manage aid effectively. The review also gained insights into how the relationship was perceived from the Malian perspective, by government and administration, NGOs, other parts of civil society and project/programme beneficiaries. Another objective was to determine what concrete improvements might be called for to improve the impact of aid on the well-being of the Malian population, with generic lessons for other partner countries.

162. A provisional report<sup>23</sup> found that there was a noticeable difference between the assessed effectiveness of aid projects in Mali and improvements in the well-being of most Malians. The analysis of the institutional environment highlighted the shortcomings of the aid system, such as the absence of any national structure to manage and co-ordinate aid effectively and a high degree of saturation in terms of the number of procedures and instruments used by donors. The analysis of socio-economic trends showed that human development progress and poverty reduction had not been commensurate with the resources allocated to development.

163. A meeting was convened in March 1998 by the two Malian Ministers most directly involved with the review which allowed development partners to review progress, findings to date and proposals for possible action. These consultations confirmed that there was a need and an opportunity to improve both the functioning of the international aid system in Mali and the impact of development projects and programmes on the living conditions of the majority of Malians. Specific proposals for future action were agreed at the meeting (see Box 6).

164. A number of actions are now taking place as part of the follow-up to the review. A consultative process involving the donor community, Malian authorities and civil society representatives has been initiated. A joint Malian/Donor Commission has been established to lead and monitor overall improvements in the functioning of the international aid system. Donors have begun to plan joint evaluations, in Mali as well as in some other countries. A follow-up work programme has been agreed covering three areas: clarifying and simplifying Malian arrangements for managing and co-ordinating aid; harmonising donor procedures and practices; and establishing mechanisms for co-ordinating and prioritising development activities accessible to all major actors. The OECD, through the Club du Sahel, and the UNDP are jointly monitoring developments on the ground and are committed to facilitating the process by bringing any key obstacles to the reform process to the attention of decision makers, on both the Malian and donor sides.

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23. The provisional report on the review of the international aid system in Mali is being up-dated before being published during 1999.

**Box 6. Mali Aid Review**  
**Proposals from a Consultation Meeting in Paris, March 1998**

**A. Operational principles for the change process**

A set of operational principles were discussed as a possible underpinning for the change process. They are as follows:

- The joint effort to improve the international aid system is in support of Mali's own development strategies and efforts. The aid system should always be seen as a supportive mechanism, and not as an end in itself.
- An in-country mechanism, including key Malian ministries and major donors, should be created to monitor reforms and deal with any obstacles that may arise.
- During a pilot phase (i.e. 18 months) both sides would agree to adapt or temporarily waive certain procedures that hinder local ownership, co-ordination and management of aid-funded activities. The objective would be to harmonize along the lines of national procedures but ones which meet internationally acceptable accountability standards.
- In the spirit of partnership, changes would be made on both sides and a strong element of reciprocity built into the pace of change.
- The system can only become more effective if subject to monitoring of indicators of results -- the new working set of agreed core indicators for development progress, together with Mali's identification of its top priority indicators, should help guide this effort. The indicators to assess aid contributions need to be further developed.
- The reform of the international aid system should be monitored periodically at high level in order to draw out generic lessons and sustain the political commitment to change. This could take place during regularly scheduled international meetings (UNDP Round Table meetings, Bank-Fund Annual meetings, DAC Senior Level and High Level meetings).

**B. Proposed immediate steps to carry forward the process**

**On the Malian Side**

- Initiate an annual process of ranking national development priorities consistent with a medium-term budgetary framework that is discussed in the presence of all sectoral ministers and interested donors.
- Confirm budgetary counterpart contributions for all projects and programmes.
- Consolidate and disseminate information on aid to the general public in various forms.
- Agree to systematically audit projects and programmes and make audit reports public.
- Identify key positions in the administration essential for taking leadership in aid co-ordination and management.
- Define terms of reference and recruit personnel for the key positions identified above.
- Establish a plan for reinforcing institutions including specific inputs expected from the donor community.
- Stabilize key personnel assignments for integrating NGOs into the international aid system.

**On the Donor Side**

- On a pilot basis, waive practices that create distortions and onerous administrative burdens on national procedures (procurement tying and requiring tax exemptions on aid-financed equipment and services were promptly identified).
- Regularly provide information to the authorities on aid uses and amounts by type of expenditure.
- Agree to timely disbursements of funds once agreed requirements have been met.
- Agree to assure sufficient representation and delegation of authority within Mali as well as adequate capacity to pursue experimental approaches.
- Provide support as requested to the key positions and structures during a transition period while the government achieves necessary changes through civil service reform.
- Stabilize field personnel during the experimentation period.

#### 7.2.4. *Other actions to improve partnerships and aid co-ordination*

165. Closer co-operation among donors to improve partnerships and aid co-ordination is also taking place in other contexts. Pilot efforts and special initiatives to explore complementarities and create synergies have been occurring in a large number of developing countries (see Appendix V). For aid managers stationed in the field, participating in these exercises is important for advancing the development partnership strategy, but there is also a risk that aid managers may need to spend large amounts of time fulfilling requests for information on their activities, particularly in those recipient countries included in several of these targeting efforts. Some of these pilots and initiatives are:

- The **World Bank's Comprehensive Development Framework (CDF)** focuses on a holistic approach to development with the country "in the driver's seat" and with strong partnerships among donors, the private sector and civil society. The approach seeks to put the social, structural and human aspects of development on a par with the more traditional macroeconomic analysis of countries. The CDF is being implemented in more than a dozen recipients over a "pilot" period of 18 months. Implementation will vary from country to country, depending on where the country lies in the spectrum of economic and social development, and on the stakeholders involved. The World Bank will not be involved in all aspects of implementation of the development framework and other donors may be well placed to provide support in those areas where they have a comparative advantage.<sup>24</sup>
- The **United Nations Development Assistance Framework (UNDAF)** aims to present UN programmes in 18 countries as part of a single framework with common objectives and time frames. These frameworks are formulated by the UN team in-country in partnership with local authorities and in close collaboration with stakeholders. In drawing up these frameworks, the UN had to make strategic decisions on its comparative advantage, based on an awareness of other donors' activities in the same country. Following a review of these pilot efforts, the decision has been taken to extend this programme to all countries by 2001.
- Through the **Integrated Framework for Trade-Related Assistance to Least-Developed Countries**, six multilateral institutions are assisting least-developed countries meet their identified needs for technical assistance in the area of trade capacity development. Initially, the six agencies [the World Trade Organisation (WTO), the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre (ITC), World Bank, UNDP and IMF] identify those needs which they can satisfy, either individually or in collaboration with others. Other donors are subsequently invited to fill any remaining gaps.<sup>25</sup>
- Donors represented in the Economic Management Working Group of the World Bank's **Special Programme of Assistance for Africa** have agreed to make a co-ordinated effort to harmonize and streamline their administrative and procedural requirements and, to this end, are moving towards common implementation arrangements for designated sector programmes in five African countries. These efforts are being carried out in close co-ordination with recipient governments.

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24. More information on the Comprehensive Development Framework is available on the Internet at: <http://www.worldbank.org/cdf/>

25. More information on the Integrated Framework is available on the Internet at: <http://www.lacs.org/>

- The **European Commission** conducted pilot programmes in six countries between 1994 and 1997 with the aim of improving **operational co-ordination** between the Commission and EU Member States. These pilots resulted in the adoption, in 1998, of guidelines for operational co-ordination.
- **DAC Members** are undertaking a series of pilots to **improve governance**. Lead donors in each of eight countries are promoting dialogue and improved collaboration between donors and the government on issues of good governance and participatory development.
- The **IMF and World Bank** have launched a pilot programme in six countries to improve collaboration so as to deliver programmes that better integrate macroeconomic policies, structural reforms and social concerns.
- The **African Development Bank and World Bank** have launched a pilot programme in three African countries to promote better co-operation at the country level in up-stream work, such as country assessments and expenditure reviews, and portfolio management.

### 7.3. Planning and implementation of bilateral assistance

166. The preparation and implementation of development co-operation activities involves tasks which donors must carry out with recipient country authorities or the people who are the ultimate target group or beneficiaries. These tasks include consultation on country programmes, identification and screening of projects, project design -- including participation of the beneficiaries themselves so that they will have ownership of the project -- monitoring, implementation, administrative support, technical co-operation inputs and evaluation of the project. Some DAC Members, for instance Japan, also provide "aftercare" or follow-up after a project has been implemented. A number of DAC Members are now making efforts to move away from providing assistance in the form of a wide range of varied projects towards an approach where aid is provided through integrated sector programmes in the context of jointly-negotiated, multi-year country programmes.

167. Members of the DAC adopt different methods for liaising with people in the recipient country. Some rely on their diplomatic representation in the country, who may be supplemented by assigned aid staff. Others have separate aid offices or missions with varying degrees of authority. Still another manner of working with local authorities is to dispatch missions from headquarters to the field to identify and negotiate programmes.

168. Bilateral development co-operation is usually extended on the basis of a general government-to-government agreement. These agreements set out the framework for co-operation and sometimes specify the status that aid staff will receive, immunities and respective obligations of both parties. These agreements are not usually considered "commitments" or obligation of funds, in the DAC sense or in a legal sense, and usually require subsequent agreements on individual projects and programmes, which become the actual commitments.

169. To give substance to these general agreements, donors and recipients often organise annual meetings, or mixed commissions, to consider the future planning of activities on a one-year or multi-year basis. The minutes of these meetings may constitute an indicative programme, which may then be signed. Subsequent agreements on individual projects and activities are usually signed to define them and make the agreement binding. These usually refer to, or incorporate by reference, information on the project, procurement procedures, restrictions, rules on bidding, respective contributions, privileges and immunities

(usually goods and services imported are immune from identifiable taxes) and procedures to be followed. In addition, where aid is provided as a loan, the financial terms and conditions are also specified, including the times for payment of interest and repayment of principal.

170. Technical co-operation agreements may be similar to other types of agreements, but exemptions and privileges are particularly important. The recipient government is often required to provide counterparts and local costs for offices, transport or housing. Counterparts are often trained under the project, either in-country, in the donor country or sometimes in a third country. These projects are often considered management intensive as they require considerable staff time to design and implement.

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## CHAPTER 8

### SOURCES OF FUNDS -- FUNDING DEVELOPMENT

171. Today, DAC Members primarily fund their aid programmes through annual appropriations voted by their national Parliament. In some cases, these funds are supplemented from other sources, such as repayments from earlier lending, borrowings on the capital market, national lotteries, or aid from local or regional governments.

#### **8.1. National budget allocations**

172. Aid budgets or appropriations are voted by national parliaments for the forthcoming fiscal year on the basis of government proposals. Such budgets have the force of law and are sometimes used to define the main features of the development co-operation programme. Normally these budgets are sufficiently general to allow governments some flexibility in the allocation of aid, although parliaments may give more precise indications, in terms of geographic allocation, aid volume for individual recipient countries or regions, or particular uses.

173. Funds for multilateral and bilateral assistance are usually appropriated separately as it is typically the Ministry of Finance which is responsible for international financial institutions, not the lead aid agency. Food aid funds are also sometimes appropriated separately. In DAC Members where several ministries are involved with bilateral development co-operation, such as France and Spain, there may be no “aid budget” as such, as each ministry funds its aid activities from its own resources.

#### *Pressures to commit and disburse funds*

174. One of the perennial questions about aid management is how to reconcile the long-term nature of development co-operation, calling for multi-year planning horizons, with the normal practice of aid appropriations lapsing each year. In most DAC Members, general government fiscal procedures require that funds appropriated in a given year be disbursed within that year. As a consequence, development agencies operate under considerable pressure to obligate and disburse funds. This cycle imposes rigidities that must be reconciled by aid managers with their programme operations. The “obligate and disburse” syndrome tends to push aid managers into rapid action, sometimes excessively rapid, making it difficult to take the time to design and implement projects at the ideal pace needed for development countries to absorb them. The budget process makes great demands on staff time in aid administrations, including senior officials.

#### *Multi-year programming and unused funds*

175. Although unused budget funds usually lapse, special provisions exist in some countries to avoid this problem or to carry funds forward to the following year:

- in Germany, for the major aid budget lines, forward planning is made possible through the use of “commitment authorisations” which form the basis for multi-year pledges with recipient countries or multilateral institutions;
- in New Zealand, the 1994 *Fiscal Responsibility Act* obliges the government to present three-year projections for each budget item, providing a degree of predictability in budget allocations which is beneficial for ensuring some continuity in aid planning and management;
- in Sweden, unspent funds for a particular recipient country are carried forward to the next year;
- in Switzerland, the Federal Assembly passes on major portions of the aid budget in multi-year frameworks staggered over several years;
- the United States generally operates on a commitment basis, whereby funds appropriated must be committed during the fiscal year in question but can be disbursed over a period of years; in some cases, the Congress has also provided multi-year appropriations;
- bank-like institutions, such as those operating in France, Germany and Japan, also generally operate on a commitment basis, with disbursements occurring over a period of years; and
- aid channelled through a development fund -- [the French Assistance and Co-operation Fund (FAC), the Portuguese Economic Co-operation Fund (FCE) or the Spanish Development Aid Fund (FAD)] -- may remain available beyond the current fiscal year.

176. One unique example is the Development Co-operation Fund of Luxembourg. This fund is not subject to the annual budgetary appropriation principle and allows considerable administrative flexibility. Amounts outstanding at the close of one financial year can be carried over.

#### *Disbursements and pipelines*

177. Related to the appropriation of funds is the issue of the disbursement rate of those funds. It tends to be easier to elaborate and authorise projects than to implement them. Numerous problems can intervene as project implementation unfolds. For example, aid managers may find it hard to recruit staff, local government clearances may be slow coming through and technical problems may arise. When project implementation slows up or halts, funds remain unspent and this is referred to as the project pipeline.

178. If a number of projects or programmes accumulate pipelines, then an entire ministry or agency may have a large amount of money unspent, which could raise questions about why it is necessary to appropriate more money. Pipeline analysis may help to indicate that projects are encountering difficulties and, at the macro level, indicate general implementation difficulties being experienced by an agency.



## 8.2 Other sources of funds

### 8.2.1. *Amortization and interest payments*

179. Another source of aid funding for many donors is the receipt of repayments of principal (amortization) and payment of interest from earlier lending. This source is only relevant for donors who have, or had, substantial loan programmes. The general practice regarding amortization and interest payments is that they are returned to the treasury or the general government budget, however, there are increasingly exceptions to this general practice:

- in Japan, amortizations and interest payments are available to OECF;
- in the United Kingdom, amortization receipts are not paid into a separate account but added to the net aid programme; and
- in the United States, the Congress at various times has authorised the Administration to apply amortization payments to the aid programme.

Whether the use of these amortizations for new aid programmes constitutes an “additional” resource is unclear. Parliaments know about these resources and may tend to vote lower aid budgets than otherwise because of these funds.

### 8.2.2. *Borrowings*

180. In the past, borrowings from capital markets or the central bank were used by several DAC Members as a source of financing for their aid programmes (for instance Austria for concessional lending to multilateral development banks, Italy, the Netherlands and Sweden for capital subscriptions to the World Bank). These practices have now been discontinued.

181. Today, borrowings are still used to a small degree by some DAC Members:

- in Austria, borrowings from capital markets are made in conjunction with ODA-financed official export credits;
- the French Agency for Development draws part of its resources from capital markets;
- in Germany, “mixed financing” and “composite financing” schemes exist whereby the KfW combines funds from the aid budget with its own funds raised on capital markets to finance loans for large infrastructure and industrial projects;
- in Japan, loans extended by OECF are partially funded by borrowings from the postal savings and pensions funds, with the difference between repayments received and the cost of borrowings made up by appropriated funds; and
- in the United Kingdom, the Commonwealth Development Corporation partially funds its activities by borrowing from capital markets.

182. Multilateral development banks (the World Bank and regional development banks) derive a substantial part of their lending resources from capital markets.

### 8.2.3. *Local and regional governments*

183. Increasingly in many DAC Member countries, aid activities are also being undertaken and financed by local and regional authorities, such as state/regional governments and municipalities:

- the Austrian Federal Länder and local authorities provide around 2 per cent of total ODA;
- Canadian Provinces contribute approximately 1 per cent of total ODA, funding some humanitarian assistance, scholarships and support through NGOs;
- in France, “decentralised co-operation” (i.e. co-operation between French local governments and their counterparts in developing countries) aims to help local authorities in developing countries discharge their administrative and financial responsibilities and is supported by the national aid programme, which finances 50 per cent of the total costs of actions initiated by French local authorities;
- the German Federal Länder contribute about 7 per cent of total ODA, although most of this corresponds to the imputed cost of educating students from developing countries in Germany; and
- the Spanish government attaches increasing importance to “decentralised co-operation” through the autonomous regions and municipalities which currently contribute more than 10 per cent of total ODA, principally by providing funding for activities by NGOs and other non-profit entities.

### 8.2.4. *Lotteries and privatisations*

184. Some DAC Members have used other means to fund their ODA programmes, including money raised through lotteries and the proceeds from privatisations.

#### *An example: Belgium*

In Belgium, complementary resources for development assistance are raised in the national lottery. In the wake of the famine which hit Ethiopia, Sudan and the Sahel in the early 1980s, the Belgian Parliament passed legislation authorising the government to commit a share of money raised in the national lottery (BF 10 billion) to a Survival Fund for the Third World. The Fund’s purpose is to combat hunger, malnutrition and under-development in countries threatened by hunger. Projects financed by the Survival Fund are implemented jointly with multilateral organisations and NGOs.

#### *An example: The United Kingdom*

The British Commonwealth Development Corporation is scheduled to be partially privatised in 1999 with the government intending to sell off a 60 per cent share. As a private company, the CDC will be able to borrow on more commercial terms, without its loans affecting the government’s public sector borrowing requirement. Initial plans are for proceeds from the sale to go to DFID to fund aid projects.

## CHAPTER 9

### ALLOCATION OF FUNDS -- LAYING THE FOUNDATIONS FOR A SUSTAINABLE REDUCTION IN POVERTY

#### 9.1. Sustainable poverty reduction: an ongoing task that impinges on aid management

185. About 30 per cent of the population in developing countries -- some 1.3 billion people -- live in extreme poverty and their numbers are increasing. This contributes to insecurity and an unbalanced world. DAC Members have committed themselves in the development partnership strategy to pursuing actions aimed at achieving a substantial and sustained reduction in the number of people living in extreme poverty through efforts to improve economic, social and political conditions in developing countries. To implement this commitment, DAC Members are both pursuing efforts to operationalise effective poverty reduction strategies while also supporting other actions which will impact strongly on the reduction of poverty. These other actions relate to cross-cutting issues -- such as gender equality, environmental sustainability and good governance -- as well as other important areas such as the development of the private sector in developing countries.

186. In 1999, the DAC, through its Informal Network on Poverty Reduction, produced the broadest study undertaken to date on donors' policies and practices concerning poverty reduction. Generally, the study found that donors' determination to pursue poverty reduction is greater than ever, that efforts to work with partner governments and the poor themselves are increasing and that donors are using more participatory approaches and undertaking more gender analysis.

187. At the same time, the study found that donors need to adopt more systematic approaches to poverty reduction, sharpen the focus of their activities and share good practices more widely. There are differences between donors in how they conceptualise poverty and in strategies to adopt for poverty reduction. This work is ongoing with the aim of producing a set of Good Practice guidelines. Some of the major points that emerged from the study were:

- No DAC Member proposes that poverty reduction can occur sustainably without economic growth. Thus, economic growth is a necessary precondition for poverty reduction but to generate benefits for poor people within an acceptable timescale, growth must be "pro-poor" or "broad-based" to ensure a wide distribution of the benefits of economic growth.
- An explicit commitment to poverty reduction is one way of assessing the depth of an aid agency's commitment.
- Donors need to make links between their operational objectives and poverty reduction processes.

- The conceptualisation of poverty embraces definitions of poverty, an understanding of the causes and processes of poverty and an identification of poor groups within society.
- Definitions of poverty are multi-dimensional (income and consumption, basic needs, access to assets, dignity, autonomy and social inclusion, political freedom and security, equality, e.g. gender, ethnicity). A range of indicators can be used to assess poverty (e.g. the UNDP's Human Poverty and Human Development indices).
- Linking poverty definitions to concrete actions to address causal factors is key to operationalising poverty reduction goals and policies effectively.
- The conceptual framework applied to a specific country setting determines what to do (for example, whether to build rural schools, support nutritional supplements, provide training to microenterprise, promote primary health care or strengthen reproductive health capacity).

