

**Accra High Level Forum on Aid Effectiveness**

**2-4 September 2008**

*Roundtable 2 - Alignment: challenges and ways forward*

- Background paper –

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## 1. Introduction

This paper is a companion piece to the official Presentation Note for the Alignment Roundtable at the Accra HLF. Its main purpose is to provide a short primer on some key issues concerning alignment to guide and inform the discussions at the Roundtable. In doing so, the paper heavily draws upon the findings of the key documents prepared in the run up to the Accra HLF, most notably the “2008 Survey on Monitoring the Paris Declaration”, the “Progress Report on Aid Effectiveness” and the “Evaluation of the Implementation of the Paris Declaration”. Without aiming to substitute such documents but for readily available reference, unofficial summaries of the findings on alignment of these and other relevant documents are provided in annexes to this paper. This also includes relevant sections on Alignment from the latest AAA draft.

After briefly analysing the concept of alignment, the paper describes how this is treated within the context of the Paris Declaration. It concludes by broadly summarizing the key issues, findings and recommendations in each of the four focus areas to be discussed at the Roundtable.

## 2. Alignment and the Aid Effectiveness Agenda

*Alignment calls for donors to base their overall support on partner countries’ national development strategies, institutions and procedures.* Identified by the Paris Declaration as one of the five principles for aid effectiveness, alignment plays a crucial role as the link between the priorities and policies of partner countries and donors’ harmonised support. In the context of what is often an asymmetric relationship between development partners, country ownership requires alignment. By offering a shared understanding of what the partner’s objectives are and what its policies and systems to achieve these are, alignment also facilitates harmonisation and mutual accountability.

*Alignment can have several dimensions* as it can refer to a partner country’s national development goals, to the policies chosen to reach such goals and to the (many) country systems necessary to implement, monitor and review such policies. From a donor perspective, alignment can imply several actions such as: sharing the broad goals of a country development strategy and reflecting this closely in aid allocations; integrating aid interventions into the policy framework put forward by a country to reach such goals; using country systems for the management of aid and supporting their strengthening and capacity development under a country-led process; avoiding tied aid etc. Finally, alignment also has important time dimensions, first among which is the need for donors and recipients to share through sustained partnership and predictable aid flows the long term horizon needed to strengthen country systems and realise other development outcomes.

*Improving alignment not only involves complex technical matters but also requires tackling political issues.* This is so because alignment touches on the power to set priorities and conditions for the use of development resources and is affected by the need to account for such use to stakeholders in different polities.

## 3. Alignment and the Paris Declaration

*The Paris Declaration captures a large number of the dimensions highlighted above. It commits donors to base overall support on partners’ national development strategies and to draw conditions from the latter whenever possible. It also commits them to use strengthened*

country systems to the maximum extent possible (with special attention to public financial management and procurement). It calls upon donors to support partner's efforts to strengthen development capacity and to achieve greater progress in untying aid. Finally, donors also commit to provide reliable indicative commitments of aid over a multi-year framework and to disburse such aid in a timely and predictable manner according to agreed schedules. ***At the same time, partners commit themselves to*** facilitate alignment through leadership by setting out strategies for national development and capacity building, translating them into operational programmes, and by intensifying efforts to strengthen country systems.

***Annex I summarizes the main findings arising from the raft of studies undertaken to monitor progress in the implementation of the Paris Declaration commitments.*** However, it should be noted that there is a lack of data on several dimensions of alignment. For partner countries it is mostly related to a lack of capacity to provide information, while it for donors is often linked to inadequate disclosure of information. This creates challenges for accurately measuring progress. However, the "Evaluation of the Implementation of the Paris Declaration" provides a succinct general statement of the core of these findings:

***"Implementation of the various components of alignment set out in the Declaration has been highly uneven.*** Progress is more visible in aligning aid strategies with national priorities, less so in aligning aid allocations, using and building country systems, reducing parallel project implementation units and coordinating support to strengthen capacity. Among the bilateral donors there is only sparse evidence of improvements in aid predictability and untying. As with ownership, the leadership exercised by the host partner country is the prime determinant of how far and how fast alignment will proceed. The real and perceived risks and relative weaknesses of country systems are serious obstacles to further progress with alignment. Efforts by most countries to strengthen national processes and systems are not yet sufficient to support the needed progress and not enough donors are ready to help strengthen these systems by actually using them. On the other hand, donors do appear to be ready to continue and increase financial and technical assistance for further capacity strengthening required."