188. An agency's conception of poverty will thus influence its organisation structure, its choice of funding instruments/channels and the staffing profile for addressing it. The DAC Informal Network's study has shown that it is hard to know what share of aid agencies' spending promotes poverty reduction and to agree on plausible links between spending and benefits for the poor. Donor country programmes need greater accountability against performance (by mainstreaming poverty reduction in country assistance strategies). There is patchy evidence about what works in poverty reduction in developing countries, but a recognition that participatory approaches and sound gender analysis can contribute positively. Attaining sustainable poverty reduction will continue to be one of the major preoccupations of aid managers.

## **9.2. Cross-cutting and other important areas for poverty reduction**

189. DAC Members are increasingly focussing their programmes on a range of cross-cutting and other concerns of importance for poverty reduction or are now integrating these concerns more systematically into the design and implementation of their programmes. These areas include gender equality, environmental sustainability, participatory development and good governance, health and population, education, conflict prevention, private sector development and enhancing developing countries' trade capacities. In recent years, the DAC has produced Guidelines to help co-ordinate and orient Members' policies and programmes in many of these areas.

190. To manage these aspects of their aid programme, donors have typically established a specialised unit or provided access to some form of resident expertise. The mandates of these units can be wide-ranging and include policy and instrument development, the provision of advice for both bilateral and multilateral projects and programmes, and participation in, or co-ordination of, inputs on an *ad hoc* basis in response to relevant initiatives.

191. Cross-cutting issues, such as gender equality, may be pursued by specific and highly-targeted donor actions but it is potentially more effective for these concerns to be "mainstreamed" and addressed through all development co-operation activities and channels, including policy dialogue with recipient country authorities and emergency assistance. The challenge for aid agencies is to take cross-cutting issues into account at the beginning of the planning process and to establish structures and approaches conducive to systematic mainstreaming at the operational level. Training programmes can play a large part in improving staff commitment to cross-cutting issues in geographic branches, advisory units,

management and the field. Donors also need to ensure that NGOs and other external service providers and implementing organisations are aware of and take full account of these cross-cutting issues in their work as part of the aid programme. Awareness of and sensitivity for cross-cutting issues should be included in the terms of reference for external service providers.

192. Another method used by many DAC Members is to use dedicated funding mechanisms to provide targeted support for particular initiatives, urgent actions or exemplary projects in areas related to poverty reduction. Examples of such dedicated funds are:

- the Canadian Peacebuilding Fund, a rapid-response mechanism to support urgent peace initiatives;
- the French Fund for the Global Environment, whose eligibility criteria are modelled on those of the Global Environment Facility (GEF) and which is targeted at exemplary projects;
- New Zealand's Commonwealth Good Governance Programme, which was launched after the 1995 Auckland Commonwealth Heads of Government Meeting and aims to promote political accountability, reliable and equitable legal frameworks, bureaucratic transparency, and effective and efficient public sector management; and
- a special allocation in the Norwegian aid budget which must primarily be used to integrate women's and gender-equality perspectives with ordinary development co-operation.

### 9.2.1. Gender equality

193. Full development cannot be achieved unless women, and the resources they represent, are integrated into the development process. Investment in gender equality and the full involvement of women in all aspects of society is vital for improving the economic, social and political conditions necessary for sustained poverty reduction. It is also important for enhancing the effectiveness of aid.

194. Members of the DAC have long recognised that the overall objective of sustainable development is only attainable when the needs of both women and men are fully recognised in the planning and implementation of projects and programmes. This point was acknowledged in the DAC's 1983 *Guiding Principles to Aid Agencies for Supporting the Role of Women in Development*, which were subsequently revised in 1989 and re-released as the *Guiding Principles for Women in Development*.<sup>26</sup> These Principles served as a useful instrument for advancing gender issues in DAC Members' aid programmes.

195. However, recognising that the adoption of gender equality as a strategic objective for sustainable, people-centred development implied a more comprehensive approach, the DAC endorsed a new policy statement in 1995 entitled *Gender Equality: Moving Towards Sustainable, People-Centred Development*.<sup>27</sup> To provide Members with directions to help them implement this statement, the DAC approved in 1998 *Guidelines for Gender Equality and Women's Empowerment in Development Co-operation*<sup>28</sup> (see Box 7) to replace the 1989 *Guiding Principles for Women in Development*. In the

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26. The 1989 *Guiding Principles for Women in Development* are included in *Development Assistance Manual: DAC Principles for Effective Aid*.

27. *Gender Equality: Moving Towards Sustainable, People-Centred Development* was endorsed by the DAC, meeting at the level of Development Co-operation Ministers and Heads of Aid Agencies, in May 1995. It is available on the Internet at: <http://www.oecd.org/dac/htm/gender.htm>

28. Available on the Internet at: <http://www.oecd.org/dac/htm/pubs/p-gender.htm>

course of preparing these Guidelines, the authors developed a valuable collection of resource materials which they compiled into a separate publication, the *DAC Source Book on Concepts and Approaches Linked to Gender Equality*.<sup>29</sup>

#### Box 7. DAC Guidelines for Gender Equality and Women's Empowerment in Development Co-operation

The DAC's *Guidelines for Gender Equality and Women's Empowerment in Development Co-operation* are designed to inform approaches for official development co-operation with developing and transition countries. They build on achievements and experience to date and reflect changes in both the priorities and mechanisms of development co-operation. Major new emphases include:

- a shift in emphasis from women as a target group to *gender equality as a development objective*;
- an emphasis on *mainstreaming* gender-equality issues into policy formulation, planning and evaluation, and decision-making procedures;
- the establishment of effective partnerships with local authorities, civil societies and external partners to secure *locally-owned* strategies in this field; and
- an emphasis on the *supportive role of DAC Members* in advocating the implementation of international agreements.

The Guidelines explore two primary areas: methods of development co-operation and internal equality strategies. They discuss a selected number of development approaches and illustrate how gender-equality concerns can be mainstreamed. They illustrate the relevance of gender equality across different programming options and reinforce the argument that gender equality is relevant not only in projects, but in **all** co-operation activities and channels including policy dialogue, reinforcing institutions and emergency assistance.

The Guidelines are based on a partnership approach that emphasizes leadership by partner governments and local actors. One of the responsibilities of DAC Members in development partnerships is to ensure that there is sufficient capacity on gender equality and women's empowerment. The Guidelines highlight four major areas for donors' attention:

- **leadership and accountability** -- strong, consistent leadership is critical to effective policy implementation;
- **staff competence and specialist support** -- recognition of the varied skills required to work with a mainstreaming strategy including generalist skills and specialist units;
- **institutional procedures and methodologies** -- gender analysis is most effective when it is an integrated aspect of policy, planning, monitoring and evaluation processes, rather than a separate activity;
- **monitoring: goals, indicators and impacts** -- goals, measurable targets and strategies are essential for DAC Members, at both the overall institutional level and within all specific projects and programmes.

29. Available on the Internet at: <http://www.oecd.org/dac/htm/pubs/p-gendsr.htm>

### 9.2.2. *Environmental sustainability*

196. The linkages between poverty reduction and environmental sustainability take a variety of forms as many types of environmental degradation -- such as water and air pollution, soil erosion and declines in soil fertility -- affect the poor disproportionately. The capacity of a society to manage its resources in a sustainable way and reconcile the needs of different users in an equitable and peaceful manner is a critical factor in the success of strategies to reduce poverty.

197. Poverty is also a major cause of environmental degradation in developing countries as poor people may have no option but to over-use available environmental resources. The imperative of protecting the environmental resource base for the benefit of today's and future generations is thus, in itself, a compelling reason for economic and social development aimed at poverty reduction. Without major action, irreparable damage could be done to the resource base and natural environment in many developing countries.

198. Donor agencies require staff and technical expertise to establish policies and to design and screen projects and programmes for environmental soundness.

199. The DAC has identified contributing to environmentally-sound and sustainable development as a central task for development co-operation in the 1990s. As it is essential that the environment becomes a concern that is fully integrated and taken into account in the aid and development planning process, DAC Members established in 1992 a set of *Good Practices for Environmental Impact Assessment of Development Projects* (see Box 8<sup>30</sup>). These Good Practices were the first in a series the DAC has now produced of *Guidelines on Environment and Aid*, designed to help policy-makers as well as practitioners in donor agencies and developing countries devise strategies to address serious environmental concerns. This series also aims at assisting DAC Members to improve and co-ordinate policies which will integrate development and environment imperatives.

200. As regards the environmental assessment of development projects, DAC Members agree there is a need to avoid duplication of effort, to reduce procedural incompatibilities, to develop more efficient and effective procedures and to share knowledge, information and data. The DAC consequently set up a task force to address these issues. The results and recommendations of the task force's work are published in a report entitled *Coherence in Environmental Assessment: Practical Guidance on Environmental Assessment for Development Co-operation Projects*.<sup>31</sup> The report contains framework terms of reference which outline the main components to be covered in environmental assessments, comprehensive guidelines of the main procedural requirements for sound environmental impact assessments and a summary of the policies and procedures of 19 DAC Members which allow a comparison of the procedural requirements of different Members and highlight some of the main differences across different donor agencies.

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30. Box 8 presents the main elements of the *Good Practices for Environmental Impact Assessment of Development Projects*. The full set of these and other Guidelines in the series *Guidelines on Environment and Aid* are available on the Internet at: <http://www.oecd.org/dac/htm/pubs/p-envg.htm>

31. Available on the Internet at: <http://www.oecd.org/dac/htm/pubs/p-coh2.htm>

### Box 8. Good Practices for Environmental Impact Assessment (EIA) of Development Projects

It is essential that environment becomes a concern that is fully integrated in the aid and planning process. The following main elements have been identified:

- Environmental aspects must be fully integrated in project selection, design and implementation and the administrative responsibilities for the environmental aspects of assisted projects should be clearly determined.
- The EIA must be conducted, together with screening and scoping, at least for the projects identified by the 1985 OECD Council Recommendation<sup>32</sup>.
- The EIA should address all the expected effects on human health, the natural environment and property as well as social effects, particularly gender specific and special group needs, resettlement and impacts on indigenous people resulting from environmental changes.
- The EIA should consider alternative project designs (including the “non-action” alternative) as well as required mitigation and monitoring measures.
- In conducting EIA of projects, donors should use the standards that will achieve the minimum level of “acceptable”, non-mitigable negative effects and maximise the positive effects.
- The utility and relevance of the EIA depend critically on the availability of Country Environmental Surveys and Strategies (on which the DAC has established a companion set of “good practices”).
- Active arrangements including access to information should be made wherever possible to obtain the views of the affected indigenous population on projects which could have significant environmental effects.
- The EIA should enable a clear statement of significant beneficial and adverse environmental and related social effects and risks of the project to be made.
- Off-site effects, including transboundary, delayed and cumulative effects, should be assessed.
- The governments of developing countries bear the ultimate responsibility for the state of the environment in their respective countries and for the design of the development projects. However, when transboundary and international issues affect the environment situation in developing countries, the governments causing these problems should bear the responsibility for solving these environmental problems in the respective developing countries.

### 9.2.3. Participatory development and good governance

201. It is now generally recognised that there is a vital connection between open, democratic and accountable systems of governance and the respect for human rights on the one hand, and the ability to achieve sustained economic and social development on the other. This connection is so fundamental that participatory development and good governance must be central concerns in the allocation and design of development assistance. The DAC first acknowledged the existence of this vital connection in 1989 and DAC Members have committed themselves in the development partnerships strategy to support work towards more accountable, transparent and participatory societies in developing countries.

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32. The 1985 OECD Council Recommendation on Environmental Assessment of Development Assistance Projects and Programmes states that “development assistance projects and programmes which, because of their nature, size and/or location, could significantly affect the environment, should be assessed at as early a stage as possible and to an appropriate degree from an environmental standpoint”.



202. The donor community can contribute in many ways to encouraging participatory development and improving governance in developing and transition countries, including through their actions to support democracy and protect human rights.

203. Participatory development can be encouraged, in the short-term, through the design and implementation of aid programmes and projects and, in the long-term, by working towards “education for all” and the emergence of a vigorous civil society.

204. Efforts to improve governance -- in particular supporting the rule of law, improving public sector management, controlling corruption and reducing excessive military expenditure -- are among the most sensitive, complex and difficult areas of development and need to develop from strong domestic roots and sustained internal momentum in order to take hold. Effective support for locally-owned processes requires sophisticated analytical and process-facilitation skills from personnel in aid agencies, especially field personnel.

205. Members of the DAC approved in 1993 a set of *Orientations on Participatory Development and Good Governance* (see Box 9<sup>33</sup>), reflecting their common thinking on “principles and approaches” and “areas for action” in pursuit of these shared objectives, particularly through development co-operation efforts. These Orientations took account of current “best practice” in assistance and in so doing offered some agreed interim guidance for all concerned with assistance and with policy dialogues to advance these goals.

206. In 1993, the DAC also established an Ad Hoc Working Group on Participatory Development and Good Governance, which prepared a two-part final report<sup>34</sup> on completion of its three-year mandate. Part I of the final report sets out the main results of this Group’s work and includes an agreed policy note on in-country co-ordination and a related guidance note on possible first steps for donors. Part II contains summaries, as prepared by the OECD Secretariat, of the discussions on the main themes taken up in several thematic workshops organised jointly with the Development Centre of the OECD. Over the same period and in parallel, the DAC Expert Group on Aid Evaluation formed a Steering Committee which organised surveys of evaluation results and lessons learnt in a number of relevant areas: legal systems, public sector management, decentralisation, human rights and participation. This work has now been published in *Evaluation of Programmes Promoting Participatory Development and Good Governance: Synthesis Report*.<sup>35</sup>

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33. Box 9 presents the major elements of the *Orientations on Participatory Development and Good Governance* which were adopted by the DAC, meeting at the level of Development Co-operation Ministers and Heads of Aid Agencies, in November 1993.

34. Available on the Internet at: <http://www.oecd.org/dac/htm/pubs/p-pdgg.htm>

35. Available on the Internet at: <http://www.oecd.org/dac/htm/pubs/p-pdggev.htm>

### Box 9. DAC Orientations on Participatory Development and Good Governance

DAC Members have identified a large range of avenues for working with developing country partners in the areas of participatory development and good governance, on the basis of a common commitment to broadly-based economic development and building upon the realisation of the potential inherent in all human beings.

#### Participatory Development

- Foster participatory development by helping developing countries improve their human resources through programmes which provide affordable, effective, and sustainable education and training services for all people.
- Support institutions and mechanisms which facilitate the empowerment of all people, including low-income populations and women, to enable them to become agents of their own development and contribute to the emergence of strong civil societies.
- Provide support for decentralisation programmes, and enhance people participation at local levels, through the support of grass-roots organisations and groups.
- Sensitise recipient decision makers and aid agency staff to facilitate the adoption of participatory approaches and responsive government.
- Involve all project stake-holders in project design, implementation, monitoring, and evaluation.

#### Democratisation

- DAC Members will assist democratisation, which they see as a broad, on-going process requiring a comprehensive understanding of each country's specific socio-economic and cultural context. Support will include:
  - ⇒ helping build and strengthen pluralistic civil societies and independent professional media;
  - ⇒ helping improve the functioning of representative political institutions and supporting electoral processes in their various stages; and
  - ⇒ helping to secure the rights of women to education, land tenure and family planning services, and strengthening their decision-making in civil society and the political process.

#### Good Governance

##### *The Rule of Law*

- Help strengthen the rule of law by providing assistance to improve and reinforce the legal, judicial, and law enforcement systems, and ensure their effective application in all parts of the country and at all levels of society.

##### *Public Sector Management*

- Strengthen public sector management and transparency/accountability *inter alia* by helping to:
  - ⇒ improve accounting practices;
  - ⇒ improve budgeting and public expenditure management; and
  - ⇒ reform civil services.

##### *Corruption*

- Help control corruption through supporting anti-corruption strategies to reduce the opportunities for corrupt practices and encourage and facilitate the exposure of corrupt practices, including by the media.

##### *Military Expenditure*

- Encouraging the reduction of excessive military expenditures by helping to ensure transparency and proper control in military budgeting, to develop effective and efficient security strategies and to implement reductions in the size of military forces.

#### Human Rights

- Encourage and support the promotion and defence of human rights and adherence by developing countries to internationally agreed principles and standards and to the Vienna Declaration.
- Strengthen education on human rights, support human rights groups in developing countries and the development of free media.

#### Coherence

- DAC Members will seek to improve policy coherence within their governments in relevant areas since such coherence is essential for the effectiveness and credibility of a donor country's stance on participatory development and good governance.

#### 9.2.4. *Conflict, peace and development*

207. Humanitarian aid is not enough in countries in conflict, efforts are also needed to address the causes of those conflicts. Many of the underlying causes of violent conflict can be traced to the failings of economic and political governance, particularly during periods or rapid socio-economic change. Helping strengthen the capacity of a society to manage conflict without violence must consequently be seen as a foundation for sustainable development and an important element of poverty reduction strategies.

208. Development assistance will have the most impact in conflict prevention when it is designed and timed to address the root causes of violent conflicts, as well as the precipitating factors, in ways that are relevant to local circumstances. These may include the imbalance of opportunities within societies, the lack of effective and legitimate government, or the absence of mechanisms for the peaceful conciliation of differing interests within society at the local, national and regional levels.

209. Members of the DAC have focused on the growing demands, and opportunities, for development co-operation to contribute more pro-actively to conflict prevention and post-conflict rehabilitation and reconstruction and in 1995 adopted *Guidelines on Conflict, Peace and Development Co-operation* (see Box 10<sup>36</sup>). These Guidelines represented the DAC's collective view and commitment on basic changes in the ways in which the international community responds to the need for conflict prevention and peacebuilding.

#### 9.2.5. *Private sector development*

210. Enterprise-based economic growth is essential for decisive reductions in poverty over time. Private sector development promotes efficient economic growth and development and is a source of wealth, dynamism, competitiveness and knowledge. Beyond its economic merits, however, lie compelling social and political attributes that enhance the contribution private sector development can make more generally to sustainable development. Most importantly from a poverty reduction perspective, the jobs and income created by private enterprises can be an important means of helping people lift themselves out of poverty and can lead to a more equitable diffusion of the benefits of economic growth to more people.

211. The DAC sees a clear need for a vigorous private sector in developing countries which takes primary responsibility for the production of goods and services. To foster more coherent and effective international co-operation to help developing countries enjoy the benefits of more open and dynamic market-based economies, the DAC approved in 1994 a set of *Orientations for Development Co-operation in Support of Private Sector Development* (see Box 11<sup>37</sup>).

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36. Box 10 presents suggested key conflict-prevention actions for donors to take as described in the *Guidelines on Conflict, Peace and Development Co-operation*. These Guidelines were adopted by the DAC, meeting at the level of Development Co-operation Ministers and Heads of Aid Agencies, on 5-6 May 1997 and are available on the Internet at: <http://www.oecd.org/dac/htm/pubs/p-cpdc.htm>

37. Box 11 presents a donor checklist of operational approaches to policies and programmes from the DAC *Orientations for Development Co-operation in Support of Private Sector Development*. These Orientations were approved by the DAC, meeting at the level of Senior Officials, in June 1994 and are available on the Internet at: <http://www.oecd.org/dac/htm/pubs/p-dcgsp.htm>

### Box 10. DAC Guidelines on Conflict, Peace and Development Co-operation

#### Key actions needed

The DAC *Guidelines on Conflict, Peace and Development* represent Members' collective view and commitment on basic changes in the ways in which the international community responds to the need for conflict prevention and peacebuilding. Drawing upon the many detailed points addressed in these Guidelines, DAC Members would emphasize the following ways in which development co-operation can better respond in the future:

- Recognise structural stability as a foundation for sustainable development and help advance public understanding of peacebuilding and conflict prevention objectives and strategies as explicit parts of co-operation programmes.
- Strengthen our agencies' means to analyse risks and causes of violent conflicts in partner countries at an early stage, and to identify opportunities for aid efforts to help address these root causes. The overriding objective of this work is to enhance the capacities of partner-countries themselves -- civil society and government at all levels -- for peacebuilding and conflict prevention.
- Work with colleagues within our governments to ensure that all our policies -- including in the areas of security, political and economic relations, human rights, environment and development co-operation -- are coherent in fostering structural stability and the prevention of violent conflict. This includes support for the provisions of cease-fire agreements, UN arms embargoes, and work to help prevent illegal arms supplies from fuelling conflicts. Harmonized and responsible behaviour with respect to the supply of military goods, especially the supply of small arms, is critical in these situations. Our dialogues with partner countries should promote similar coherence on their part.
- Strive for greater coherence and transparency in conflict prevention initiatives and responses to conflict and complex emergencies by the international community. This involves early warning that is more closely linked to decision-making and better organised and co-ordinated among the various multilateral, regional, bilateral and non-governmental actors. Wherever possible, a shared analysis should lead to agreed strategic frameworks for action and to agreed responsibilities for leadership in co-ordination, taking into account the local, national, regional and international context.
- Encourage and support initiatives by countries from regions or sub-regions where conflicts or tensions are emerging. This should aim to help them to better contribute to conflict prevention and resolution, building on the critical mediation and facilitation roles which they may be in a position to play.
- Seek to reduce institutional, budgetary and functional barriers between relief assistance, rehabilitation and development co-operation planning, that can produce contradictions, gaps and obstacles to well co-ordinated assistance. Reform of the economic and social sectors of the United Nations system -- working with the political, military and humanitarian arms and the international financial institutions -- must in future strengthen the synergies in the total international response.
- Work in the appropriate fora for internationally agreed and adhered to performance standards and principles for humanitarian and rehabilitation activities that govern the operating methods of implementing agencies (inter-governmental, governmental and non-governmental).
- Act on the need for responsive procedures for resource mobilisation and delivery in crisis situations while maintaining essential accountability. This includes building capacity for crisis management and crisis resolution as well as ensuring that assistance does not contribute to prolonging the conflict.
- Encourage efforts to promote open and participatory dialogue and strengthened capacity to meet security needs at reduced levels of military expenditures, including through strengthened capacity for the effective exercise of civil authority over military forces.
- Monitor and evaluate performance in the areas of assistance for peacebuilding and conflict prevention, and continue our work, including through the DAC, to refine and amplify best practices in these fields of vital importance for sustainable development.

### Box 11. DAC Orientations for Development Co-operation in Support of Private Sector Development

The magnitude of the task of promoting private enterprise in the developing world calls for pro-active and co-ordinated donor efforts operating on a variety of fronts and at all stages of the aid cycle from preparation to evaluation, including feedback. Together, these factors call for new ways of designing development assistance programmes, delivering resources and organising donor agencies in order to carry out this work.

The following fundamental orientations guiding overall donor approaches to private sector development are distilled from the collective experience of the donor community. Donors agree:

- to promote *agency-wide awareness* of how private sector development can be incorporated across the full range of aid agency activities;
- to structure assistance efforts in ways that will *build up indigenous systems* that support entrepreneurs and facilitate resource flows throughout the economy;
- to base country-level private sector development strategies on an *accurate and timely diagnostic survey* -- carried out either singly or jointly with other donors -- of private sector constraints and needs;
- to identify key gaps or bottlenecks where donor interventions can have *catalytic impact*, setting in train similar forces spontaneously generated *in situ*;
- while recognising the innovative function of pilot projects, to nevertheless focus increasingly on ways to *scale up* assistance efforts from a local to a national level by drawing on existing institutional networks and financial systems;
- to channel assistance where feasible through self-help groups and, in that respect, *help individuals organise themselves* into groups through which they can collaborate with one another for mutual benefit, solicit public assistance, and influence public policies;
- to rely on local financial systems for intermediating financial resources to enterprises where they are solvent and viable; to strengthen weaker local financial systems so that ultimately they can intermediate donor resources efficiently; to *structure credit operations such that interest rates to end-users are positive in real terms and provide for cost recovery by efficient financial intermediaries*; and to focus on extending effective systems for delivering credit to groups underserved by existing markets;
- to *bear in mind that much can be done with limited capital* if funds are leveraged (i.e. revolving funds, guarantees) and are targeted at measures or initiatives that *address the causes of market failure*;
- to *ensure that direct lending to individual enterprises does not compromise the objective of developing indigenous domestic financial intermediation systems*;
- to foster the creation and strengthening of *business linkages and enterprise networks* -- for companies of all sizes -- within and among developing countries, including on a regional basis, and between industrialised and developing countries;
- to *explore opportunities created by open trade and investment policies* to stimulate more diverse and competitive industries;
- to *provide assistance that is sustainable*, meaning assistance that will neither contribute to the degradation of the natural resource base nor result in donor dependency;
- to design and carry out assistance programmes and projects in ways that blend with *local customs, social mores and cultural dispositions*;
- to *"think global, act local"* by readying developing-country enterprises for the challenges of globalisation and by creating networks for the exchange of experience and lateral learning at the regional and global levels between institutions and authorities;
- to *avoid direct private sector development assistance where a hostile policy environment renders such assistance ineffective*;

and as regards micro-enterprise development:

- to provide resources to end-users on a *"wholesale"* (i.e. through intermediaries) not *"retail"* (i.e. directly) basis, and to adopt monitoring and control measures that maintain an acceptable balance between decentralisation and control;
- to *respond to local initiatives* and provide resources to satisfy needs as articulated by beneficiaries and in amounts that can be readily and efficiently absorbed.

### 9.2.6. *Developing trade capacity*

212. Expanding developing countries' trade potential is an essential element of sustained poverty reduction and complements efforts to foster enterprise-based economic growth in developing countries. Development co-operation should play a vital role in helping developing countries unlock their trade potential and promote the kind of economic and political environment necessary for attracting investments, enhancing competitiveness and mobilising domestic and international resources. Aid can contribute to developing the capacity necessary in a wide range of areas which are essential for trade, such as support for private sector and infrastructure development, good governance and human resource development. These are fundamental aspects of development co-operation which can also underpin the successful integration of developing countries into the highly competitive world economy.

213. In response to a proposal made at the 1997 DAC Informal Experts Meeting on Capacity Development for Trade, the OECD produced an up-to-date and comprehensive survey<sup>38</sup> which provides a base for sharing experience, helping to identify gaps, improving aid co-ordination and enhancing responses to the trade-related needs of developing countries. The Survey is divided into two parts. Part I considers the trends in development assistance for trade development and looks to future directions, while Part II presents profiles of twenty DAC Members' trade-related activities.

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38. See *Survey of DAC Members' Co-operation for Capacity Development in Trade*, available on the Internet at: <http://www.oecd.org/dac/htm/pubsfoc.htm>

## CHAPTER 10

### ALLOCATION OF FUNDS -- CHOICES AND PRIORITIES

214. One of the most difficult to understand aspects of development co-operation is how decisions are made about the distribution of aid, both the choice between bilateral and multilateral channels and the breakdown within each of those channels.

215. Contributions to multilateral agencies take the form of capital subscriptions, which governments are required to pay as part of their membership, and discretionary contributions to funds managed by multilateral institutions. The capital subscriptions component of donors' aid programmes are therefore fixed and normally requires no further decisions, as long as membership of the multilateral institution itself is not called into question. Donors have important decisions to make on how to distribute their aid among the remaining options, i.e. deciding the balance and comparative advantages of bilateral as opposed to multilateral assistance and deciding which multilateral development funds to support and to what extent. During periods when a donor's aid programme is increasing or decreasing substantially, strategic choices need to be made on how best to use available aid funds and the appropriate aid "mix".

216. Probably the strongest characteristic of aid distribution in the past has been that once a distribution pattern was established it tended to continue, as donors found it difficult to change aid patterns. However, in the aftermath of the break-up of the Soviet Bloc and the rise of consideration for human rights and democracy, donor behaviour is changing. Donors have become more likely to halt or reduce aid to governments held in disrespect than was the case previously, or in some cases for other reasons (e.g. excessive military expenditures).

#### 10.1. The bilateral aid channel

217. Aid administrations need to make several major decisions as regards their bilateral assistance: the geographic distribution, the form their aid will take and which sectors to focus on. Guidance on these choices may be contained in a donor's over-arching policy statement or aid legislation.

218. Usually, the basis for any decision on bilateral assistance, in principle, is a request from the recipient country. Upstream from this may be an extensive background about which of the nearly 190 developing and transition countries in the world a donor decides to co-operate with, based on historical connections, patterns of trade and private investment and ideas about which countries to assist (poorer countries, countries close to home, countries which make good use of aid, aid as part of a peace process, and so on). Dependent territories and former colonies have typically received substantial aid from metropolitan governments. Small recipient countries tend to receive more aid on a *per capita* basis than larger countries. Concentration by a donor on a region or cluster of priority countries is common practice.

219. Some donors have adopted policies to encourage regional co-operation. For example, the Netherlands started placing greater emphasis on regional programmes starting in 1991 while the EC has special regional programmes in many parts of the world. A chequered history of regional organisations, political problems and lack of commitment by members of some regional groupings have for some time discouraged donors from supporting regional programmes, particularly in Africa. The management of such programmes poses difficult problems due to rivalries, the difficulty of gaining consensus, problems with organising meetings and with communications, and as results are long-term.

220. The 1981 UN Conference on the Least-Developed Countries adopted a programme of action and target calling for donors to devote 0.15 per cent of their GNP to least-developed countries. This may have encouraged donors to direct more aid towards those countries and in particular to Africa, which has 33 of the 48 least-developed countries currently designated by the United Nations.

221. At the 1995 UN World Summit for Social Development in Copenhagen, governments from both developing and developed countries agreed that higher priority should be given to investment in basic social services, such as primary health care and education. Interested donors and recipients were encouraged to negotiate agreements under which 20 per cent of developing country budgets, and 20 per cent of aid flows, would be devoted to basic social services. Formal adoption by some DAC Members of the "20/20 Initiative" may have resulted in a realignment in the sectoral distribution of their aid programmes.

222. Some recent research on aid effectiveness has called for donors to exercise greater selectivity in the choice of their bilateral partners. For example, a report released by the World Bank in 1998 entitled *Assessing Aid: What Works, What Doesn't and Why*<sup>39</sup> found that aid had been most successful in reducing poverty in countries with sound economic management and robust government institutions. The report recommended concentrating aid where it can be most effective in reducing poverty, i.e. in low-income countries with sound economic management.

223. While such analyses identify real problems and choices in extreme cases, they have intrinsic limitations in capturing the situation in the majority of countries which fall into the intermediate area of "grey performance". These analyses rely on poor quality data of country aggregates and place undue emphasis on rates of return on investments. Also, their focus on country units is a debatable approach in some regional contexts, such as the Sahel. These studies trace problems of aid inefficiency to unsound policies and institutions, even though aid effectiveness and dependency problems are not just determined by demand side factors. Poor local ownership and sustainability are strongly related to failures in aid practices, methods and instruments, with their many supply driven priorities and fashions. Evidence is emerging as well that there may be other factors outside the control of national policy management which could have a greater long-term impact on economic growth and poverty reduction. For example, a 1998 study<sup>40</sup> found that various aspects of tropical geography, demography and public health are vitally important for economic growth, more so than economic policies and institutions.

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39. Available on the Internet at: <http://www.worldbank.org/research/aid/aidtoc.htm>

40. See Brookings Papers on Economic Activity, 1998 *Geography, Demography and Economic Growth in Africa*, Bloom, D. E. and Sachs, J. D.



## 10.2. The multilateral aid channel

224. Donors generally find that multilateral assistance is a good means of extending the reach and scope of their bilateral assistance and that it plays an important complementary role.

225. Multilateral ODA contributions are channelled through a large number of institutions, the most important being:

- United Nations agencies, principally:
  - the UN Development Programme;
  - the UN Children’s Fund (UNICEF);
  - the World Food Programme (WFP); and
  - the UN High Commissioner for Refugees (UNHCR);
- multilateral development banks, consisting of:
  - the World Bank group, especially the International Development Association (IDA); and
  - regional development banks, including the soft loan windows of the African Development Bank (AfDB), the Asian Development Bank (AsDB) and the Inter-American Development Bank (IDB); and
- for those DAC Members who are also Member States of the European Union, contributions to the European Development Fund (EDF).

226. Multilateral official aid contributions consist mainly of contributions to the European Bank for Reconstruction and Development (EBRD).

227. For those DAC Members who are also Member States of the European Union, their multilateral assistance also includes a share of disbursements by the EC financed from its own resources, allocated back to each Member State on a *pro rata* basis. EU Member States channel on average a total of approximately 18 per cent of their ODA through the EC.

228. For DAC purposes, aid contributions qualify for recording as multilateral assistance only if:

- they are made to an international institution whose members are governments and who conduct all or a significant part of their activities in favour of developing (or transition) countries;
- those contributions are pooled with other amounts received so that they lose their identity and become an integral part of the institution’s financial assets; and
- the pooled contributions are disbursed at the institution’s discretion.

Any ODA (or official aid) which fails this test for multilateral assistance is classified as bilateral, including multi-bi assistance (i.e. aid from bilateral donors which is used to provide supplementary funding for multilateral agency activities targeted on a country or region.

229. Some donors have fixed an objective for the share of their aid programme to be channelled multilaterally. For instance, Ireland has committed itself to channelling one third of its aid through multilateral agencies. The German parliament requested some years ago that a ceiling of 30 per cent for multilateral contributions should be introduced in BMZ's budget. Norway has set itself a target of devoting 50 per cent of its total ODA to multilateral assistance. Monitoring attainment of these objectives is not always possible from DAC statistics as donors may include multi-bi assistance -- classified as bilateral assistance by the DAC -- as contributing towards meeting their multilateral target. This is the case with Norway.

## CHAPTER 11

### ALLOCATION OF FUNDS -- THE BILATERAL CHANNEL

230. The instruments of bilateral aid are various: project and programme aid, technical co-operation, associated financing, food aid, disaster relief, debt forgiveness and indirect assistance through NGOs and other civil society institutions. The DAC has produced statements of good practice on many forms of bilateral assistance which provide guidance for DAC Members in the management of their bilateral development co-operation programmes.

#### 11.1. Project and programme aid

231. While these two forms of aid are usually distinguishable, the dividing line between project and programme aid can waver and there are hybrid agreements combining elements of both. A project is a group of activities using resources to gain benefits and is the minimum investment which is economically and technically feasible. Capital project aid comprises investment schemes primarily designed to augment physical capital and may include contributions for local and recurrent costs. Programme assistance consists of all contributions made available to a recipient country for general development purposes, i.e. budget and balance-of-payments support and the financing of capital goods and commodities, not linked to specific project activities. Programme aid agreements are often based on a list of goods, either a positive or negative list.

232. Programme assistance has been discussed in the DAC and resulted in the drawing up of a set of Principles which focus on the basic matters to which both donors and recipients should pay attention in the provision of such aid. The essential elements of the *DAC Principles for Programme Assistance*<sup>41</sup> are presented in Box 12.

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41. Box 12 presents the essential elements of the *Principles for Programme Assistance* which were adopted by the DAC, meeting at the level of Development Co-operation Ministers and Heads of Aid Agencies, in 1991. The full set of these principles is available in the *Development Assistance Manual: DAC Principles for Effective Aid*.

### Box 12. Principles for Programme Assistance

The DAC *Principles for Programme Assistance* incorporate the following essential elements:

- There is a continuing major role for programme assistance, incorporating the evolving lessons of experience and effectively linking broader social, political and economic policy concerns.
- Programme assistance and other aid instruments, such as technical co-operation and project financing for long-term investment, are complementary. All of these instruments have their specific contribution to make. It is essential that they are adapted to specific country situations and needs and are used in a co-ordinated, mutually reinforcing way.
- Developing countries themselves are ultimately responsible for determining and implementing their development programmes and policies and for the impact on their economies and people.
- Capacity-building for policy formulation and planning and implementation and the extension of substantial programme assistance must go hand-in-hand.
- Adequate safeguards and monitoring arrangements to ensure effective use of programme assistance, including, in the case of policy-related programme assistance, adherence to agreed policies, are essential for improved economic performance and are in the interests of recipients and donors alike.
- Programme assistance requires strongly co-ordinated approaches among the recipient country, bilateral donors and the relevant multilateral institutions.
- Policy dialogues on essential aspects of policy reform and structural adjustment must have a strong multilateral dimension. Bilateral policy dialogues need to be consistent with the orientations of the national policy frameworks and priorities as they have been reviewed in the international aid co-ordination arrangements. The core elements of economic policy reform and structural adjustment programmes include:
  - ⇒ promoting market-oriented policies and a productive private sector;
  - ⇒ liberalising and rationalising trade and exchange rate regimes and policies;
  - ⇒ following sound fiscal, monetary and financial policies and improving fiscal management and taxation systems; and
  - ⇒ improving decision-making on public investment and the operation of key public services including health and education.
- Programme assistance, especially sector assistance, can contribute to the advancement of strategic policy concerns and objectives such as:
  - ⇒ promoting participatory development in all its economic, social and political dimensions;
  - ⇒ improving the social impact of development assistance;
  - ⇒ strengthening human resources development through education;
  - ⇒ strengthening the role of women in development;
  - ⇒ contributing to environmental sustainability;
  - ⇒ encouraging the development of dynamic private sectors; and
  - ⇒ assisting regional co-operation and economic integration.
- A basic long-run objective of aid is to strengthen developing countries' administrative and eventually economic and financial self-reliance. As developing countries make progress in their basic policy environment and in strengthening their administrative capacity, it should be possible to reduce close donor involvement in implementation and to rely increasingly on national institutions and market mechanisms to allocate the resources made available through aid.
- Past experience shows that it is undesirable to provide programme assistance on a sustained basis in situations where policy and administrative environments are inadequate. While emergency assistance may sometimes be indispensable even in such situations, it should then be available only on a short-term basis and priority must be given to policy reform and institution-building efforts.
- Developing countries' own development efforts, including progress towards good governance and democratisation, mobilisation and improved use of resources including efforts to reduce excessive military expenditures should be an important consideration in the allocation of programme assistance among developing countries.
- Programme assistance, as other government-to-government aid, is inappropriate in situations of gross violations of internationally recognised human rights.

## 11.2. Technical co-operation

233. Technical co-operation encompasses the whole range of assistance activities related to training and education and has been one of the key tools of development assistance. A particularly important objective of technical co-operation is institutional development based on human resources development, i.e. to contribute to the strengthening and improved functioning of the many institutions essential for sustainable development through the effective management and operation of an economy and of society more generally -- from government ministries, local administrative structures, hospitals and schools to private enterprises. Human resources development is a pre-requisite for institution building. Capacity building for improved policy analysis and development management by the core government institutions is of special importance.

234. The main instruments of technical co-operation are providing access to training, the provision of expatriate and national experts (including volunteers), policy and technical advice, assistance in the preparation of surveys and studies, and contributions to science, research and technological development.

### *An example: Germany*

In comparison with the volunteer programmes managed by other DAC donors, volunteers from Germany are older -- on average 37 years of age -- and more experienced. German volunteers are required to have at least two years' practical working experience after the completion of their studies before they can apply for an assignment. On average they work three-and-a-half years in developing countries, mainly in the areas of agriculture, technical training, health, social work and small-scale business promotion. In 1996, Germany financed 1 000 volunteers in 42 countries, especially in Africa.

235. Where students are enrolled in a non-fee-charging educational system, or where fees do not cover the full cost of their education, an imputation can be recorded as ODA for the share of subsidies to the educational system representing the cost of educating students from aid recipient countries. For some donors, these imputed costs make up a large component of their ODA.

236. Two forms of technical co-operation may be distinguished:

- **Free-standing technical co-operation:** Activities financed by a donor whose primary purpose is to augment the level of knowledge, skills, technical know-how or productive aptitudes of the population of developing (or transition) countries, i.e. increasing their stock of human intellectual capital. These activities may occur in the recipient country, the donor country or a third country.
- **Investment-related technical co-operation:** Financing of services by a donor country with the primary purpose of contributing to the design and/or implementation of a project or programme aiming to increase the physical capital stock of the recipient country. These services include consulting services, technical support, the provision of know-how linked to the execution of an investment project and the contribution of the donor's own personnel to the actual implementation of the project (from managers, technicians, skilled labour, etc.).

237. Technical co-operation has had major beneficial impacts, such as the training of large numbers of recipient country nationals and the strengthening of many institutions throughout the developing world.