#### **4. Alignment and the Accra Roundtable**

The ***Roundtable's objective*** is to identify the key bottlenecks in the implementation of the Paris Declaration commitments related to alignment and propose a few practical suggestions to move the agenda forward building upon the AAA and generating recommendations to improve alignment in the context of the Paris framework and beyond.

The Roundtable debate will be focussed on a ***selected set of key dimensions and issues***. Background on each is provided below.

##### **4.1 Alignment to policies and objectives**

***The fundamental objective of alignment is to ensure that donors' support coherently sustains the recipient PRS / development strategy and follows its priorities. Alignment can take place at several levels:*** at that of strategic objectives or policy measures; at the national or regional level; at the macro or sectoral level; individually by each donor or collectively by the donor community. Aid instruments also differ in terms of the ease with which they can be

aligned with some, like technical assistance, proving particularly difficult to align and others, like budget support, providing a substantial level of alignment by definition. The mechanics of alignment can also change depending on the specific characteristics of the partner country and the nature of its interaction with donors. Fostering alignment while mainstreaming cross-cutting issues can also be a difficult task. Measuring donors' alignment at all these levels through relevant indicators remains a challenge for partners' authorities. Moreover, partner countries increasingly face the challenge of dealing with non-aligned aid from the development partners.

***The various studies evaluating the status of implementation of the Paris Declaration have found that*** donors are increasingly gearing their aid activities to countries' poverty reduction-type strategies and national sector or thematic strategies. At the same time, important parts of aid activity still remain outside the arrangements for alignment in most countries, including aid through non-governmental sector and sub-national channels.

***While there are clear indications of progress in the relatively easy area of alignment at the strategic level, the same cannot be said of alignment at the operations and implementation level.*** There are gaps in the transformation of policy agreements into operational programmes and projects, particularly where sub-national and local government execution is increasingly involved. Similarly, the monitoring survey shows that the extent to which budgets realistically capture aid flows has increased only slightly and remains far from the Paris Declaration target although headway is being made in several countries.

***These results are due to several factors*** which cannot be analysed fully in this short background paper. It is worth noting, however, that even in the most advanced situations, the different national strategies are not always clearly linked, internally consistent or politically durable enough to channel aid flows to priorities areas. Indeed, the monitoring survey shows that, despite the progress made, countries are not on track with respect to the target agreed regarding the operationalisation of development strategies. Effective mechanisms linking budget formulation and execution with national strategies, policy priorities and information on results are also proving particularly hard to put in place. Often donors are hesitant to use country systems due to perceived weaknesses of the systems related to malgovernance and corruption risks as well as pressure to disburse funds more rapidly than those systems will allow. However, donors' "use" of partners "imperfect" policy frameworks can support improving their effectiveness in reaching mutually agreed results. Another factor worth flagging is the advocacy role that donors often play with regard to certain "donor issues" and the resulting earmarking of funds for thematic interventions (gender, environment, social sector funding etc.) that are often perceived to run counter to the alignment agenda. Finally, the monitoring survey has also highlighted very limited progress in the use of programme-based approaches which are by definition better suited to alignment needs but still account for less than half of total aid disbursed.

***While there is a broad agreement on most of the steps needed to address this situation, view on sequencing measures are more diverse.*** Donors typically call for partner countries to provide better prioritised and sequenced action plans backed by stronger links between budgets and medium-term policy priorities. ***Partners***, however, underline the difficulties of putting these tools into place in a context where aid remains unpredictable over the medium term, conditional upon donors-influenced (if not imposed) requirements and managed outside of country systems. With regard to conditionality, the Partner Country Contact Group established in the framework of the AAA drafting process explicitly asked for partner countries to

define their own outcome-based benchmarks to replace policy and project related conditions to grant *ex officio* a greater space for policy ownership. Finally, *civil society organisations* argue in favour of broadening the concept of ownership beyond central government agencies to include parliaments, local governments and civil society. Accordingly, they ask to extend alignment to the priorities of local development actors to work with all country-based institutional structures.

#### **4.2 *Aligning time horizons: aid predictability and the long term nature of development***

*There would seem to be considerable scope to beneficially improve aid predictability.* Development strategies are long term endeavours requiring decisions today about the future. Alignment therefore requires steady donor's engagement with country development strategies and the timely disbursement of long-term commitments. Uncertainties with regard to the level, distribution and disbursement conditions of future aid limit the extent to which such aid can effectively support the development process and the medium-term orientation of partner policies and expenditure frameworks. In addition to time horizons, the predictability of aid is also an issue at sectoral or country level, for individual donors or groups of donors. The predictability of aid in all of its dimensions and across aid modalities clearly plays a key role in successful implementation of partner countries national development strategies and strengthening of their institutions and procedures. The costs of aid unpredictability and volatility are typically estimated to be substantial even when the "good" volatility required to respond promptly to unforeseen events such as natural disasters and conflict resolutions is discounted. While fully guaranteeing aid flows is arguably neither realistic nor desirable, aid predictability can be improved in several respects ranging from long term forecasting to short term administrative delays in disbursing agreed funding.

*Available findings confirm this even if the picture is patchy possibly due to the lack of a technical forum dedicated to the analysis of these issues.*

Findings in the context of the monitoring of the *Paris Declaration* implementation only refer to short term predictability as captured through the budget recording process. According to this short term measure, predictability has seen a slight increase but remains far behind the target set in Paris. Progress is impeded by both non-disbursement by donors and the lack of government capacity to record aid on budget.

*Other workstreams*, however, offer relevant complementary information:

- The *DAC "2008 Survey of Aid Allocations Policies"* shows that most DAC donors operate multi-year programming frameworks but these are generally limited to their priority partner countries and are not consistently shared with the partners in question.
- The *DAC "2008 Survey on Scaling Up"* has collected information on donors' aid allocation policies and future spending intentions by partner country. This has allowed the formulation of indications of future likely trends in (aggregate) aid flows for individual countries and could provide the basis for an indicator measuring medium-term predictability.
- The *Strategic Partnership with Africa Budget Support Surveys* from 2003 to 2007 show that an increasing share of funds committed for general budget support disbursements in the following year is actually being disbursed. However, the share of funds committed

for subsequent years has consistently tapered off sharply reflecting donors' difficulties with the establishment and, above all the rolling over of multi-year commitments.

***Reasons for limited progress vary among donors and across dimensions of predictability.*** According to the draft "Progress Report on Aid Effectiveness", most donors quote seemingly intractable legal and financial obstacles as reasons why they are less able to anticipate aid flows firmly and deliver projected amounts. This is despite partners' strong calls for the establishment of multi-year frameworks and increases in the amount of aid committed over 3-5 years periods. Being subjected to annual parliamentary appropriations, bilateral donors appear particularly challenged in this respect. However, even if multilaterals are better able to work with multi-year allocations, the length of their funding cycles (in most cases three years) also limits their capacity to provide firm commitments in advance. Finally, it should be noted that predictability of disbursements is also an issue and is affected by a range of implementation realities including partner country performance and conditionalities.

***Yet, a wider adoption of the increasing examples of improving practices could allow faster advances in the future.*** The "Progress Report" calls for partners to take actions to ensure that their planning and budgeting systems adequately capture the information available while, more broadly, partners and donors need to address the performance and implementation factors that delay disbursements. In this respect, the Report notes several examples of improving practices to suggest that further gains can be made. Highlighted examples include multi-year programming, New Zealand's introduction of multi-annual appropriations for aid, the use of base commitments and variable tranching in disbursing programmatic aid, Train4Dev's Joint Courses for participants both from ministries and donors, and the EC MDG contract as an innovative way of delivering more predictable result-based general budget support.