At the same time, however, technical co-operation has become a problem in itself, with too many examples found of inadequate planning and management, lack of careful and realistic definitions of objectives, over-emphasis on project implementation requirements, over-reliance on expatriate experts and under-use of local expertise, and duplication and competition among donors.

238. As the needs for technical co-operation remain very large in many developing countries, the DAC adopted in 1991 a set of *Principles for New Orientations in Technical Co-operation* (see Box 13<sup>42</sup>) which seek to chart new directions for donors in order to find more effective ways of assisting recipient countries to develop their own long-term solutions to development problems.

### Box 13. Principles for New Orientations in Technical Co-operation

The DAC *Principles for New Orientations in Technical Co-operation*:

- set as strategic objectives of technical co-operation long-term capacity building in developing countries rather than immediate short-term performance improvement;
- put great emphasis on the central role of developing countries in the planning, design and management of technical co-operation;
- stress the essential importance for effective technical co-operation of improved planning in the context of co-ordinated support for sectoral objectives and policies and, in particular, use of a programme rather than a project-by-project approach;
- encourage “ownership” i.e. responsibility and control of technical co-operation programmes and projects at all stages by the intended beneficiaries through participatory approaches, including local NGO participation;
- emphasize the key importance for sustainable development and self-reliance of long-term institution-building, especially in the areas of policy analysis and development management;
- take into account the new recognition of private sector needs for technical co-operation;
- encourage greater use of local expertise and existing structures;
- define objectives in terms of outcomes to be achieved rather than inputs to be provided;
- stress the need to pay greater attention to the costs and cost effectiveness of technical co-operation activities.

239. The DAC has also articulated a set of basic orientations on capacity development in environment to act as a point of reference for aid donors in forming approaches to aid programming aimed at contributing to the enhancement in developing countries of capacities to address environmental issues in a sustainable manner. The 1995 DAC *Orientations for Donor Assistance to Capacity Development in Environment* (see Box 14<sup>43</sup>) build on and link with other DAC work so as to enhance synergies and reinforce co-ordination in aid policies.

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42. Box 13 presents the salient features of the *Principles for New Orientations in Technical Co-operation* which were adopted by the DAC, meeting at the level of Development Co-operation Ministers and Heads of Aid Agencies, in 1991. The full set of these Principles is available in the *Development Assistance Manual: DAC Principles for Effective Aid*.

43. Box 14 sets out the basic orientations for capacity development in environment. The full set of these Orientations is available on the Internet at: <http://www.oecd.org/dac/htm/pubs/p-dcgsen.htm>

#### Box 14. DAC Orientations for Donor Assistance to Capacity Development in Environment (CDE)

##### Basic orientations for CDE

The DAC sets out the basic orientations for the CDE approach within the framework of development co-operation as follows:

- CDE is based on promoting sound **environmental considerations and criteria** in the development process. These include maintaining and restoring biological and habitat diversity, the maintenance of essential environmental processes, the reduction of environmental pollution and damage, and the sustainable use of renewable resources. The CDE approach puts an emphasis on the cross sectoral relationships between all environmental media and not one in particular.
- **CDE is an integrative approach.** It is designed to assist development for human needs and economic progress, achieving both long-term environmental quality and productivity. It sets out to reinforce processes that lead to self-reliance, equity and justice in ways that enhance environmental management.
- **CDE is a multi-faceted process.** It includes, in a given context, consideration of the ethics, norms and culture that apply, including those generated by the various economic and technological sectors, the different public and private processes and functions that operate; the formal and informal institutions and organisations that exist; the different stakeholders in a particular environmental issue and the resources (human, economic, and natural) that are in play.
- **CDE is process oriented rather than product oriented.** It includes calling for a better balance between process and product, interactive or learning cycles, consultation with and participation of affected groups, adaptation to changing circumstances and great flexibility.
- **CDE is a systemic approach.** Any particular intervention will need to take account of the relationships and interactions that prevail in a given task. These may relate to the various actors involved, the functions they perform and the positions in an organisations hierarchy at macro, meso and micro levels. This should not imply a uniform approach to all problems but a consistent and synergistic approach.
- **The process of CDE belongs to and is driven by the community in which it is based.** Any external support involved will need to respect that jurisdictional framework. The process attempts to enhance collaborative behaviour and create new dialogues toward desired objectives rather than avoid them.
- **CDE strengthens institutional pluralism in civil society** through, for example, supporting professional associations, academics, advocacy groups, the media, entrepreneurs, trade unions, etc., as well as the various levels of government.
- **CDE must take gender issues fully into account** in all aspects and levels of development and implementation, recognising the specific role that women play in environmental resource management.
- **CDE must actively seek to develop** appropriate approaches to include all disadvantaged groups in society.
- **CDE is comprehensive** in terms of modalities. It will involve a variety of management techniques, analytical tools, incentives, and organisational structures for achieving a given policy objective.

240. In 1999, the DAC Working Party on Evaluation completed a major synthesis evaluation of capacity development in environment. The main finding of the study is a confirmation that a gap exists between the DAC's Orientations and the practical implementation of these principles, both in aid agencies and in partner countries. The study noted that although aid agencies still appear to be less effective in this area than in other types of aid activities, considerable progress has been made, notably in terms of the growing importance and mainstreaming of environmental issues. In developing countries, there remains a clear need to improve the efficiency, effectiveness and responsiveness of many environmental organisations.

### 11.3. Associated financing and tied aid

241. Most DAC Members "associate" grants or loans from their aid programme with other non-concessional funds, such as export credits, to form financing packages. These packages are known variously as "mixed credits", "pre-mixed credits", "mixed financing", "joint financing" or "parallel financing".

242. The objective in creating associated financing packages is to increase financial flows to credit-worthy recipients for large development projects. However, the ministries or agencies administering development co-operation participate to differing degrees in project appraisal and decision-making in relation to associated financing. Since aid funds are used, it is important that the development objective inherent in aid is not lost sight of in the selection of projects to be funded with associated financing.

243. A characteristic of associated financing is that at least some of the package is "tied" to the procurement of goods and services in the donor country ("tied aid"), or the donor country and a restricted group of other countries, including substantially all recipient countries ("partially untied aid"). Under an agreement known as the Helsinki Package, and with the exception of loans to least-developed countries, a project that would be financially viable with commercial loans will not receive any tied or partially untied aid. This agreement was made to limit subsidies in commercial loans as well as curb the use of aid for commercial rather than developmental purposes.

244. Limiting trade and aid distortions from tied aid has been a shared concern of both the DAC and the Export Credit bodies of the OECD for some time. Discussions have focused primarily on efficiency and fairness among donors. Since the adoption of the 1992 Tied Aid Disciplines (see Box 15<sup>44</sup>), the DAC has explored ways to liberalise aid procurement regimes and align this sector with the general liberalisation trend of a wide range of government policies, including government procurement.

245. More recently and during dialogues with recipient countries on partnerships, tied aid has been identified as a problem not only in terms of efficiency, but also as an impediment to local ownership, a cause of distortion in developing countries' priorities and sometimes as an opening to corruption. DAC Members recognise that steps towards greater use of untied aid represents one of a wide range of efforts required to implement the development partnerships strategy. As a consequence, the DAC's Working Party on Financial Aspects of Development Assistance has been mandated to prepare a Recommendation on untying aid to least-developed countries, including relevant implementation issues.

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44. Box 15 presents the essential provisions of the DAC's 1992 *New Measures in the Field of Tied Aid*. The full text is available in the *Development Assistance Manual: DAC Principles for Effective Aid*.



### Box 15. New Measures in the Field of Tied Aid

In 1992, special disciplines were agreed by OECD Members for tied-aid credits (unless they are of very high concessionality) for commercially viable projects in better-off developing countries. The DAC's *New Measures in the Field of Tied Aid* incorporates the aid-relevant aspects of the agreement of the Participants to the Arrangement on Officially Supported Export Credits and has some additional development assistance-oriented provisions. Essentially they:

- limit the use of tied aid to countries and projects with little or no access to market finance;
- provide a checklist of considerations against which the development priority of projects or programmes should be assessed;
- set forth special provisions for mutual project appraisal and the use of international competitive bidding for large projects; and
- define procedural arrangements concerning notification, transparency, consultation and review of Member countries' practices.

#### 11.4. Food aid and disaster relief

246. Food aid and disaster relief are two specialised types of development aid that are often in the public eye. Both of these areas require special staff skills and procedures adapted to their particular needs.

##### *Food aid*

247. Food aid is often associated with disasters, but not always. Developmental or programme food aid helps to fill the gap between domestic demand and the supply of food from domestic production and commercial imports. When this type of food aid replaces commercial imports, it provides balance-of-payments support as the foreign exchange that would have been used to pay for those imports is saved. When it is sold in the recipient country, which is usually the case, it generates local currency for development activities. Such food aid can also have an impact on domestic production incentives, consumption patterns and income distribution and aid agencies should, and usually do, devote staff and resources to programme food aid in ways that limit distortions. These need to be taken into account to ensure that the design and implementation of programmes are consistent with international agreements on food aid, especially the *Food Aid Convention*. The supply of food aid should also not be based on sustained over-production of food in donor countries.

##### *Disaster relief*

248. The 1990s have seen an increase in disaster relief (in Somalia, Ethiopia, Haiti, Burundi, Rwanda, Zaire, former Yugoslavia, Kurds in Iraq, Cambodia, etc.). Many of these situations are complex, long-term, human-induced disasters that do not yield to quick solution. Disaster relief has always been a specialised type of development co-operation requiring quick response.

249. By agreement within the DAC, ODA for disaster relief can include assistance provided by donor countries in the first year after the arrival of a refugee from an aid recipient country. Costs for refugees have become a large component of some DAC Members' aid programmes.

### 11.5. Debt forgiveness and other actions relating to debt

250. Actions by donors relating to debt owed to them from developing and transition countries can take many forms. Debt forgiveness consists of a creditor's renunciation, in agreement with the debtor country, of principal and interest owed to it. Debt rescheduling involves either revising the repayment schedule or extending a new refinancing loan. Other actions include the exchange of debt for equity or the exchange of debt for counterpart funds to be used for development purposes.

251. For many poor countries, an unsustainable debt burden is a major obstacle to economic and social development, particularly for countries also emerging from crises, disasters or war. For debt relief to have a positive effect, the countries concerned need to pursue policies conducive to sound economic growth.

252. Moves have been occurring in recent years, by both bilateral and multilateral creditors, acting unilaterally and collectively, to ease the debt burden of developing and transition countries. Bilateral creditors also work together in an informal association, known as the Paris Club, to co-ordinate the way they deal with the debt of developing countries.

#### *An example: France*

France has unilaterally forgiven substantial amounts of debt owed to it, including:

- in 1989 and announced at the Francophone Summit in Dakar, the ODA and non-ODA debt owed by 35 least-developed countries in sub-Saharan Africa;
- in 1990 and announced at the Second UN Conference on the Least-Developed Countries held in Paris, the debt owed by seven other least-developed countries;
- in 1992 and announced at the Franco-African Summit in Libreville, a portion of the debt owed by four heavily-indebted countries in the African Financial Community Franc (CFA Franc) zone (Cameroon, Congo, Côte d'Ivoire and Gabon); and
- in 1994 and as a measure of accompaniment for the devaluation of the CFA Franc, the debt owed by the 10 low-income countries and half the debt owed by the four middle-income countries in the CFA Franc zone.

253. Recent collective action includes the Initiative for Heavily-Indebted Poor Countries (HIPC) launched in September 1996 by the World Bank and the IMF, in which bilateral and multilateral creditors contribute to bring the total debt burden of poor countries down to a sustainable level.<sup>45</sup>

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45. More information on the HIPC Initiative is available on the Internet at: <http://www.worldbank.org/html/extdr/hipc.htm> and at: <http://www.imf.org/external/np/hipc/hipc.htm>

## 11.6. Indirect assistance: aid channelled through NGOs and other civil-society institutions

254. Some donors make a distinction between direct and indirect assistance. Direct assistance is provided by the donor agency itself through its own mechanisms. Indirect assistance may take a number of forms, going through NGOs, universities, religious and church groups, professional associations, labour unions and co-operatives or other independent organisations outside the donor agency. NGOs are often important actors in DAC Members' development co-operation programmes.

255. To the extent that sustainable development calls for strengthening the relationship between government and civil society, NGOs have a particularly important role to play, and this includes NGOs in both developed and developing countries.

256. The need for collaboration between aid agencies and NGOs has long been recognised. All bilateral development co-operation agencies have had to learn how to work with NGOs and many have established special programmes for this purpose. Often aid agencies have set up special administrative units to deal with NGOs, and procedures for defining their relationships with NGOs and for the joint-funding of projects.

### An example: Norway

Non-governmental organisations play a major role in implementing Norwegian aid, with nearly one quarter of Norway's ODA provided through more than 70 NGOs. Where an NGO is requested to implement particular aid activities, the projects are fully financed from the ODA budget. Otherwise, to ensure the commitment and active involvement of the organisations themselves, NGOs contribute 20 per cent of total costs. Funding for NGO activities is available through a range of mechanisms, including dedicated funds for the environment, gender equality, AIDS, emergency relief and humanitarian assistance, as well as the "NGO Grant" administered by the NGO Division within NORAD. The NGO Grant is regulated by guidelines which stipulate that organisations receiving funding are required to:

- promote sustainable development by strengthening or building institutions in recipient countries;
- provide basic social and economic services;
- encourage local support, recipient responsibility and sustainability;
- possess appropriate expertise in the areas in which they work;
- conduct activities which do not conflict with Norwegian foreign or development co-operation policies;
- possess administrative competence and capacity for follow-up, record-keeping and reporting; and
- disseminate information about their activities to maintain solidarity between Norwegians and the people in developing countries.

Funds from the NGO Grant are normally provided for one year at a time and NORAD maintains three levels of co-operation with NGOs: single initiatives; framework agreements for projects; and framework agreements for NGO development programmes. NORAD currently has 18 framework agreements. These give considerable latitude to the NGO but also make greater demands in terms of the quality of aid they provide. Such agreements are usually drawn up for five years with objectives and strategies stated explicitly in the contract. A joint review is conducted during the course of the five-year period. Programme-based framework agreements require the NGO to have an overall conceptual basis for its development co-operation with clear objectives that enable NORAD to follow up on results.

257. The OECD's Development Centre published *Non-Governmental Organisations and Governments: Stakeholders for Development* in 1993, which, *inter alia*, analyses the relationship between donor agencies and development NGOs in 14 DAC Members. This work was subsequently up-dated and expanded to cover all DAC Members, with the results published in 1999 in a joint Development Centre/EARTHSCAN book entitled *Stakeholders: Government-NGO Partnerships for International Development*.

#### *Evaluation of NGO activities*

258. As with several bilateral aid agencies, NGOs could improve the quality of their aid by ensuring that the evaluation function within their structures is working well. Many NGOs do not pay sufficient attention to results and evaluations, which limits their capacity to feedback on lessons learnt. There is also still a lack of reliable evidence on the impact of NGO projects and programmes, due to insufficient monitoring and base-line data, hasty evaluations and a focus on outputs rather than outcomes and broader impact.

259. An assessment<sup>46</sup> synthesising available evaluation experience with NGOs, prepared for the DAC's Expert Group on Aid Evaluation, found that more than 90 per cent of NGO projects had achieved their immediate objectives. However, impact on the poor varied, ranging from significant benefits to little clear-cut evidence of improvement. Most NGO projects were found to reach the poor, but often not the poorest, and were not sufficient in themselves for poor people to lift themselves out of poverty. A policy lesson coming from this assessment is that aid agencies should focus their indirect assistance on programmes which respond to well-articulated local needs and where beneficiaries are directly involved.

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46. See *Searching for Impact and Methods: NGO Evaluation Synthesis Study*, Report 1997:2, Ministry of Foreign Affairs of Finland.

## CHAPTER 12

### PROJECT IMPLEMENTATION

#### 12.1. Project cycle management

260. The stages of project preparation are somewhat arbitrary. The following is an outline:

- **Country or sectoral strategy (country approach or sector programme).** Projects are not prepared in a vacuum. Some sort of country approach or sector framework should exist. If not, some country and sectoral investigation is needed, starting with the national development plan or policies of the recipient government. National development plans are not of equal value and cannot always be taken at face value. Independent analysis and investigation is necessary.
- **Project identification.** The preferred way is for the host country to identify the project and prepare preliminary project ideas within the context of national and sectoral policies. The *DAC Principles for Project Appraisal* (see Box 16<sup>47</sup>) state that the recipient is responsible for project identification, design and implementation. However, donor experience shows an activist approach is needed to select good projects and that competition for good projects may occur. Ideally, donors would like to select from an array of possible projects and choose the best ones.
- **Project preparation.** Collection of information, surveys, pre-feasibility and feasibility studies are the preparatory background for project appraisal or design.
- **Project design or appraisal.** This involves the collection and assembling of information and the preparation of the project document or appraisal report used by the donor as the basis for project approval.
- **Agreement.** This inter-governmental agreement specifies the conditions, whether the aid is in the form of a loan or a grant and, if there is no general agreement between the countries, sets up the framework for co-operation.
- **Procurement or tendering.** Goods and services will be purchased through issuance of a call for bids, tender or other procurement methods agreed by the parties.

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47. Box 16 presents the essential elements of the *Principles for Project Appraisal* which were approved by the DAC, meeting at the level of Development Co-operation Ministers and Heads of Aid Agencies, in 1988. The full text is available in the *Development Assistance Manual: DAC Principles for Effective Aid*.

- **Implementation.** This is the process by which the project is executed, including annual work plans, periodic progress reports and other types of reports (financial, technical and supervision).
- **Project completion, phasing-out or handing over.** This step is the conclusion of the donor-assisted portion of the project.
- **Evaluation.** This may occur during implementation, mid-term, prior to launching a new phase or *ex post* to determine the impact, the success or failure of the project and its sustainability. It can provide the basis for corrective actions.
- **Post-project assistance or “aftercare”.** Some donors make provision to re-visit projects to fix problems or to assure sustainability.

The mere enumeration of the above project stages illustrates that aid management requires trained staff organised to carry out certain responsibilities. Each step calls for both technical and general staff, trained and able to carry out the function.

#### Box 16. DAC Principles for Project Appraisal

The DAC *Principles for Project Appraisal* incorporate the following essential elements:

- Better investment management and resource use in developing countries are essential for more satisfactory economic and social development. Project survival and viability can be improved through greater rigour in project selection, clearer and more realistic setting of objectives, greater care in design and preparation, fuller involvement of target groups in design and implementation and quicker adjustment when problems are identified. Donors are ready to work together with recipients to ensure acceptable standards of rigour and developmental effectiveness in project selection and preparation.
- The initial selection of projects should be consistent with well conceived sectoral programmes and strategies of the recipient countries. The broader policy framework in which projects operate must be such as to facilitate their success.
- Close consultation between donor, recipient government and affected communities in the formulation of objectives and the appraisal of projects is necessary to ensure that the project responds to the recipient community’s needs and that relevant managerial, social and environmental requirements are taken into account in project design.
- The sustainability of projects is determined by a range of factors -- including economic soundness, project design corresponding to the managerial, technical and financial capacity of recipients, compatibility with socio-cultural conditions and, last but not least, environmental sustainability -- all of which must be considered at the appraisal and design stage to ensure project success. It is not in the recipient’s interest to proceed with projects which are likely to produce minimal benefits in the short run and to be non-sustainable or non-replicable in the long run.

## 12.2. Local-cost financing

261. The policy of financing foreign costs and local costs, in theory, has been for recipient countries to cover local costs while donors cover foreign exchange costs. The idea behind this practice was that the recipient country should demonstrate a measure of self-help and participate in the cost of the project for its own benefit. Agreeing to cover local costs seemed a logical dividing line. Moreover, scarce ODA funds should be devoted to off-shore costs. Experience has shown, however, that projects were often stalled by failure of recipient countries to provide local costs and, in the case of poorer countries, they had difficulty doing so. Donors have greatly relaxed their practices on this and now often cover local costs. It has been suggested that agreeing to cover local costs might be an indicator of a donor's willingness to finance poverty oriented projects, since these types of projects might have a higher local cost content. The *DAC Principles for Project Appraisal* suggests that donors may wish to consider covering local costs to ensure project completion. Moreover, donor flexibility in financing local costs helps to ensure that project design is not biased towards import-intensive techniques.