#### ***4.3 Aligning to country systems: strengthening and using country public financial management and procurement systems - shared priority or a risk too far?***

***A key mechanism to achieve alignment around a country national strategy is through the use of its country systems,*** in particular, but not exclusively, its budgetary processes and public financial management (PFM) systems, including public procurement. This is a fundamental goal of the agenda underpinning the Paris Declaration but also a particularly difficult one since country systems are not only part of the solution but also part of the problem. This implies difficult choices in terms of sequencing, risk-taking and choices between short versus long term objectives in the delivery of aid.

***The Paris declaration commits partners to strengthen their systems with donors' support and use.*** Support can be granted through the transfer of financial resources, goods and/or expertise. Crucially, support can also be provided by using systems and avoiding parallel processes and institutions undermining local systems and procedures. This raises a host of difficult questions concerning how best to strengthen country systems, monitor their increasing quality, foster their use by donors, manage the ensuing risks, design the most appropriate safeguards, and identify the role that civil society organisations can play in this process.

***Since the Paris Declaration, some systems have been strengthened but their use has only marginally increased, possibly because other relevant factors besides quality have not been tackled.*** The "2008 Survey on Monitoring" shows that while developing countries have made uneven progress in improving the quality of their systems, impressive advances have been made in improving the management of public funds with the relevant monitoring indicator

being one of the few assessed to be on track. Despite this, relatively little progress in the use of country public financial management and procurement systems has been made since 2005. Still less than half of total aid in support of public sectors is channeled through such systems and the share of total aid disbursed through the modality that more readily and fully uses country systems (budget support) has remained stable between Surveys. While these aggregate results hide important differences across countries and donors, a great variance in the use of PFM systems of the same quality as well as in the increase in use of improved systems suggests that other factors besides quality are also relevant. The larger share of aid that remains unaligned to country systems can be explained with political inertia that encourages donors to stay with existing channels, perceived areas of strength and longstanding project and programme partners.

***Many of the elements needed to make faster progress, however, are in place and could be effectively built upon if there were the required political willingness.*** This is a key finding of the "Report on the Use of Country PFM Systems" drafted by the OECD DAC Joint Venture on PFM. Existing building blocks for faster advances include a widely recognized assessment tool (the PEFA Performance Assessment Framework) and increasing lessons from experience on how to best strengthen systems and use them while managing the related risks. In order to build upon these elements, the Report offers a raft of practical suggestions. Partner countries should take an enhanced role in work on the use of country PFM systems and create an enabling environment by addressing such related areas as governance and corruption. Donors should better equip themselves to carry out their commitments. This would require adopting clearer policies, establishing incentive mechanisms for using systems and training staff in understanding and assessing the related benefits, risks and proper safeguards. With time, better communication of the use of country systems agenda to donors' external accountability bodies could increase their capacity to bear the risks of using partners' systems as they strengthen. Importantly, a similar set of building blocks is also being put in place in other areas, notably procurement where work on lessons learnt and common assessment tools has also considerably progressed since the Paris Declaration as evidenced by the Arusha Declaration.

***Capacity development plays a crucial role in strengthening country systems and delivering results.*** Donor support for capacity development should be based on coherent capacity development plans developed by partner countries. Donors also need to strengthen their capacity to better engage with partner country systems.

***Taking up these challenges in the future is crucial.*** The voice of Partner Countries during the consultation process towards Accra made this clear by contrasting the efforts made to strengthen systems with the limited increase in their use. Without faster progress, it is not only the 2010 target that is in danger. It is the overall credibility of the mutual commitment agreed in the Paris Declaration that really is at stake.

#### **4.4 Alignment to markets (aid untying)**

***Untying aid offers greater value for money, decreases transaction costs and enhances sustainability.*** Tied aid is aid given on the condition that the recipient will use it to purchase goods and services from suppliers based in the donor country. Experience has shown, however, that aid with these conditions attached increases the costs of goods and services provided to partner countries and increases administrative burdens on both donors and partners. When untied, aid helps to build a country's capacity to provide goods and services in a sustainable manner. In 2001, DAC members agreed to untie all aid to the least developed countries other than food aid and technical cooperation. Since then, aid untying has continued to

figure prominently in the international agenda and has been the subject of routine reporting to the DAC.

***Significant advances appear to be achieved, although technical assistance and food aid remain the most untied form of aid.*** The findings of the "2008 Survey on Monitoring" shows progress being made in nearly all countries, possibly as a result of the fact that the DAC has been encouraging untying, especially in Least Developed Countries, much before the signing of the Paris Declaration. With the latter only targeting positive progress, the relevant monitoring indicator is one of the three being considered on target. The "2008 Progress Report on Aid Effectiveness" also cites other instances of progress, including broader untying than envisaged in the 2001 Recommendations by a few donors and the recent decision to extend the latter to the eight non-LDC HIPC.

***There are, however, areas of concerns.*** Despite overall progress for all donors, there are some outliers with quite low rates of untying among both the countries and the donors. Also, the coverage of the traditional DAC efforts on untying does not extend to non-DAC donors whose relative size is already relevant in several Asian countries and looks set to increase in a wider set of countries. In addition, the DAC 2007 Development Cooperation Report notes that, given issues around members' reporting, it is impossible to say if the actual share of untied financial aid has really increased. It also highlights how the latest figures suggest that a large proportion of contracts financed from untied aid are still going to donor country suppliers. Finally, and perhaps due to the above, tied aid is persistently identified by a large number of partner countries as a key obstacle for increased alignment. This raises issues concerning the relevance of the statistics used and the importance of those types of ODA which are not covered by the 2001 DAC Recommendations.

## **5. Conclusions**

This background paper has briefly highlighted some of the key issues surrounding the alignment dimensions which will be addressed by the Accra Roundtable. The Presentation note distils these reflections and identifies a limited set of questions on which the Roundtable discussions are expected to focus:

There is a need to generate concrete and implementable recommendations from the Roundtable to enhance progress in implementing alignment in aid regimes and to present better results for the next HLF.

*Annex I*

**Extracts from the Paris Declaration on Aid Effectiveness: Ownership, Harmonization, Alignment, Results and Mutual Accountability, HLF Paris February 28 – March 2, 2005**

The Paris Declaration expresses the international consensus on the direction for reforming aid delivery and management.

***Conclusions on Alignment***

- Alignment refers to the extent to which donors base their overall support on partner countries' national development strategies, institutions and procedures.
- Alignment is supported through the following commitments:
  - Donors align with partners' strategies
  - Donors use strengthened country systems
  - Partner countries strengthen development capacity with support from donors
  - Strengthen public financial management capacity
  - Strengthen national procurement systems
  - Untie aid: getting better value for money
- Progress on Alignment is monitored with seven indicators of progress:

<b>ALIGNMENT</b>	<b>TARGET FOR 2010</b>						
<b><i>Reliable country systems</i></b> — Number of partner countries that have procurement and public financial management systems that either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	<p><b>(a) Public financial management – Half of partner countries</b> move up at least one measure (i.e., 0.5 points) on the PFM/ CPIA (Country Policy and Institutional Assessment) scale of</p> <p><b>(b) Procurement – One-third of partner countries</b> move up at least one measure (i.e., from D to C, C to B or B to A) on the four-point scale used to assess performance for this indicator.</p>						
<b><i>Aid flows are aligned on national priorities</i></b> — Percent of aid flows to the government sector that is reported on partners' national budgets.	<b>Halve the gap</b> — halve the proportion of aid flows to government sector not reported on government's budget(s) (with at least 85% reported on budget).						
<b>Strengthen capacity by co-ordinated support</b> — Percent of donor capacity-development support provided through coordinated programmes consistent with partners' national development strategies.	<b>50% of technical co-operation flows</b> are implemented through co-ordinated programmes consistent with national development strategies.						
<b><i>Use of country public financial management systems</i></b> — Percent of donors and of aid flows that use public financial management systems in partner countries, which either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	<p><b><u>PERCENT OF DONORS</u></b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Score</th> <th style="text-align: left;">Target</th> </tr> </thead> <tbody> <tr> <td>5+</td> <td>All donors use partner countries' PFM systems.</td> </tr> <tr> <td>3.5 to 4.5</td> <td>90% of donors use partner countries' PFM systems.</td> </tr> </tbody> </table>	Score	Target	5+	All donors use partner countries' PFM systems.	3.5 to 4.5	90% of donors use partner countries' PFM systems.
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<b><i>Use of country procurement systems</i></b> — Percent of donors and of aid flows that use partner country procurement systems which either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.	<p><b><u>PERCENT OF DONORS</u></b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Score</th> <th style="text-align: left;">Target</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>All donors use partner countries' procurement systems.</td> </tr> <tr> <td>B</td> <td>90% of donors use partner countries'</td> </tr> </tbody> </table>	Score	Target	A	All donors use partner countries' procurement systems.	B	90% of donors use partner countries'
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<i>Strengthen capacity by avoiding parallel implementation structures</i> — Number of parallel project implementation units (PIUs) per country.	<b>Reduce by two-thirds</b> the stock of parallel project implementation units (PIUs).
<i>Aid is more predictable</i> — Percent of aid disbursements released according to agreed schedules in annual or multiyear frameworks.	<b>Halve the gap</b> — halve the proportion of aid not disbursed within the fiscal year for which it was scheduled.
<i>Aid is untied</i> — Percent of bilateral aid that is untied.	<b>Continued progress over time.</b>

## *Annex II*

### **Progress Report on Aid Effectiveness, OECD Working Party on Aid Effectiveness, Second Draft, 9-11 July 2008, DCD/DAC/EFF(2008)4/REV1**

The report is a mid-term review of progress made towards the Paris Declaration commitments by partners and donors prepared by the Working Party on Aid Effectiveness (WP-EFF) for the Accra HLF.

#### ***Conclusions on Alignment:***

- Acceleration is needed to reach the 2010 targets for alignment although there are significant advances in many areas.
- Donors are increasingly basing their activities on partners' national development strategies, medium-term expenditure plans, budgets, and sectoral and thematic strategies. Even in the most advanced situations, the different strategies are not always clearly linked, internally consistent, or politically durable enough to channel aid flows to priority areas.
- **Conditionality.** New approaches to conditionality provide one area in which some progress is occurring towards aligning with partners' strategies, albeit one in which partner and donor perspectives are often still some way apart. The 2007 SPA Budget Support Survey indicated an apparent reduction in the number of conditions attaching to aid, but cautioned that this might reflect a move by bilateral donors away from a reliance on 'specific triggers' towards a greater reliance on 'underlying conditions.'
- **Capacity development.** There are efforts to build capacity of central and local government and civil society, but improved coordination of these efforts remains an ongoing challenge.
- **Quality and use of country systems.** Many partners have undertaken significant public financial management (PFM) reforms to strengthen budget execution, financial reporting, and auditing to improve the credibility and transparency of their budget process. The use of the PFM systems appears to be improving in a gradual and selective way. While donors show willingness to support country systems there is no assurance, for reasons of risk-aversion or other incentive problems that this will result in a change of general practice. There has been a gradual and selective improvement in the use of country systems for procurement. In some countries, partner governments have succeeded in developing their own procurement systems, assisted by the experience of implementing donor-funded projects. However, more needs to be done if the 2010 targets are to be achieved.
- **Budget realism and predictability of aid.** Progress is taking place unevenly in partners' budget capture of aid flows. The increase in the within-year and medium-term predictability of bilateral aid has to date been slow with multilateral agencies generally performing better; positive results appear to be associated with budget support, based on observations in 14 countries in Africa and twenty donors providing budget support.
- **Aid untying.** Significant progress has been made towards aid untying.