## 12.3. Recurrent costs

262. Donors and recipient countries have often failed to consider the issue of recurrent costs when designing projects. If these costs are neglected, projects will not be sustainable. It was a rule of thumb that donors would not finance recurrent costs because development co-operation should be used for spurring development, not for substituting for essential functions in a society. Drawing the line between funding the initial stages of a project or helping a project to reach cruising speed and funding recurrent costs on a long-term basis may not be easy in all cases. This is a subject that has developed considerable literature, originally spearheaded by the OECD's Club du Sahel<sup>48</sup>, with the main lesson being that recurrent-cost analysis should be made during project design.

## 12.4. Counterpart funds

263. Sometimes counterpart funds (i.e. funds which are generated from the sale of commodities provided by a donor, such as food aid or other types of imports, or from debt relief) are set aside to support the local costs of projects, or otherwise entered into the recipient country's budget for development activities. The management of counterpart funds, and their economic impact, has been a subject of considerable study. The *DAC Principles for Programme Assistance* suggest that donors should avoid earmarking counterpart funds for particular projects, but rather have them put in the general budget of the recipient country.<sup>49</sup>

## 12.5. Procurement modalities

264. There are two modes of contracting -- host country and donor. Under the former mode, the host country, using its own contracting procedures, calls for bids and contracts for goods and services using the funds provided by the donor. The host government procedures may be adjusted due to the fact that donor funds are used and certain donor procedures must be met. The host country mode is virtually standard procedure for loans on the theory that the funds belong to the host country which should be entitled to

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48. See OECD, Club du Sahel, *An Experiment in International Co-operation*, Paris, 1984.

49. See also *Counterpart Funds and Development*, IDS Bulletin, Vol. 23, No. 2, April 1992.

contract according to its own procedures. Host country contracting may also be used for grants. When the donor contracts out, there is usually agreement on the terms of reference or procurement and the description of whatever is being procured, but the donor does the contracting directly with suppliers.

265. Considerable debate has taken place about the relative merit of these two modes of contracting and procurement and the DAC has approved a set of Good Procurement Practices for Official Development Assistance (see Box 17<sup>50</sup>). Some argue that having the host country do the procurement is part and parcel of the aid process. Further, the host country is more likely to own the project if it does the contracting. There is also less likelihood of a misunderstanding on exactly what is being provided. The argument for donor procurement is that it is sometimes faster and more efficient, there may be less opportunity for corruption, the donor can control the funds more closely, and, if the aid is tied, procurement is facilitated.

#### **Box 17. Good Procurement Practices for Official Development Assistance**

Procurement is an important aspect of aid management with significant effects on the efficiency of the use of aid resources. Major advantages can be gained if procurement of aid financed goods and services is permitted from sources that are internationally competitive. However, since most Member countries feel obliged to tie large parts of their bilateral aid to procurement from the donor country or permit only partial untying, it is useful to develop and apply procurement practices that promote the efficient use of tied aid funds.

*The DAC's Good Procurement Practices for Official Development Assistance:*

- stress transparency in rules of procurement and in information of individual supply contracts;
- encourage use of international competitive bidding (ICB) and spell out (in an annex) minimum conditions for effective ICB;
- describe practices and conditions for other procurement methods; and
- urge the application of minimum procurement standards by recipients and offer assistance in strengthening recipients' administrative capacity in this regard.

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50. Box 17 presents the essential elements of the *Good Procurement Practices for Official Development Assistance* which were approved by the DAC, meeting at the level of Development Co-operation Ministers and Heads of Aid Agencies, in 1986. The full text is available in the *Development Assistance Manual: DAC Principles for Effective Aid*.



## CHAPTER 13

### EVALUATION: RELEVANCE, EFFICIENCY, EFFECTIVENESS AND RESULTS

#### 13.1. Managing for results in the public sector

266. Governments today face stringent requirements from the public to demonstrate value for money from the full range of public services they provide. These requirements apply to aid agencies and ministries of foreign affairs, just as they do to other parts of the administration. Among DAC Members, governments are moving at different speeds towards public management systems which are more results-oriented and sufficiently transparent to enable both the monitoring of progress towards meeting stated objectives and the independent assessment of results achieved.

*An example: New Zealand*

Reforms to public sector management in New Zealand mean that the government now purchases specific outputs from ministries under contract. In the case of aid, the government purchases the specific output "Management of New Zealand's official development assistance" from the Ministry of Foreign Affairs and Trade, under a contract negotiated with the Permanent Secretary of the Ministry. Appropriations for New Zealand's ODA contribute to achieving five of the Ministry's nine outcomes -- most notably "continued support for economic and social development, especially in countries of the South Pacific and Asian region" -- which in turn contribute to achieving the government's strategic results, one of which is "maintaining or enhancing key bilateral and multilateral economic relationships". Details are published of the government's strategic results, the Ministry of Foreign Affairs and Trade's outcomes and outputs, and the linkages between these.

#### 13.2. Managing for results in aid agencies

267. Some of the current reforms to public management systems are not altogether new to DAC aid agencies. These reforms apply at the level of the organisation the techniques of monitoring, evaluating and reporting which have been applied to development co-operation projects for decades. At the same time, traditional aid evaluations have been expanding in focus in recent years to cover not just projects but entire programmes, sectors, countries or priority areas. In many DAC aid agencies, pressures have consequently been coming simultaneously from both inside and outside the organisation to change management practices in favour of a more results-oriented approach. This has led, in some instances, to a new management culture in aid agencies which attaches greater value to the identification of expected results, the use of indicators to monitor performance and the reporting of results obtained.

268. Several aid agencies are introducing results-based management systems in the broader context of reforms in the public sector. In the United Kingdom, for instance, the Department for International Development has introduced a portfolio management system organised around the Department's objectives and results. Similar approaches are emerging in Australia, Canada, Switzerland and the United States.

*An example: Canada*

One of the aims of the *Getting Government Right*<sup>51</sup> initiative in Canada is to sharpen the public sector's accountability for results and increase the transparency of information provided to Parliament and the Canadian people. Since 1997, each department or agency has been required to submit two complementary documents to Parliament each year: a *Report on Plans and Priorities*, for the upcoming financial year, and a *Performance Report*, which subsequently reports performance against those previously presented plans. Like other Canadian government departments and agencies, the Canadian International Development Agency has tabled these two documents in Parliament since 1997.<sup>52</sup> CIDA's annual *Report on Plans and Priorities* and *Performance Report* are an exemplary effort by a Member of the DAC to sharpen its focus on results at the agency level and to increase transparency.

269. Managing and accounting for results remains, nonetheless, a difficult and complex task. Even those DAC Members which have made the most progress towards adopting a results-based management approach are still working to refine and perfect their systems. In particular, much still needs to be accomplished in the areas of recording and generating the information needed to monitor progress and report on achievements. In the specific case of development co-operation, there are also difficulties associated with isolating those results in developing countries which are attributable to particular aid-financed activities. Another area where further work is needed is the capacity to report results achieved against costs incurred. In order to determine the true cost of government services, some DAC Members have adopted accrual accounting for all parts of their public sector.

270. In August 1996, the Office of Evaluation and Strategic Planning (OESP) of the UNDP and the Department of Evaluation and Internal Audit of the Swedish International Development Co-operation Agency commenced a joint review of performance measurement systems in selected public sector bodies and aid agencies. The aim was to learn from others before elaborating proposals for improving their own performance measurement and management systems. As the lessons learnt could be of benefit to others in the development community, a report was published in connection with this review entitled *Measuring & Managing Results: Lessons for Development Co-operation*. The review noted that a basic dilemma for aid agencies is their dependence on results being achieved by their client countries. Aid agencies also face the double challenge of having to introduce effective internal performance management in parallel with sustainable systems in their client countries. The important lessons learnt during the review are summarised in three groups -- institutional, operational and methodological issues:

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51. Available on the Internet at: <http://www.tbs-sct.gc.ca/report/govrev/Gfce.html>

52. Copies of CIDA's annual *Report on Plans and Priorities* and *Performance Report* are available on the CIDA Internet site: <http://www.acdi-cida.gc.ca/index.htm>

- institutional issues:
  - review existing systems and learn from past efforts;
  - lead from a central office located at a senior level in the bureaucracy;
  - stimulate demand at all levels by identifying potential benefits;
  - persevere -- results will take time; and
  - involve top management;
- operational issues:
  - budgetary pressure helps to keep staff focused on efficiency issues;
  - budgetary stability provides the environment in which management can function;
  - performance contracting unites objectives, choice of indicators, devolution of responsibilities and accountability; and
  - training is needed at start-up and to support methodology development; and
- methodological issues:
  - use the logical framework to help to set realistic, specific and measurable objectives;
  - performance budgeting improves accountability by linking budgets to results rather than to inputs;
  - transparent, published reporting helps to promote understanding of the difficulties of outcome accountability; and
  - auditing and evaluation are essential components of performance management and help to tackle the difficulty of measuring outcomes.

### **13.3. The evaluation function within aid agencies**

271. As with many other aspects of aid management, the environment in which evaluators operate in DAC Members' aid agencies is changing. Recent changes include major reorganisations of aid agencies or restructurings of donors' overall aid management systems, a widening in the focus of evaluations -- to consider not just projects but particular sectors, cross-cutting themes, countries/regions and programme priorities -- and stronger pressures to provide more evidence of the results and impact of development assistance. Other reforms currently underway in many DAC Member aid agencies aim to strengthen reporting systems, improve performance measurement, increase transparency and provide timely and user-friendly feedback on lessons learnt.

272. Improving the effectiveness of aid is one of the basic mandates of the DAC, as stated in the Committee's 1961 *Resolution on Common Aid Effort*. Evaluation is a valuable tool for increasing aid

effectiveness and improving results. As part of its on-going work to improve aid effectiveness and strengthen the value-added by evaluation, the DAC adopted a set of *Principles for Evaluation of Development Assistance* in 1991 (see Box 18<sup>53</sup>).

**Box 18. Principles for Evaluation of Development Assistance**

Aid evaluation plays an essential role in efforts to enhance the quality of development co-operation. The DAC *Principles for Evaluation of Development Assistance* incorporate the following essential elements:

- Aid agencies should have an evaluation policy with clearly established guidelines and methods and with a clear definition of its role and responsibilities and its place in institutional aid structure.
- The evaluation process should be impartial and independent from the process concerned with policy-making, and the delivery and management of development assistance.
- The evaluation process must be as open as possible with the results made widely available.
- For evaluations to be useful, they must be put into practice. Feedback to both policy-makers and operational staff is essential.
- Partnership with recipients and donor co-operation in aid evaluation are both essential; they are an important aspect of recipient institution-building and of aid co-ordination and may reduce administrative burdens on recipients.
- Aid evaluation and its requirements must be an integral part of aid planning from the start. Clear identification of the objectives which an aid activity is to achieve is an essential prerequisite for objective evaluation.

273. A review in 1997 of DAC Members' experience with the application of the 1991 Principles, based on both a self-assessment by evaluators and the experience of users of evaluations, found that Members fell into three main groupings:

- around half of the DAC have established central evaluation operations and are broadly in compliance with the DAC Principles;
- for around one third of DAC Members, their compliance has deteriorated or their capacity to comply is limited, owing to organisational shifts and lack of management support and resources for evaluation work; and
- the remaining DAC Members have little or no structured evaluation systems and capacities or are just beginning to develop them.

274. As regards the involvement of recipients/beneficiaries in evaluations, the review found that most DAC Members' compliance is deficient. Unfortunately, there seem to be a number of factors which impede successful application of this principle. In the broader context of efforts to implement the

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53. Box 18 summarises the essential elements of the *Principles for Evaluation of Development Assistance* which were adopted by the DAC, meeting at the level of Development Co-operation Ministers and Heads of Aid Agencies, in December 1991.

development partnerships strategy and build local capacity, aid agencies need to make efforts to address this identified weakness in their evaluation systems.

275. The review also found that evaluations have proved most useful for policy makers and aid administrators when they are closely related to current and future programme interests, and in situations where they provide opportunities for participation of those who make use of the evaluations in programme design and recommendations. These effects tend to be optimal when evaluations are timely, to-the-point and presented in a format that is succinct and readable.

276. Members of the DAC recognise that the evaluation function needs a certain amount of independence and should not be mixed in with programme or operational units. While it is often placed in a separate unit in the organisational structure, reporting directly to a high level manager within the aid agency, strict compliance with the DAC Principles would have the evaluation function reporting to a governing board, programme oversight body, the minister or Parliament. Such a structure is found in some multilateral aid agencies but only a few bilateral donors.

*An example: Belgium*

Reforms in 1998 to the Belgian aid system resulted in the creation of a new structure and higher profile for the evaluation function. Since that time, the evaluation unit has been independent from the minister responsible for development co-operation and the aid policy and implementation functions. The head of the unit is appointed for a non-renewable term of five years, after which he or she may not be re-appointed to the aid administration or the Ministry for Foreign Affairs. The responsibilities of the new evaluation unit include preparing an annual evaluation report for submission to Parliament, which is subsequently discussed with the minister responsible for development co-operation and the aid administration.

#### **13.4. Evaluating aid projects and programmes**

277. All aid projects and programmes should have objectives against which they can be evaluated and aid managers must be accountable for the relevance, effectiveness and efficiency of their interventions.

278. Relevance is concerned with assessing whether the project is in line with local needs and priorities (as well as with donor policy). In evaluating the relevance of a programme or project, it is useful to consider the following questions:

- To what extent are the objectives of the programme still relevant?
- Are the activities and outputs of the programme consistent with the overall goal and the attainment of the objectives? and
- Are the activities and outputs of the programme consistent with the intended impacts and effects?

279. Effectiveness measures the extent to which the activity achieves its purpose, or whether this can be expected to happen on the basis of the outputs. Timeliness is implicit within the criteria of

effectiveness. In evaluating the effectiveness of a programme or project, it is useful to consider the following questions:

- To what extent were the objectives achieved or are likely to be achieved? and
- What were the major facts influencing the achievement or non-achievement of the objectives?

280. Efficiency measures the outputs -- qualitative and quantitative -- in relation to inputs. This generally requires comparing alternative approaches to achieving the same outputs to see whether the most efficient process has been used. In evaluating the efficiency of a programme or project, it is useful to consider the following questions:

- Were activities cost-efficient?
- Were objectives achieved timely and at least cost? and
- Was the programme or project implemented in the most efficient way compared to alternative ways?

281. Aid managers should also be able to demonstrate measurable results and impact against stated objectives. The impact of aid interventions should consider direct effects -- the immediate costs and benefits, indirect effects -- the benefits unleashed by the project, as well as the multiplier effects -- increases in the use of the economy's capacity generated by a rise in demand.

282. While independent evaluations are incontestably an important part of aid agencies' management systems and invaluable for providing feedback on lessons learnt, independent evaluations should be accompanied by, and go hand-in-hand with, a process whereby the people in charge of operations self-evaluate their country programmes and projects. Operational staff in aid agencies should be encouraged to take a keen interest in results on the ground and assessments of past performance. Aid agencies should reward staff who take such an interest.

*An example: The Netherlands*

The Netherlands has a particularly strong central evaluation system and regularly assesses the results of its aid, both at the policy and project/programme levels. Assessment of aid policies, including geographical and sectoral priorities, is the task of the Policy and Operations Evaluation Department, an independent support service within the Ministry of Foreign Affairs with its own resources. These reports are submitted to Parliament, accompanied by comments from the Minister for Development Co-operation, and are published. In addition, approximately 200 project/programme evaluations are carried out annually by, or on behalf of, the operational departments in the ministry, which are not published. With the delegation of aid management responsibilities to field posts, Dutch missions in recipient countries are now responsible and accountable for end-of-project evaluations, although there are some concerns about the quality of some of these evaluations.

## CHAPTER 14

### MONITORING AND INDEPENDENT REVIEW OF THE AID PROGRAMME

#### 14.1. Monitoring by Parliament

283. As the public's elected representatives, parliamentarians are responsible for monitoring the management and implementation of aid programmes and may be involved in the formulation or review of general aid policy orientations. The role of parliamentarians in DAC Members' aid programmes varies. Some Members have relatively active parliaments in relation to development co-operation where there are hearings, studies and lengthy debates. Government authorities in these countries are particularly attentive to the input from Parliament. However, the role of Parliament in most DAC Members is quite modest with governments making decisions on development co-operation and proposing budgets in a process that often receives little parliamentary study or debate.

*An example: The United States*

In the United States, Congress plays an important role in debating the aid programme, studying foreign assistance budgets extensively and voting a highly detailed budget, prescribing in detail how aid can be used and sometimes setting aside a certain percentage of the budget for specific purposes (e.g. the environment, child survival or private sector development). This extreme case of "micro-management" is made more involved as separate budgets are passed for different parts of the aid programme, such as food aid and assistance through multilateral development banks.

284. Most DAC Member legislatures have parliamentary committees which examine foreign relations matters in depth. These committees can take a more active interest in the aid programme than the Parliament as a whole. In some countries, a sub-committee of the parliamentary committee responsible for foreign affairs has been formed to give special attention to development co-operation issues.

#### 14.2. Ministerial advisory committees

285. Many DAC Members have some sort of advisory committee -- often including members from universities, business, trade unions and NGOs -- to provide independent advice on development co-operation. The structure, function, independence and output of these committees take different forms.

*An example: Finland*

Finland has had some sort of advisory board on aid matters for over 25 years. The present board is known as the Advisory Board for Relations with

Developing Countries (KESU) and was originally set up in 1995. The board is composed of 14 members drawn from parliament, church groups, industry, academia and NGOs. The board holds one meeting per month to which officials from the Ministry of Foreign Affairs are invited to give presentations on issues to be discussed. The board contributes to aid policy formulation and provides comments to the government on budget commitments. Members of KESU travel overseas and are generally accompanied by officials from the Ministry of Foreign Affairs when they do. On occasions, they also attend UN meetings. Unlike advisory boards in some other DAC countries, KESU does not play a large role in conducting research and publishing studies on aid and the country's aid programme. The explanation for this may be that the Finnish Ministry of Foreign Affairs has its own research department and KESU can benefit from its research.

### 14.3. Reviews by external auditors

286. It is becoming increasingly common for a DAC Member's national audit office to investigate and report on the functioning of the aid programme. Audit offices clearly have a different function from aid agencies and may only be charged with assessing whether government practices and procedures are adhered to and respected. However, some audit offices are also charged with evaluating whether government programmes are providing value-for-money and achieving intended results, similar goals to those pursued by aid agencies' evaluators. Whatever their terms of reference, national audit offices are independent from government and so can provide objective advice to Parliament which is publicly available.

287. In recent years, the Office of the Auditor-General of Canada, the European Court of Auditors, the French Court of Auditors, the United States General Accounting Office (GAO), the Swedish National Audit Office and the British National Audit Office have all examined and reported on some aspect of the functioning of their aid programmes.

#### *An example: Canada*

The Office of the Auditor-General of Canada conducts independent audits and examinations that provide information, advice and assurance to Parliament. One of the Auditor-General's responsibilities is to assess whether government programmes are being run economically and efficiently and whether the government has the means to measure the effectiveness of its programmes. The Auditor-General has carried out three such "value-for-money" audits of the Canadian aid programme. These have focused on regional development banks (Auditor-General's 1992 Report), management of bilateral programmes (1993 Report) and technical assistance contributions to Central and Eastern Europe (1994 Report).<sup>54</sup> An important element of the work of the Auditor-General is its follow-up on actions taken in response to the concerns raised in its reports to Parliament. In the case of its 1993 audit of the management of bilateral programmes, CIDA and the

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54. Copies of these reports are available on the Internet site of the Office of the Auditor-General of Canada at: <http://www.oag-bvg.gc.ca/domino/oag-bvg.nsf/html/menue.html>



Office of the Auditor-General agreed to adopt a new and innovative approach, a “three-stage phased follow-up”.<sup>55</sup> Adoption of this approach is proof of the open and collaborative partnership that has developed between CIDA and the Auditor-General whereby the Auditor-General has not only identified areas of concern but is collaborating with CIDA and monitoring its efforts to address those concerns.

#### 14.4. Independent reviews

##### 14.4.1. Officially commissioned reviews

288. Some DAC Members have found it useful to commission formal, independent reviews of their aid programmes. These reviews may focus on a particular aspect of the programme or on the programme as a whole. Such comprehensive reviews can be the first step towards a major overhaul of the aid programme following, for instance, a new government taking office.