### *Annex III*

#### **2008 Survey on Monitoring the Paris Declaration – Effective Aid by 2010 What will it take? OECD, Draft Vol. 1 Overview, 21 July 2008**

The aim of the paper is to monitor progress of donors and developing countries towards the twelve targets of the Paris Declaration.

#### ***Conclusions on Alignment***

- Significant challenges remain on country ownership and use of country systems, domestic and mutual accountability and cost-effective aid delivery as well as on coordinated capacity development and reducing the number of parallel PIUs. Only aid untying and country PFM systems are showing encouraging signs of progress.
- **Quality and use of country systems.** The quality of country public financial management (PFM) systems is improving since 2005. 36% of the countries in the sample have improved according to the CPIA data, which indicates that strengthening efforts are paying off. In 2007, the use of country PFM systems was 45% and 43% for the use of procurement systems — falling well short of the indicative 2010 target of 80%. Overall donor's willingness to use country systems corresponds weakly with the quality of these systems, which indicates that donors are continuing to respond slowly to successful reforms at country level. The explanation for donor countries choice for not using improved country systems may include reservations about the CPIA criteria as well as their own modality preferences, headquarters' policies and organisational incentives.
- **Parallel PIUs.** Survey evidence suggests that there has not been comprehensive movement to reduce parallel project management units, which calls for stepped-up action to achieve the target.
- **Predictability of aid.** The average country has seen an improvement in the indicator of predictability from 41% in 2005 to 46% in 2007. However, if the target of 71% is to be reached by 2010, the proportion of aid disbursed within the fiscal year for which it is scheduled for is expected to increase considerably. This calls for a considerable acceleration of the rate of progress.
- **Budget realism.** The average country has improved the realism of the budget from around 42% in 2005 to around 48% in 2007. However, this represents quite a marginal improvement compared with the general target agreed that at least 85% of this type of aid is captured accurately in the budget. More work is required both at country level on improving the modalities for recording aid and at the international level for agreeing on general good practice in this area.
- **Supporting and strengthening country capacity:** Although the 2008 survey shows that the target for this indicator has been met, careful analysis of the results shows that progress remains modest. In particular, interventions are often ad hoc and not well prioritised or sequenced.
- **Untying of aid.** Untying of aid is a major area of genuine and substantial improvement. Untied aid has increased from 75% in 2005 to 88% in 2006.

**Evaluation of the Implementation of the Paris Declaration, Phase one, Synthesis Report, Copenhagen, July 2008, ISBN 978-87-7667-916-3**

The overall purpose of the evaluation is to assess the relevance and effectiveness of the Paris Declaration and its contribution to aid effectiveness.

***Conclusions on Alignment***

- Major aspects of aid activity still falls outside the arrangements for alignment in most countries, including aid through non-governmental and even sector and sub-national government channels. Donors earmarking for special thematic interventions and cross-cutting initiatives remains common, which relates to the advocacy role that donors play in some countries in helping focus attention on issues such as gender equity, the environment and democratic governance.
- **Aligning to national development strategies and priorities.** Implementation of the various components of alignment has been highly uneven. Progress is more visible in aligning aid flows with high level policies and strategies but less at the operations and implementation level. Particularly when sub-national and local government execution is increasingly involved, there are difficulties in transforming different high level policy agreements into operational programmes and projects.
- **Quality and use of country systems.** Donors' use of country systems is improving in a gradual and selective way, particularly in the areas of financial management, audit and, to a lesser extent, procurement. Generally donors are hesitant to use country systems due to both real and perceived weaknesses (e.g. corruption and fiduciary risks) as well as pressure to disburse funds more rapidly than those systems will allow. Efforts by most countries to strengthen national processes and systems are not yet sufficient to support the needed progress and not enough donors are ready to help strengthen these systems by actually using them. On the other hand, donors do appear ready to continue and increase financial and technical assistance for the further capacity strengthening required.
- **Parallel Project Implementation Units (PIUs).** Phasing out existing arrangements is considered extremely difficult without jeopardizing the direction and momentum of activities. Possible explanations indicate that multilateral or bilateral rules may be preferable to similar national arrangements when trying to attract high-level professional staff. Moreover, differences in the conditions and arrangements of support available through multilateral and bilateral agencies may influence the choice for using parallel PIUs.
- **Predictability of aid.** There is little information on progress towards providing more predictable aid, except by the multilateral agencies. Multilateral agencies are better placed in implementing alignment, as they usually work with multi-year allocation systems and rolling financial plans. Many bilateral donors explain the difficulties in anticipating and delivering aid with legislative and financial obstacles (e.g. annual budget appropriations by parliaments). Moreover, in some cases limited country partner capacities and ability to use aid effectively are also held responsible for delays in the provision of multilateral and bilateral financing.