##### *An example: Australia*

Australia has twice used independent reviews to overhaul its aid programme. The first occasion was the 1984 Jackson Review which set the parameters and major policy directions that underpinned Australia’s programme for the following decade. The second review was commissioned by the new Liberal/National Coalition government, elected in 1996. An independent review committee was formed who, as part of their deliberations, undertook extensive consultations with a wide range of stakeholders in the aid programme, which also helped ensure broad ownership of the results of the review. The committee released its recommendations in 1997 in the *Report of the Committee of Review on the Australian Overseas Aid Programme*<sup>56</sup>, known as the Simons Report. The government subsequently prepared a detailed response to each recommendation in this report<sup>57</sup> as well as a new policy statement for Australia’s aid programme, *Better Aid for a Better Future*.<sup>58</sup>

##### *An example: France*

France’s co-operation with developing countries has been the subject of independent reviews which have offered guidance on aid policy and proposed reforms to the aid management system. More than 15 reports have been produced, of which at least five since 1990:

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- 55. More information on the phased follow-up to the Auditor-General’s 1993 audit of the management of bilateral programmes is available on the Internet at: <http://www.oag-bvg.gc.ca/>
  - 56. Available on the Internet at: <http://www.aid.gov.au/publications/simons.html>
  - 57. Available on the Internet at: <http://www.aid.gov.au/publications/aidrev/response/content.html>
  - 58. Available on the Internet at: <http://www.aid.gov.au/publications/general/other/parlrep.html>

- Hessel, Stéphane, *France's Relations with Developing Countries*, Report to the Prime Minister, February 1990;
- Vivien, Alain, *Enhancing French Co-operation*, Report to the Prime Minister, June 1990;
- Conseil économique et social, *Third World Development and French Growth*, Report by André Duffaure, Paris, June 1993;
- Fuchs, Jean-Paul, Member of Parliament, *Towards an Effective, Controlled and Transparent Development Policy*, Report to the Prime Minister, July 1996; and
- Marchand, Yves, Member of Parliament, *Afro-realism, an Urgent Call for a New Enterprise Policy in Sub-Saharan Africa*, Report to the Prime Minister, April 1996.

#### 14.4.2. *Development Assistance Committee Peer Reviews*

289. As part of its mission to maximise resources for development and improve the effectiveness of aid, the DAC conducts periodic critical reviews of its Members' aid programmes.<sup>59</sup> These reviews examine how each individual Member programme applies DAC policy guidance, how the programme is managed, coherence of policies with development objectives and trends in the volume and allocation of resources. Each review is based on investigations by the OECD Secretariat and examiners appointed from two Member countries. Their investigations include broad consultations in the capital of the donor under review as well as, in most cases, a visit to one or more of that donor's field missions. The process culminates in a meeting of the full Committee at which the major issues identified in the examination are discussed. Since 1994, the summary of the Committee's findings and conclusions, together with the detailed report by the Secretariat, have been published in the OECD's *Development Co-operation Review Series*.<sup>60</sup>

#### 14.4.3. *Civil society*

290. Many development-related NGOs, research bodies and academics in DAC Members monitor their country's aid programme on a regular basis. These analyses are sometimes publicly available.

291. Since 1993, a group of NGOs has produced an annual publication reviewing development assistance, entitled *The Reality of Aid*. The objectives of *The Reality of Aid* are:

- to produce reliable and well-informed reports on the development co-operation performance of OECD DAC donors, based on reports written from the perspective of NGOs based in

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59. More information on DAC Peer Reviews is available on the Internet at: <http://www.oecd.org/dac/htm/reviews.htm>

60. The Summary and Conclusions of DAC Peer Reviews held since 1996 are also available on the Internet at: <http://www.oecd.org/dac/htm/p-ars.htm>

donor countries as well as perspectives on OECD development co-operation from recipient country NGOs;

- to increase knowledge and scrutiny of development co-operation; and
- to influence policy makers at national and international levels to gear their policy and practice to reducing world poverty.

*The Reality of Aid* is a collaborative, not-for-profit project of EUROSTEP (European Solidarity Towards Equal Participation of People)<sup>61</sup> and ICVA (the International Council of Voluntary Agencies).

#### 14.5. Statistical systems

292. Statistics provide much of the basic information required for reviewing and monitoring aid programmes. Each DAC Member has a statistical unit or officer with special responsibility for compiling data on development assistance efforts. These data are published in budget documents, annual reports of aid agencies, balance of payments reports and specially designed statistical compendia.

293. The OECD's Development Co-operation Directorate compiles comparative international data on aid and other resource flows for development from reports submitted by DAC Members according to agreed rules and formats. Two complementary systems are employed:

- Aggregate data are collected in the annual DAC questionnaire, due in July of the year following the flows concerned. This comprises ten tables covering commitments and disbursements of official and private flows by destination, type, sector and tying status. A one-page advance questionnaire submitted in April gives preliminary totals, focussing on net disbursements of ODA.
- Activity-by-activity data on official flows are collected in the Creditor Reporting System. This allows more detailed analysis according to a menu of parameters. It is the main source of country-by-sector data, and is a prime source of information on outstanding debt.

294. These comparative data are available in various OECD publications, including the DAC Peer reviews. The annual *Development Co-operation Report* includes a statistical annex with an extensive range of analytical tables. Data on individual developing countries' receipts are available in *Geographical Distribution of Financial Flows to Aid Recipients*. The Creditor Reporting System *Gazette* presents activity-level data by region and sector. *External Debt Statistics* reports on the outstanding debt of developing and transition countries. Most data are also available on diskette or CD-ROM, or through the DAC's Internet site.<sup>62</sup>

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61. More information on *The Reality of Aid* is available on the EUROSTEP Internet site at: <http://www.oneworld.org/eurostep/eurospub.htm>

62. Statistics on aid and other resource flows to developing and transitional countries, based principally on reporting by DAC Members, are available on the Internet at: <http://www.oecd.org/dac/htm/dacstats.htm>

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## APPENDIX I

**LEVELS OF ODA DISBURSEMENTS AND OTHER FINANCIAL FLOWS TO DEVELOPING  
AND TRANSITION COUNTRIES**

**Total resource flows** to developing and transition countries from all sources have increased rapidly during the 1990s, peaking at \$372 billion in 1996 before falling off to \$325 billion in 1997 in the wake of the South-East Asian financial crisis (see Table 1). Approximately three-quarters of net resource flows in 1997 were provided by the **private sector**. **Official development finance** for developing and transition countries amounted to \$77 billion.

Table 1. **Total net resource flows to developing and transition countries**

\$ billion

	1990	1991	1992	1993	1994	1995	1996	1997
Official development finance (ODF)	76.5	84.8	78.7	82.9	85.4	88.3	76.1	77.4
Export credits (official and private)	9.5	0.6	1.0	-3.0	6.3	5.6	4.0	4.8
Private flows	43.6	53.0	80.1	86.3	134.7	175.3	291.4	242.5
<b>TOTAL</b>	<b>129.6</b>	<b>138.4</b>	<b>159.8</b>	<b>166.2</b>	<b>226.3</b>	<b>269.2</b>	<b>371.6</b>	<b>324.7</b>

Source: OECD.

**Gross disbursements** give the best indication of the magnitude of the aid programmes being managed by DAC Members. In 1997, DAC Members' ODA programmes ranged in size from Luxembourg's \$95 million to Japan's \$12.6 billion (see Table 2). Thirteen DAC Members' programmes exceeded \$1 billion in size. On a **net disbursements** basis, i.e. after deducting amounts received, such as loan repayments, total ODA from DAC countries amounted to \$48 billion in 1997.

Expressed **as a share of national income**, DAC countries aid performance in 1997 ranged from the United States' 0.09 per cent of GNP to Denmark's 0.97 per cent (see Figure 2). As well as Denmark, three other DAC countries exceeded the **UN target** for ODA of 0.7 per cent of GNP: the Netherlands, Norway and Sweden. DAC countries' average aid effort was 0.40 per cent of GNP.

On average, DAC countries channelled approximately one third of their net ODA through **multilateral agencies** in 1997, although the share varied from France's 24.3 per cent to Italy's 64.1 per cent (see Table 3).

Seven DAC countries provided at least 0.15 per cent of their GNP to **least-developed countries** (calculated on the basis of their combined bilateral ODA and aid through multilateral agencies): Denmark, Ireland, Luxembourg, the Netherlands, Norway, Portugal and Sweden.

DAC countries also disbursed \$5 billion of net **official aid** to the more advanced developing and transition countries in 1997, most of which on a bilateral basis.

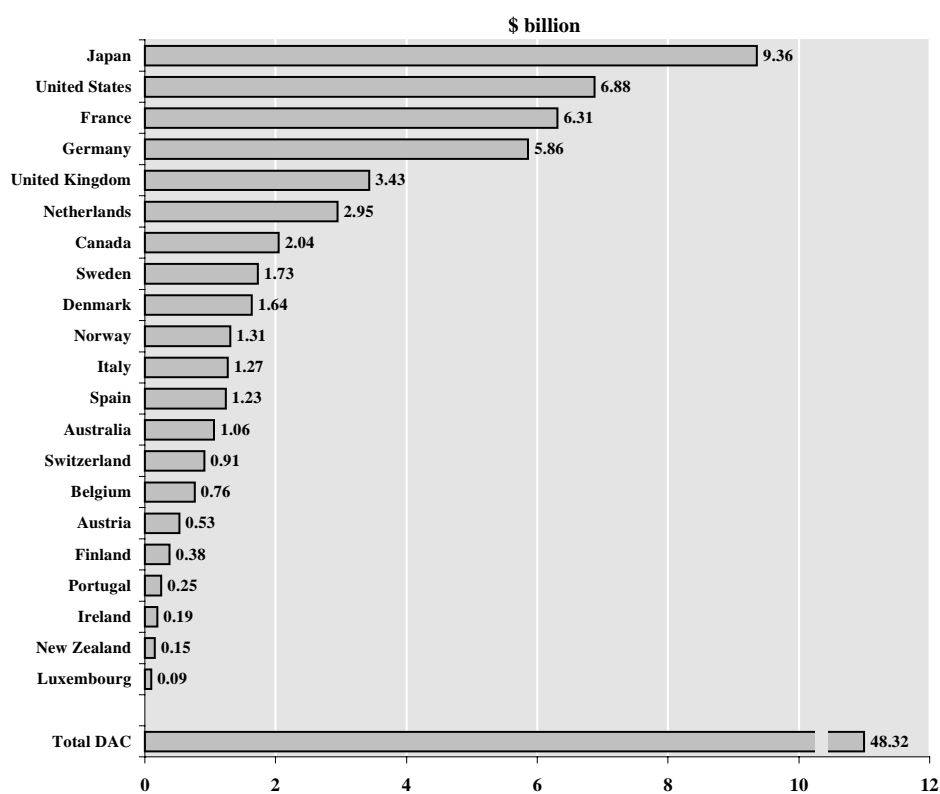
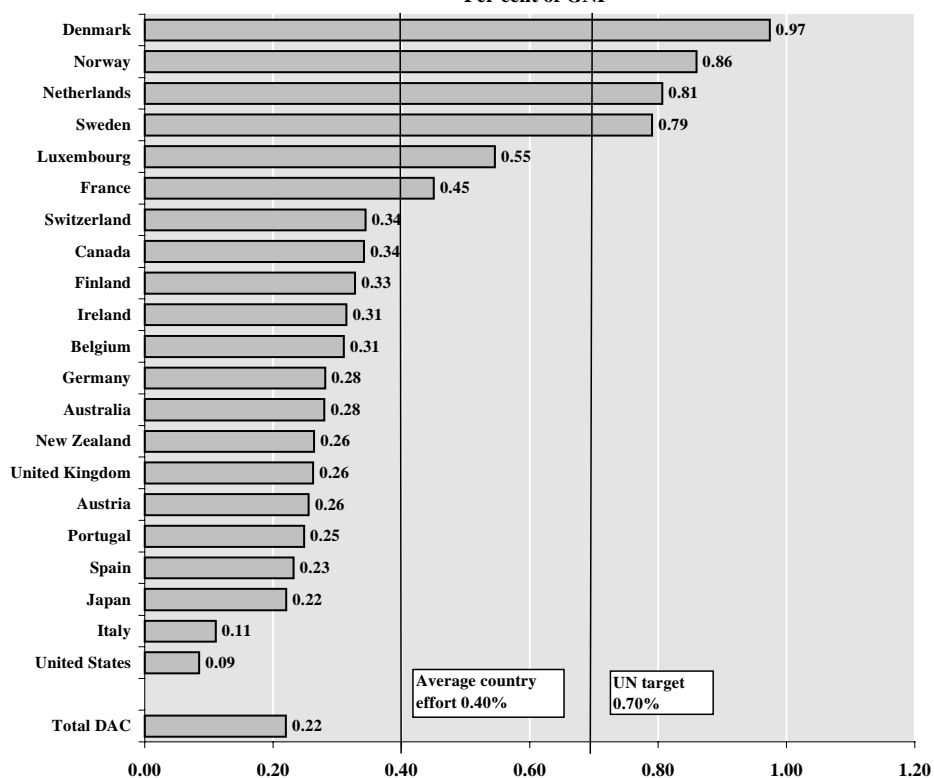
**Table 2. ODA from DAC Members in 1997**

gross and net disbursements

	<b>Gross ODA</b>	<b>Amounts received</b>	<b>Net ODA</b>
Japan	12 565	3 207	9 358
United States	8 032	1 154	6 878
France	7 337	1 030	6 307
Germany	6 941	1 084	5 857
United Kingdom	3 519	86	3 433
Netherlands	3 115	169	2 947
Canada	2 141	96	2 045
Sweden	1 731	-	1 731
Denmark	1 674	37	1 637
Italy	1 413	148	1 266
Spain	1 367	132	1 234
Norway	1 309	3	1 306
Australia	1 075	14	1 061
Switzerland	926	16	911
Belgium	805	41	764
Austria	562	35	527
Finland	390	11	379
Portugal	252	2	250
Ireland	187	-	187
New Zealand	154	-	154
Luxembourg	95	-	95
<b>Total DAC</b>	<b>55 589</b>	<b>7 265</b>	<b>48 324</b>
EC	5 499	238	5 261

Source: OECD.

Figure 2. Net ODA from DAC Member countries in 1997  
Per cent of GNP



Source: OECD.

Table 3. Comparative aid performance of DAC Member countries

	Official development assistance			Grant element of ODA (commitments) 1996  % ( a )	Share of multilateral aid  1997				ODA to LLDCs Bilateral and through multilateral agencies 1997		Official aid  1997	
	1997		91-92 to 96-97 Ave. annual % change in real terms		% of ODA		% of GNP		% of ODA	% of GNP	\$ million	% of GNP
	\$ million	% of GNP			( b )	( c )	( b )	( c )				
Australia	1 061	0.28	-1.2	100.0	26.9	0.08			18.8	0.05	0	0.00
Austria	527	0.26	-2.8	96.6	41.9	23.5	0.11	0.06	17.4	0.04	181	0.09
Belgium	764	0.31	-2.7	98.6	42.7	17.6	0.13	0.05	26.8	0.08	59	0.02
Canada	2 045	0.34	-4.0	100.0	40.6		0.14		22.9	0.08	157	0.03
Denmark	1 637	0.97	3.7	100.0	38.3	32.9	0.37	0.32	29.7	0.29	133	0.08
Finland	379	0.33	-11.9	100.0	47.2	34.5	0.15	0.11	24.4	0.08	71	0.06
France	6 307	0.45	-4.2	87.7	24.3	10.3	0.11	0.05	22.0	0.10	308	0.02
Germany	5 857	0.28	-3.9	88.9	37.9	15.2	0.11	0.04	19.4	0.05	660	0.03
Ireland	187	0.31	20.1	100.0	35.6	14.8	0.11	0.05	47.8	0.15	1	0.00
Italy	1 266	0.11	-12.3	98.2	64.1	15.7	0.07	0.02	25.6	0.03	241	0.02
Japan	9 358	0.22	-5.8	78.4	30.0		0.07		18.9	0.04	84	0.00
Luxembourg	95	0.55	15.0	100.0	30.0	14.8	0.16	0.08	29.2	0.16	2	0.01
Netherlands	2 947	0.81	1.4	100.0	27.6	18.9	0.22	0.15	26.9	0.22	7	0.00
New Zealand	154	0.26	0.9	100.0	26.6		0.07		22.8	0.06	0	0.00
Norway	1 306	0.86	0.5	99.2	29.9		0.26		39.4	0.34	55	0.04
Portugal	250	0.25	-2.6	100.0	34.9	10.4	0.09	0.03	66.1	0.16	18	0.02
Spain	1 234	0.23	-0.7	64.9	38.0	12.0	0.09	0.03	16.3	0.04	3	0.00
Sweden	1 731	0.79	-2.5	100.0	30.2	24.8	0.24	0.20	29.7	0.23	148	0.07
Switzerland	911	0.34	-3.1	100.0	36.8		0.13		32.6	0.11	75	0.03
United Kingdom	3 433	0.26	-0.3	100.0	42.4	21.4	0.11	0.06	22.5	0.06	337	0.03
United States	6 878	0.09	-8.9	99.6	28.2		0.02		19.5	0.02	2 516	0.03
<b>Total DAC</b>	<b>48 324</b>	<b>0.22</b>	<b>-4.6</b>	<b>89.7</b>	<b>33.1</b>	<b>23.2</b>	<b>0.07</b>	<b>0.05</b>	<b>22.6</b>	<b>0.05</b>	<b>5 056</b>	<b>0.02</b>
Memo: Average country effort		0.40										

*Notes:*

- a. Excluding debt reorganisation.
- b. Including European Community.
- c. Excluding European Community.

Source: OECD.



**APPENDIX II**  
**DAC LIST OF AID RECIPIENTS**

<b>Part I: Developing Countries and Territories (Official Development Assistance)</b>					<b>Part II: Countries and Territories in Transition (Official Aid)</b>		
Least-Developed Countries	Other Low-Income Countries (per capita GNP < \$765 in 1995)	Lower Middle-Income Countries and Territories (per capita GNP \$766-\$3 035 in 1995)	Upper Middle-Income Countries and Territories (per capita GNP \$3 036-\$9 385 in 1995)	High-Income Countries and Territories (per capita GNP > \$9 385 in 1995) <sup>1</sup>	Central and Eastern European Countries and New Independent States of the former Soviet Union	More Advanced Developing Countries and Territories <sup>2</sup>	
Afghanistan Angola Bangladesh Benin Bhutan Burkina Faso Burundi Cambodia Cape Verde Central African Republic Chad Comoros Congo, Dem. Rep. Djibouti Equatorial Guinea Eritrea Ethiopia Gambia Guinea Guinea-Bissau Haiti Kiribati Laos Lesotho Liberia Madagascar Malawi Maldives Mali Mauritania Mozambique Myanmar Nepal Niger Rwanda Sao Tome and Principe Sierra Leone Solomon Islands Somalia Sudan Tanzania Togo Tuvalu Uganda Vanuatu Western Samoa Yemen Zambia	*Albania *Armenia *Azerbaijan Bosnia and Herzegovina Cameroon China Congo, Rep. Côte d'Ivoire *Georgia Ghana Guyana Honduras India Kenya *Kyrgyz Rep. Mongolia Nicaragua Nigeria Pakistan Senegal Sri Lanka *Tajikistan Viet Nam Zimbabwe	Algeria Belize Bolivia Botswana Colombia Costa Rica Cuba Dominica Dominican Republic Ecuador Egypt El Salvador Fiji Grenada Guatemala Indonesia Iran Iraq Jamaica Jordan *Kazakstan Korea, Democratic Republic of Lebanon Macedonia (former Yugoslav Republic) Marshall Islands Micronesia, Federated States *Moldova <sup>3</sup> Morocco Namibia Niue	Palau Islands Palestinian Administered Areas Panama Papua New Guinea Paraguay Peru Philippines St Vincent & Grenadines Suriname Swaziland Syria Thailand Timor Tokelau Tonga Tunisia Turkey *Turkmenistan *Uzbekistan Venezuela Macedonia (former Yugoslav Republic) Futuna Yugoslavia, Federal Republic	Brazil Chile Cook Islands Croatia Gabon Malaysia Mauritius Mayotte Mexico Nauru South Africa St Lucia Trinidad and Tobago Uruguay  ----- <b>Threshold for World Bank Loan Eligibility (\$5 295 in 1995)</b> ----- ■ Anguilla Antigua and Barbuda Argentina Bahrain Barbaços Libya <sup>1</sup> Malta ■ Montserrat Oman Saudi Arabia Seychelles Slovenia ■ St Helena St Kitts and Nevis ■ Turks and Caicos Islands	■ Aruba <sup>1</sup> ■ French Polynesia <sup>1</sup> ■ Gibraltar <sup>1</sup> Korea, Rep. of <sup>1</sup> ■ Macao <sup>1</sup> ■ Netherlands Antilles <sup>1</sup> ■ New Caledonia <sup>1</sup> Northern Marianas <sup>1</sup> ■ Virgin Islands (UK) <sup>1</sup>	*Belarus *Bulgaria *Czech Republic *Estonia *Hungary *Latvia *Lithuania *Poland *Romania *Russia *Slovak Republic *Ukraine	Bahamas ■ Bermuda Brunei ■ Cayman Islands Chinese Taipei Cyprus ■ Falkland Islands ■ Hong Kong, China Israel Kuwait Qatar Singapore United Arab Emirates

\* Central and Eastern European Countries and New Independent States of the former Soviet Union (CEECs/NIS)      ■ Territory

Under the policy adopted by the DAC in 1993, the DAC List of Aid Recipients is in two parts, with periodic reviews under established criteria which may result in the transfer of particular recipients from one part to another, notably from Part I to Part II (see the *Development Co-operation Report 1997*, p. A101). The List presented here is effective as of 1 January 1997. The following notes explain, *inter alia*, the differences between the 1996 and 1997 DAC Lists.

Notes:

- These countries and territories will progress to Part II on 1 January 2000, unless an exception is agreed.
- The recipients shown in italics in this column were in Part I of the DAC List up until the end of 1996. Aid to them up to and including 1996 is included in Official Development Assistance to High-Income Countries. They were transferred to Part II on 1 January 1997. The other recipients in this column transferred to Part II on 1 January 1996. Aid to them up to and including 1995 is included in Official Development Assistance to High-Income Countries.
- Moldova transferred to Part I on 1 January 1997. Aid to Moldova up to and including 1996 is included in Official Aid.

Source: OECD.

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## APPENDIX III

### SHAPING THE 21ST CENTURY: THE CONTRIBUTION OF DEVELOPMENT CO-OPERATION

#### Introduction and Summary<sup>63</sup>

##### *Values and interests*

As we approach the end of the twentieth century, the time is ripe to reflect on the lessons of development co-operation over the last 50 years and to put forward strategies for the first part of the next century. This report sets forth the collective views on these matters of development ministers, heads of aid agencies and other senior officials responsible for development co-operation, meeting as the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD).

In the year 2000, four-fifths of the people of the world will be living in the developing countries, most with improving conditions. But the number in absolute poverty and despair will still be growing. Those of us in the industrialised countries have a strong moral imperative to respond to the extreme poverty and human suffering that still afflict more than one billion people. We also have a strong self-interest in fostering increased prosperity in the developing countries. Our solidarity with the people of all countries causes us to seek to expand the community of interests and values needed to manage the problems that respect no borders -- from environmental degradation and migration, to drugs and epidemic diseases. All people are made less secure by the poverty and misery that exist in the world. Development matters.

The record of the last 50 years, from Marshall Plan aid to the network of development partnerships now evolving, shows that the efforts of countries and societies to help themselves have been the main ingredients in their success. But the record also shows that development assistance has been an essential complementary factor in many achievements: the green revolution, the fall in birth rates, improved basic infrastructure, a diminished prevalence of disease and dramatically reduced poverty. Properly applied in propitious environments, aid works.

Co-operation within the UN, the international financial institutions, the OECD and other global and regional fora has greatly enhanced these efforts and shaped an evolving multilateralism in which all countries hold a vital stake.

We have learned that development assistance will only work where there is a shared commitment of all the partners. We have seen the results in countries which have grown, prospered and

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63 . This appendix presents the Introduction and Summary of *Shaping the 21st Century: The Contribution of Development Co-operation*. The full report is available on the Internet at: <http://www.oecd.org/dac/htm/stc.htm>

achieved industrialisation; they no longer depend on aid but stand on their own feet and participate in the global economy. We have seen, on the other hand, the countries in which civil conflict and bad governance have set back development for generations. And we have learned that success takes time and sustained international and local effort.

As we look ahead, we see an overwhelming case for making that effort. As a crucial part of this undertaking, the international community needs to sustain and increase the volume of official development assistance in order to reverse the growing marginalisation of the poor and achieve progress toward realistic goals of human development. Domestic preoccupations in Member countries should not jeopardise the international development effort at a critical juncture. Today's investments in development co-operation will yield a very high return over the coming years.

We believe that ways must be found to finance multilateral development co-operation that are adequate, efficient, predictable and sustainable. The full implementation of current agreements to pay arrears and create workable financing systems is an essential part of efforts to ensure that the UN and the multilateral development banks avoid severe crisis and continue to play their vital roles.

We also recognise that those responsible for public money are accountable for its effective use. We have a duty to state clearly the results we expect and how we think they can be achieved.

It is time to select, taking account of the many targets discussed and agreed at international fora, a limited number of indicators of success by which our efforts can be judged. We are proposing a global development partnership effort through which we can achieve together the following ambitious but realisable goals:

*Economic well-being:*

- a reduction by one half in the proportion of people living in extreme poverty by 2015.

*Social development:*

- universal primary education in all countries by 2015;
- demonstrated progress toward gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005;
- a reduction by two-thirds in the mortality rates for infants and children under age 5 and a reduction by three-fourths in maternal mortality, all by 2015;
- access through the primary health-care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than the year 2015.

*Environmental sustainability:*

- the current implementation of national strategies for sustainable development in all countries by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.

While expressed in terms of their global impact, these goals must be pursued country by country through individual approaches that reflect local conditions and locally-owned development strategies. Essential to the attainment of these measurable goals are *qualitative factors* in the evolution of more stable, safe, participatory and just societies. These include capacity development for effective, democratic and accountable governance, the protection of human rights and respect for the rule of law. We will also continue to address these less easily quantified factors of development progress.

Effective international support can make a real difference in achieving these goals. This is far from saying that they can be achieved by aid alone. The most important contributions for development, as in the past, will be made by the people and governments of the developing countries themselves. But where this effort is forthcoming it needs and deserves strong support from the industrialised countries. We commit ourselves to do the utmost to help:

- **first**, by a willingness to make mutual commitments with our development partners, supported by adequate resources;
- **second**, by improving the co-ordination of assistance in support of locally-owned development strategies; and
- **third**, by a determined effort to achieve coherence between aid policies and other policies which impact on developing countries.

These approaches were set out in broad terms in the statement of policy that we adopted in 1995 entitled *Development Partnerships in the New Global Context*.<sup>64</sup> The report that follows builds on this statement and proposes specific new practical measures to achieve the vision of partnership for development.

We intend our report to be a contribution to the broad contemporary effort to improve the effectiveness of development co-operation. A rich process of dialogue and decisions is underway -- within the OECD, in the Interim and Development Committees of the World Bank and the International Monetary Fund (IMF), in the regional development banks, in the G7, and in the UN system. This heightened international focus on development co-operation reinforces our conviction that development matters.

The success or failure of poor people and poor countries in making their way in an interdependent world will have a profound influence in shaping the 21st century. We offer our proposals in this report with confidence that international co-operation can be effective in supporting development, and that the results will be well worth the effort they will demand of our societies. The stakes in a stable, sustainable future for this planet and all who will inhabit it are far too high for us to forego that effort.

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64. Available on the Internet at: <http://www.oecd.org/dac/hm/dpngc.htm>

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## APPENDIX IV

### BASIC INFORMATION ON DAC MEMBERS' AID MANAGEMENT SYSTEMS

#### *Australia*

Responsible Minister:	Minister for Foreign Affairs, assisted by a Parliamentary Secretary
Principal aid agency:	Australian Agency for International Development (AusAID) (Internet site: <a href="http://www.ausaid.gov.au/">http://www.ausaid.gov.au/</a> )
Other aid organisations:	Australian Centre for International Agricultural Research (ACIAR) (Internet site: <a href="http://www.aciar.gov.au:80/">http://www.aciar.gov.au:80/</a> )
General aid policy statement:	<i>Better Aid for a Better Future</i> (18 November 1997) (Available on the Internet at: <a href="http://www.ausaid.gov.au/publications/general/other/parlrep.html">http://www.ausaid.gov.au/publications/general/other/parlrep.html</a> )

#### *Austria*

Responsible Minister:	Minister for Foreign Affairs, assisted by a Secretary of State
Principal aid agency:	Department of Development Co-operation (DDC); Federal Ministry for Foreign Affairs (Internet site: <a href="http://www.bmaa.gv.at/aussenpolitik/arbeitindex.html.en">http://www.bmaa.gv.at/aussenpolitik/arbeitindex.html.en</a> )
Other aid organisations:	Federal Chancellery Federal Ministry of Finance
General aid policy statement:	---

#### *Belgium*

Responsible Minister:	Minister for Foreign Affairs, assisted by a Secretary of State for Development Co-operation
Principal aid agency:	General Administration for Development Co-operation (AGCD); Ministry of Foreign Affairs, Foreign Trade and Development Co-operation (Internet site: <a href="http://www.diplobel.fgov.be/default_en.htm">http://www.diplobel.fgov.be/default_en.htm</a> )
Other aid organisations:	---

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General aid policy statement: *Policy Plan for the Belgian International Co-operation* (Available on the Internet at:  
[http://www.diplobel.fgov.be/Cooperation/Policy/EN/cooperation\\_policy\\_contents\\_EN.htm](http://www.diplobel.fgov.be/Cooperation/Policy/EN/cooperation_policy_contents_EN.htm))

### **Canada**

Responsible Minister: Minister for International Co-operation and Minister responsible for La Francophonie

Principal aid agency: Canadian International Development Agency (CIDA) (Internet site:  
<http://www.acdi-cida.gc.ca/index.htm>)

Other aid organisations: Department of Foreign Affairs and International Trade (Internet site:  
<http://www.dfait-maeci.gc.ca/>)

Department of Finance (Internet site: <http://www.fin.gc.ca/>)

International Development Research Centre (IDRC) (Internet site:  
<http://www.idrc.ca/>)

International Centre for Human Rights and Democratic Development (ICHRDD) (Internet site: <http://www.ichrdd.ca/>)

General aid policy statement: *Canada in the World* (1995) (Available on the Internet at:  
<http://www.dfait-maeci.gc.ca/english/foreignp/cnd-world/menu.htm>)

### **Denmark**

Responsible Minister: Minister for Development Co-operation (minister within the foreign affairs portfolio), assisted by a Secretary of State

Principal aid agency: South Group; Ministry of Foreign Affairs (Internet site:  
<http://www.um.dk/>)

Other aid organisations: ---

General aid policy statement: *A Developing World -- Strategy for Danish Development Policy towards the Year 2000* (1994)

### **European Community**

Responsible Commissioners: Commissioner for External relations with African, Caribbean and Pacific countries and South Africa, and the Lomé Convention;

Commissioner for External relations with Southern Mediterranean countries, the Middle East, Latin America and Asia (except Japan, China, South Korea, Hong Kong, Macao and Taiwan) including development aid;



Commissioner for External relations with the countries of Central and Eastern Europe, the former Soviet Union, Mongolia, Turkey, Cyprus, Malta and other European countries;

Commissioner responsible for the European Community Humanitarian Office (ECHO)

Principal aid agency: Directorate-General VIII, European Commission: Development (DG VIII) (Internet site: [http://europa.eu.int/comm/dg08/index\\_en.htm](http://europa.eu.int/comm/dg08/index_en.htm))

Other aid organisations: Directorate-General IA, European Commission: External Relations Europe and the New Independent States, Common Foreign and Security Policy, External Service (DG IA) (Internet site: <http://europa.eu.int/comm/dg1a/index.htm>)

Directorate-General IB, European Commission: External Relations Southern Mediterranean, Middle and Near East, Latin America, South and South-East Asia and North-South Co-operation (DG IB) (Internet site: <http://europa.eu.int/en/comm/dg1b/index.htm>)

European Community Humanitarian Office (ECHO) (Internet site: <http://europa.eu.int/comm/echo/en/index.html>)

European Investment Bank (EIB) (Internet site: <http://eib.eu.int/>)

General aid policy statement: ---

### ***Finland***

Responsible Minister: Minister for Development Co-operation, assisted by an Under-Secretary of State for Development Co-operation

Principal aid agency: Ministry of Foreign Affairs (Internet site: <http://global.finland.fi>)

Other aid organisations: Finnish Fund for Industrial Co-operation (FINNFUND) (Internet site: <http://www.finnfund.fi>)

Service Centre for Development Co-operation (KePa) (Internet site: <http://www.kepa.fi/>)

General aid policy statement: *Decision-in-Principle on Finland's Development Co-operation* (12 September 1996) (Available on the Internet at: <http://global.finland.fi/english/services/publications/principle.html>)

**France**

- Responsible Ministers: Minister for Economic Affairs, Finance and Industry;  
Minister for Foreign Affairs;  
Assistant Minister responsible for Development Co-operation and the Francophonie;  
Secretary of State for Overseas Territories
- Principal aid agency: The Treasury; Ministry of Economic Affairs, Finance and Industry  
(Internet site: <http://www.finances.gouv.fr/TRESOR/index.html>)
- Other aid organisations: Ministry of Foreign Affairs, Co-operation and the Francophonie (Internet site: <http://www.france.diplomatie.fr/cooperation/index.html>)  
Secretariat of State for Overseas Territories (Internet site: <http://www.outre-mer.gouv.fr/>)  
French Agency for Development (AFD) (Internet site: <http://www.afd.fr/>)
- General aid policy statement: ---

**Germany**

- Responsible Minister: Federal Minister for Economic Co-operation and Development
- Principal aid agency: Federal Ministry for Economic Co-operation and Development (BMZ)  
(Internet site: <http://www.bmz.de/>)
- Other aid organisations: Bank for Reconstruction (KfW) (Internet site: <http://www.kfw.de/>)  
Agency for Technical Co-operation (GTZ) (Internet site: <http://www.gtz.de/home/index.html>)  
German Development Service (DED) (Internet site: <http://www.ded.de/>)  
German Foundation for International Development (DSE) (Internet site: <http://www.dse.de/>)  
Carl Duisberg Gesellschaft (CDG) (Internet site: <http://www.cdg.de/>)  
German Institute for Development Policy (DIE) (Internet site: [http://www.die-gdi.de/index\\_NC.htm](http://www.die-gdi.de/index_NC.htm))
- General aid policy statement: *The Concept for Development Policy* (October 1996) (Available on the Internet at: <http://www.bmz.de/>)

***Ireland***

- Responsible Minister: Minister of State at the Department of Foreign Affairs with special responsibility for Overseas Development Assistance and Human Rights
- Principal aid agency: Development Co-operation Division (DCD); Department of Foreign Affairs (Internet site: <http://www.irlgov.ie/iveagh/default.htm#c>)
- Other aid organisations: Agency for Personal Service Overseas (APSO) (Internet site: <http://www.apso.ie/>)  
National Committee for Development Education (NCDE) (Internet site: <http://homepage.tinet.ie/~ncde/>)
- General aid policy statement: *Challenges and Opportunities Abroad* (1996) (Available on the Internet at: <http://www.irlgov.ie/iveagh/foreignaffairs/whitepaper/index.html>)

***Italy***

- Responsible Minister: Secretary of State for Foreign Affairs
- Principal aid agency: Directorate-General for Development Co-operation (DGCS); Ministry of Foreign Affairs (Internet site: <http://www.esteri.it/>)
- Other aid organisations: ---
- General aid policy statement: ---

***Japan***

- Responsible Minister: Minister of Foreign Affairs
- Principal aid agency: Economic Co-operation Bureau; Ministry of Foreign Affairs (Internet site: <http://www.mofa.go.jp/>)
- Other aid organisations: Japan International Co-operation Agency (JICA) (Internet site: <http://www.jica.go.jp/Index.html>)  
Overseas Economic Co-operation Fund (OECF) (Internet site: <http://www.oecf.go.jp/menu/menu0e.htm>)
- General aid policy statement: *Japan's Official Development Assistance Charter* (30 June 1992) (Available on the Internet at: <http://www.mofa.go.jp/region/n-america/us/q&a/oda/3.html>)

**Luxembourg**

- Responsible Minister: Minister for Foreign Affairs, assisted by a Secretary of State for Foreign Affairs, Trade and Co-operation
- Principal aid agency: Co-operation Division; Ministry of Foreign Affairs, Trade and Co-operation
- Other aid organisations: Lux-Development (Internet site: <http://www.lux-development.lu/>)
- General aid policy statement: ---

**The Netherlands**

- Responsible Minister: Minister for Development Co-operation (minister within the foreign affairs portfolio)
- Principal aid agency: Ministry of Foreign Affairs (Internet site: [http://www.bz.minbuza.nl/f\\_netscape14.html](http://www.bz.minbuza.nl/f_netscape14.html))
- Other aid organisations: ---
- General aid policy statement: *Aid in Progress* (1996)

**New Zealand**

- Responsible Minister: Minister of Foreign Affairs and Trade
- Principal aid agency: Development Co-operation Division (DEV); Ministry of Foreign Affairs and Trade (Internet site: <http://www.mft.govt.nz/>)
- Other aid organisations: ---
- General aid policy statement: *Investing in a Common Future* (Revised May 1998) (Available on the Internet at: <http://www.mft.govt.nz/nzoda/pub.html>)

**Norway**

- Responsible Minister: Minister of International Development and Human Rights (minister within the foreign affairs portfolio), assisted by a Secretary of State
- Principal aid agency: Ministry of Foreign Affairs (Internet site: <http://odin.dep.no/ud/>)
- Other aid organisations: Norwegian Agency for Development Co-operation (NORAD) (Internet site: <http://www.norad.no/>)
- General aid policy statement: *A Changing World* (1995-96) (Available on the Internet at: <http://odin.dep.no/repub/95-96/stmld/19/eng/>)

**Portugal**

- Responsible Minister: Minister for Finance;  
Minister for Foreign Affairs, assisted by a Secretary of State for Foreign Affairs and Co-operation
- Principal aid agency: Ministry of Foreign Affairs (Internet site: <http://www.min-nestrangeiros.pt/mne/portugal/fce/>)
- Other aid organisations: Ministry of Finance  
Institute for Portuguese Co-operation (ICP) (Internet site: <http://min-nestrangeiros.pt/mne/portugal/icoop/>)
- General aid policy statement: Principal Themes of Portugal's Foreign Policy (Available from the Internet at: <http://www.min-nestrangeiros.pt/politica/engindex.html>)

**Spain**

- Responsible Minister: Ministry of Economy and Finance, assisted by a State Secretary for Trade, Tourism and Small and Medium Enterprises;  
Minister of Foreign Affairs, assisted by a Secretary of State for International Co-operation and Latin America
- Principal aid agency: Secretariat of State for International Co-operation and Latin America (SECIPI); Ministry of Foreign Affairs
- Other aid organisations: Spanish Agency for International Co-operation (AECI) (Internet site: <http://www.aeci.es/>)  
Development Aid Fund (FAD); Ministry of Economy and Finance
- General aid policy statement: ---

**Sweden**

- Responsible Minister: Minister for International Development Co-operation, Migration and Asylum Policy, assisted by a Secretary of State for International Development Co-operation
- Principal aid agency: Ministry of Foreign Affairs (Internet site: <http://www.ud.se/index.htm>)
- Other aid organisations: Swedish International Development Co-operation Agency (Sida) (Internet site: <http://www.sida.se/>)
- General aid policy statement: *The Rights of the Poor -- Our Common Responsibility, Combating Poverty in Sweden's Development Co-operation* (Government Report 1996/97: 169)

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***Switzerland***

Responsible Minister: Head of the Federal Department of Foreign Affairs  
Head of the Federal Department of Public Economy

Principal aid agency: Swiss Agency for Development and Co-operation (SDC) (Internet site: <http://194.6.168.112/index.html>); Federal Department of Foreign Affairs

Other aid organisations: Swiss Federal Office for Foreign Economic Affairs (FOFEA), Federal Department of Public Economy (Internet site: <http://www.evd.admin.ch/>)

General aid policy statement: *North-South Guidelines* (March 1994) (Available on the SDC Internet site)

***The United Kingdom***

Responsible Minister: Secretary of State for International Development, assisted by a Parliamentary Under-Secretary of State for International Development

Principal aid agency: Department for International Development (DFID) (Internet site: <http://www.dfid.gov.uk/>)

Other aid organisations: Commonwealth Development Corporation (CDC) (Internet site: <http://www.cdc.co.uk/>)

General aid policy statement: *Eliminating World Poverty: A Challenge for the 21st Century* (Available on the DFID Internet site)

***The United States***

Responsible Minister: Secretary of State

Principal aid agency: United States Agency for International Development (USAID) (Internet site: <http://www.info.usaid.gov/>)

Other aid organisations: State Department (Internet site: <http://www.state.gov/>)  
Peace Corps (Internet site: <http://www.peacecorps.gov/home.html>)

General aid policy statement: *USAID Strategic Plan* (Available on the Internet at: [http://www.info.usaid.gov/pubs/strat\\_plan/](http://www.info.usaid.gov/pubs/strat_plan/))

## APPENDIX V

## MATRIX OF PARTNERSHIP PILOTS AND INITIATIVES

COUNTRY	PARTNERSHIP PILOTS AND INITIATIVES																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
<b>SUB-SAHARAN AFRICA</b>	<b>World Bank Comprehensive Development Framework</b>	<b>UN Development Assistance Framework</b>	<b>DAC Members Partnership Pilots</b>	<b>Integrated Framework of Trade-Related Technical Assistance</b>	<b>SPA Sector Investment Programmes</b>	<b>EC Operational Co-ordination Pilots</b>	<b>DAC Governance Pilots</b>	<b>UNDP Governance Pilots</b>	<b>UNDP Programme for Accountability and Transparency</b>	<b>IMF/World Bank Enhanced Collaboration Pilots</b>	<b>AfDB/World Bank Enhanced Collaboration Pilots</b>	<b>EC/World Bank Enhanced Collaboration Pilots</b>	<b>WB Structural Adjustment Participatory Review Initiative</b>	<b>WB Structural Policy Reviews</b>	<b>World Bank National Institutional Reviews</b>	<b>World Bank Anti-Corruption Priority Countries</b>	<b>UNDP/UNCTAD Globalisation, Liberalisation and Sustainable Development</b>
Angola				X													
Benin				X			X										
Botswana																	X
Burkina Faso				X			X	X									
Burundi				X												X	
Cameroon										X							X
Cape Verde				X													
Centr. Afr. Rep.				X					X								
Chad				X													
Comoros				X													
Congo DR				X													
Côte d'Ivoire	X				X	X					X	X				X	X
Djibouti																	
Egypt								X									
Equat. Guinea				X													
Eritrea	X			X													
Ethiopia	X			X	X	X				X		X					
Gambia				X													
Ghana	X	X	X	X	X								X				X
Guinea				X										X			
Guinea Bissau				X													
IGAD			X														

COUNTRY	PARTNERSHIP PILOTS AND INITIATIVES																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Kenya		X														X	
Madagascar		X		X													
Malawi		X		X			X										
Mali		X		X			X						X				
Mauritania				X													
Mozambique		X	X	X	X	X					X	X					X
Namibia		X															
Niger																	
Nigeria																X	
Rwanda				X													
Sao Tomé				X													
Senegal			X								X						
Sierra Leone				X													
Somalia				X													
South Africa		X															
Sudan				X			X										
Tanzania				X				X									
Togo				X													
Uganda	X			X									X				
Zambia				X													
Zimbabwe		X	X		X				X	X			X				X
<b>ASIA</b>																	
Afghanistan				X									X				X
Bangladesh				X		X									X		



COUNTRY	PARTNERSHIP PILOTS AND INITIATIVES																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Bhutan				X													
Cambodia		X	X	X													
China								X								X	
India		X														X	
Indonesia				X										X	X		
Kiribati																	X
Laos				X													
Malaysia														X			
Maldives				X													
Mongolia									X								
Myanmar				X													X
Nepal				X				X									
Pakistan																X	
Philippines		X															
Sri Lanka																	X
Thailand																	
Vietnam	X	X								X						X	X
<b>OCEANIA/PACIFIC</b>																	
Samoa				X													
Solomon Isl.				X													
South Pacific			X														
Tuvalu				X													
Vanuatu				X													

PARTNERSHIP PILOTS AND INITIATIVES																	
COUNTRY	1 World Bank Comprehensive Development Framework	2 UN Development Assistance Framework	3 DAC Members Partnership Pilots	4 Integrated Framework of Trade-Related Technical Assistance	5 SPA Sector Investment Programmes	6 EC Operational Co-ordination Pilots	7 DAC Governance Pilots	8 UNDP Governance Pilots	9 UNDP Programme for Accountability and Transparency	10 IMF/World Bank Enhanced Collaboration Pilots	11 AfDB/World Bank Enhanced Collaboration Pilots	12 EC/World Bank Enhanced Collaboration Pilots	13 WB Structural Adjustment Participatory Review Initiative	14 WB Structural Policy Reviews	15 World Bank National Institutional Reviews	16 World Bank Anti-Corruption Priority Countries	17 UNDP/UNCTAD Globalisation, Liberalisation and Sustainable Development
<b>LATIN AMERICA/CARIBBEAN</b>																	
Argentina																	
Bolivia	X		X				X	X							X		
Colombia		X															X
Costa Rica										X							
Dominican Rep.	X						X										
E. Caribb. States																	
Ecuador													X			X	
El Salvador																	X
Guatemala						X											X
Guyana																	X
Haiti							X										
Honduras								X									X
Jamaica																	X
Mexico																	X
Nicaragua										X							X
Peru			X														
Venezuela						X										X	
<b>NORTH AFRICA/MIDDLE-EAST</b>																	
Algeria																X	
Jordan	X																X
Morocco	X		X											X			
Tunisia																	X
W. Bank/Gaza	X															X	
Yemen				X				X							X		

PARTNERSHIP PILOTS AND INITIATIVES																	
COUNTRY	World Bank Comprehensive Development Framework 1	UN Development Assistance Framework 2	DAC Members Partnership Pilots 3	Integrated Framework of Trade-Related Technical Assistance 4	SPA Sector Investment Programmes 5	EC Operational Co-ordination Pilots 6	DAC Governance Pilots 7	UNDP Governance Pilots 8	UNDP Programme for Accountability and Transparency 9	IMF/World Bank Enhanced Collaboration Pilots 10	AfDB/World Bank Enhanced Collaboration Pilots 11	EC/World Bank Enhanced Collaboration Pilots 12	WB Structural Adjustment Participatory Review Initiative 13	WB Structural Policy Reviews 14	World Bank National Institutional Reviews 15	World Bank Anti-Corruption Priority Countries 16	UNDP/UNCTAD Globalisation, Liberalisation and Sustainable Development 17
<b>EUROPE/Commonwealth of Independent States</b>																	
Albania																X	
Armenia															X		
Azerbaijan									X								
Kyrgyzstan	X						X										
Moldova									X								
Rumania	X																
Tajikistan										X							
Turkey		X															
Uzbekistan																	X

*Notes:*

1. World Bank -- Comprehensive Development Framework (CDF).
2. UN -- United Nations Development Assistance Framework (UNDAF).
3. DAC Members -- Partnership Pilots.
4. WTO/UNCTAD/ITC/World Bank/UNDP/IMF -- Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries .
5. Special Programme for Africa (SPA) -- Sector Investment Programmes .
6. EC -- Operational Co-ordination Pilots.
7. DAC -- Governance Pilots.
8. UNDP -- Governance Pilots.
9. UNDP -- Programme for Accountability and Transparency (PACT).
10. IMF/World Bank Collaboration Pilots aimed at delivering programmes that better integrated macroeconomic policies, structural reforms and the social concerns.

11. AfDB/World Bank Pilots to promote better co-operation at country level in upstream work [e.g. Country Assistance Strategies and public expenditure reviews] and portfolio management.
12. EC/World Bank Enhanced Collaboration Pilots.
13. World Bank -- Structural Adjustment Participatory Review Initiative (SAPRI).
14. World Bank -- Structural Policy Reviews (SPR).
15. World Bank -- National Institutional Reviews.
16. World Bank -- Anti-Corruption Priority Countries.
17. UNDP/UNCTAD -- Project on Globalisation, Liberalisation and Sustainable Development.

As of April 1999.

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## LIST OF ACRONYMS AND ABBREVIATIONS

AA	(German) Federal Foreign Office	CFA Franc*	African Financial Community Franc
ACIAR	Australian Centre for International Agricultural Research	CFD*	French Development Fund
ACP	African, Caribbean and Pacific (countries)	CG	Consultative Group
AECI*	Spanish Agency for International Co-operation	CGIAR	Consultative Group on International Agricultural Research
AFD*	French Agency for Development	CIAD*	(French) Inter-ministerial Committee for Development Assistance
AfDB	African Development Bank	CICI*	(Spanish) Inter-ministerial Commission for International Co-operation
AGCD*	(Belgian) General Administration for Development Co-operation	CICID*	(French) Inter-ministerial Committee for International Co-operation and Development
AIDS	Acquired Immune Deficiency Syndrome	CIDA	Canadian International Development Agency
ALA-MED	Asian, Latin American and Mediterranean (countries)	DAC	Development Assistance Committee (of the OECD)
APSO	(Irish) Agency for Personal Service Overseas	DAC Manual	<i>Development Assistance Manual: DAC Principles for Effective Aid</i> (1992)
AsDB	Asian Development Bank	DANIDA	Danish International Development Agency
AusAID	Australian Agency for International Development	DCD	(Irish) Development Co-operation Division
BHN	Basic human needs	DDC	(Austrian) Department of Development Co-operation
BITS*	Swedish Agency for Intentional Technical and Economic Co-operation	DED*	German Development Service
BMZ*	(German) Federal Ministry for Economic Co-operation and Development	DEV	(New Zealand) Development Co-operation Division
CEECs	Central and Eastern European Countries	DFID	(British) Department for International Development
CDC	(British) Commonwealth Development Corporation	DG	Directorate-General
CDE	Capacity development in environment		
CDF	(World Bank) Comprehensive Development Framework		
CDG*	Carl Duisberg Gesellschaft (of Germany)		

DG 1A	Directorate-General IA of the European Commission: External Relations -- Europe and the New Independent States, Common Foreign and Security Policy, External Service	GNP GTZ*	Gross national product (German) Agency for Technical Co-operation
DG 1B	Directorate-General IB of the European Commission: External Relations -- Southern Mediterranean, Middle and Near East, Latin America, South and South-East Asia and North-South Co-operation	HIPC ICB ICC ICP* ICVA	Heavily-indebted poor countries International competitive bidding (Portuguese) Interministerial Commission for Co-operation Institute for Portuguese Co-operation International Council of Voluntary Agencies
DG VIII	Directorate-General VIII of the European Commission: Development	IDA IDB	International Development Association Inter-American Development Bank
DGCS*	(Italian) Directorate-General for Development Co-operation	IDRC	(Canadian) International Development Research Centre
DIE*	German Institute for Development Policy	IMF	International Monetary Fund
DSE*	(German) Foundation for International Development	ITAD	Information, Training and Agricultural Ltd
EBRD	European Bank for Reconstruction and Development	ITC	International Trade Centre
EC	European Commission	JICA	Japanese International Co-operation Agency
ECHO	European Community Humanitarian Office	JEXIM	Export-Import Bank of Japan
EDF	European Development Fund	KePa*	(Finnish) Service Centre for Development Co-operation
EIA	Environmental Impact Assessment	KESU*	(Finnish) Advisory Board for Relations with Developing Countries
EIB	European Investment Bank	KfW*	(German) Bank for Reconstruction
EU	European Union		
EUROSTEP	European Solidarity Towards Equal Participation of People		
FAC*	(French) Assistance and Co-operation Fund	NGOs NIS	Non-governmental organisations New Independent States of the former Soviet Union
FAD*	(Spanish) Development Aid Fund	NORAD*	Norwegian Agency for Development Co-operation
FINNFUND	Finnish Fund for Industrial Co-operation		
FCE*	(Portuguese) Economic Co-operation Fund	OA OECD	Official aid Organisation for Economic Co-operation and Development
FOFEA	(Swiss) Federal Office for Foreign Economic Affairs	OECF	(Japanese) Overseas Economic Co-operation Fund
FVS	Finnish Volunteer Service	OESP	Office of Evaluation and Strategic Planning
GAO	(United States) General Accounting Office	ODA	Official development assistance
GEF	Global Environmental Facility		



ODA	(British) Overseas Development Administration	SIDA	Swedish International Development Authority
ODF	Official development finance	SPA	Special Programme of Assistance
REDSOs	(USAID) Regional Economic Development Services	Swedecorp	Swedish International Enterprise Development Corporation
Sandö*	Swedish Centre for Education in International Development	UN	United Nations
SAREC	Swedish Agency for Research Co-operation in Developing Countries	UNDAF	United Nations Development Assistance Framework
SDC	(Swiss) Agency for Development Co-operation	UNDP	United Nations Development Programme
SECIPI*	(Spanish) Secretariat of State for International Co-operation and Latin America	UNHCR	United Nations High Commission for Refugees
Sida	Swedish International Development Co-operation Agency	UNICEF	United Nations Children's Fund
		USAID	United States Agency for International Development
		WFP	World Food Programme
		WHO	World Health Organisation
		WID	Women in development

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\* Denotes acronym in original language

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## GLOSSARY

(Cross-references are given in CAPITALS)

**AID:** The words "aid" and "assistance" in this paper refer to flows which qualify for recording as OFFICIAL DEVELOPMENT ASSISTANCE (ODA) or OFFICIAL AID (OA).

**ASSOCIATED FINANCING:** The combination of OFFICIAL DEVELOPMENT ASSISTANCE, whether GRANTS or LOANS, with any other funding to form finance packages.

**AMORTIZATION:** Repayments of principal on a LOAN. Does not include payments of interest.

**BILATERAL:** AID flows provided directly by a donor country to a recipient country.

**COMMITMENT:** A firm obligation, expressed in writing and backed by the necessary funds, undertaken by an official donor to provide specified assistance to a recipient country or a MULTILATERAL AGENCY. BILATERAL commitments are recorded in the full amount of expected transfer, irrespective of the time required for the completion of DISBURSEMENTS. Commitments to MULTILATERAL AGENCIES are reported as the sum of i) any DISBURSEMENTS in the year in question which have not previously been notified as commitments and ii) expected DISBURSEMENTS in the following year.

**DAC (DEVELOPMENT ASSISTANCE COMMITTEE):** The committee of the OECD which deals with development co-operation matters.

**DAC LIST OF AID RECIPIENTS:** A two-part List of AID Recipients was

introduced by the DAC with effect from 1 January 1994 (see also Appendix 1).

Part I of the DAC List is presented in the following categories (the word "countries" includes territories):

- **LLDCs:** Least-Developed Countries. Group established by the United Nations. To be classified as an LLDC, countries must fall below thresholds established for income, economic diversification and social development.
- **Other LICs:** Other Low-Income Countries. Includes all non-LLDC countries with per capita GNP less than \$765 in 1995 (World Bank Atlas basis).
- **LMICs:** Lower Middle-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) between \$766 and \$3 035 in 1995. LLDCs which are also LMICs are not included.
- **UMICs:** Upper Middle-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) between \$3 036 and \$9 385 in 1995.
- **HICs:** High-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) more than \$9 385 in 1995.

Part II of the DAC List comprises "Countries in Transition". These comprise: i) more advanced Central and Eastern European Countries and New Independent States of the former Soviet Union; and ii) more advanced developing countries.

**DEBT REORGANISATION:** Any action officially agreed between a creditor and debtor that alters the terms previously established for repayment of a LOAN. This may include **forgiveness** (extinction of the loan) or **rescheduling** (either revising the repayment schedule or the extending of a new refinancing LOAN).

**DISBURSEMENT:** The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. They may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (less any repayments of loan principal during the same period).

**EXPORT CREDITS:** LOANS for the purpose of trade and which are not represented by a negotiable instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

**GRANT ELEMENT:** Reflects the **financial terms** of a commitment: interest rate, MATURITY and grace period (interval to first repayment of capital). It measures the concessionality of a loan, in the form of the present value of an interest rate below an agreed reference rate over the life of a LOAN. The reference rate is 10 per cent in DAC statistics. Thus, the grant element is nil for a LOAN carrying an interest rate of 10 per cent; it is 100 per cent for a GRANT; and it lies between these two limits for a loan at less than 10 per cent interest. If the face value of a LOAN is multiplied by its grant element, the result is referred to as the **grant equivalent** of that LOAN.

**GRANTS:** Transfers made in cash, goods or services for which no repayment is required.

**LOANS:** Transfers for which repayment is required. Only loans with MATURITIES of over one year are included in DAC statistics. Data on net loans include deductions for repayments of principal (but not payment of

interest) on earlier loans. This means that when a loan has been fully repaid, its effect on total net flows over the life of the loan is zero.

**MATURITY:** The date at which the final repayment of a LOAN is due; by extension, a measure of the scheduled life of the LOAN.

**MULTILATERAL:** AID flows channelled via an international organisation active in development.

**MULTILATERAL AGENCIES:** In DAC statistics, those international institutions with governmental membership which conduct all or a significant part of their activities in favour of development and AID recipient countries. They include multilateral development banks (e.g. World Bank, regional development banks), United Nations agencies and regional groupings (e.g. certain European Union agencies). A contribution by a DAC Member to such an agency is deemed to be multilateral if it is pooled with other contributions and disbursed at the discretion of the agency. Capital subscriptions to multilateral development banks are normally recorded on a **deposit** basis, i.e. in the amount and as at the date of lodgement of the relevant letter of credit or other negotiable instrument.

**OFFICIAL AID:** Flows which meet the conditions of eligibility for inclusion in OFFICIAL DEVELOPMENT ASSISTANCE, except that the recipients are on Part II of the DAC LIST OF AID RECIPIENTS. References to OFFICIAL DEVELOPMENT ASSISTANCE may be taken, *mutatis mutandis*, to apply to OFFICIAL AID.

**OFFICIAL DEVELOPMENT ASSISTANCE (ODA):** GRANTS or LOANS to countries and territories on Part I of the DAC LIST OF AID RECIPIENTS (developing countries) which are:

- undertaken by the official sector;

- with promotion of economic development and welfare as the main objective;
- at concessional financial terms (if a loan, having a GRANT ELEMENT of at least 25 per cent).

In addition to financial flows, TECHNICAL CO-OPERATION is included. GRANTS, LOANS and credits for military purposes are excluded.

**OTHER OFFICIAL FLOWS (OOF):**

Transactions by the official sector with countries on the DAC LIST OF AID RECIPIENTS which do not meet the conditions for eligibility as OFFICIAL DEVELOPMENT ASSISTANCE or OFFICIAL AID, either because they are not primarily aimed at development, or because they have a GRANT ELEMENT of less than 25 per cent.

**PART I/PART II:** See DAC LIST OF AID RECIPIENTS.

**PARTIALLY UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all recipient countries.

**PRIVATE NON-CONCESSIONAL FLOWS:** Consist of the following flows at market terms financed out of private sector resources and private GRANTS (i.e. GRANTS by **non-government organisations**, net of subsidies received from the official sector):

- **Direct investment:** Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC LIST OF AID RECIPIENTS.
- **International Bank Lending:** Net lending to countries on the List of AID Recipients by commercial banks in the Bank of International Settlements reporting area, i.e. most

OECD countries and most offshore financial centres (Bahamas, Bahrain, Cayman Islands, Hong Kong, Netherlands Antilles and Singapore), net of lending to banks in the same offshore financial centres. LOANS from central monetary authorities are excluded.

- **Bond Lending:** Net completed international bonds issued by countries on the DAC LIST OF AID RECIPIENTS.
- **Other private:** Mainly reported holdings of equities issued by AID recipient countries, and bank LOANS which in this context are included with guaranteed EXPORT CREDITS.

**TECHNICAL CO-OPERATION:**

Includes both a) GRANTS to nationals of AID recipient countries receiving education or training at home or abroad, and b) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries, (including the cost of associated equipment).

**TIED AID:** Official or officially supported LOANS or ASSOCIATED FINANCING packages where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all developing countries (or countries in transition, cf. PARTIALLY UNTIED AID).

**UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE for which the associated goods and services may be fully and freely procured in substantially all countries.