**Compendium of donor reports on implementing the Paris Declaration: summary of emerging trends, OECD Working Party on Aid Effectiveness, 9-11 July 2008, DCD/DAC/EFF(2008)24**

The report summarises emerging trends from donor reports submitted by 22 bilateral donors and 5 multilateral donor as part of donors self-assessment on implementing the Paris Declaration.

***Conclusions on Alignment***

- Self-assessments provide a more optimistic outlook than the conclusions of the 2008 Evaluation of the Paris Declaration and the 2008 Survey on Monitoring the Paris Declaration.
- Thirteen members highlighted alignment as a major opportunity for progress. Member approaches varied, however, in their views on how progress was to be achieved. Strengthening of government systems (procurement, financial management, monitoring and evaluation) is reported by most members as one of the key opportunities for ensuring progress on alignment.
- Eleven donors reported moving towards programme based approaches, and the use of financing modalities such as general budget support and sector budget support. Moreover, it was reported that internal guidelines were amended to increase the likelihood of alignment. In some cases, the timeframes of country strategies had been increased in order to align these with local processes and timetables. Whilst in others, country programme assessments include an analysis of whether country systems are used. Decentralization has also sparked, according to the self-assessments, more awareness of country systems and the importance to both use and strengthen those systems.
- **Use of country systems.** The primary issue for those members reporting that alignment presented significant challenges (nine members) related to weak institutional arrangements and procedures in partner countries. Some donors also report that political imperatives at home make it especially challenging to implement the commitment to use country systems. In order to reduce this challenge, it was noted that efforts are currently underway to increase the use country systems incrementally in conjunction with partner countries strengthening their own systems
- **Aligning with partner country systems.** Efforts to align with partner country systems also resulted, some members noted, in increasing demands on donor country capacity at the field office level (especially in areas of public financial management, procurement, and legal expertise). The skills required at the country level to support alignment are different from more traditional aid work.

**Report on the Use Of Country Systems in Public Financial Management, OECD Working Party on Aid Effectiveness, Joint Venture on Public Financial Management, 9-11 July 2008, DCD/DAC/EFF(2008)23**

The report is the Joint Venture on Public Financial Management's main contribution to the Accra HLF and is intended to: review progress in the implementation of the commitments of the Paris Declaration; draw lessons from practical experiences in using country PFM systems; and identify opportunities for donors and partner countries to make better use of country PFM systems.

***General Conclusions:***

- There has been no significant progress towards the achievement of the Paris Declaration targets relating to the strengthening and the use of country PFM systems. Any improvements tend to be modest. Even when recognising that it may be too early to expect a comprehensive pattern of change to emerge, given the complexity of PFM reforms and donor practices that are linked to agreements that take several years to take effect, a much greater effort is required from both donors and partners to strengthen and use country systems in a way that would allow all potential benefits to be achieved.

***Key messages to Accra:***

- Partner countries should take an enhanced role in work on country PFM systems: assessing the PFM system, developing a credible strategy for PFM reform, linking it with the overall aid management strategy, and prioritizing and implementing reforms. In addition, countries need to create an enabling environment for the use of their PFM systems by addressing such related areas as governance, corruption, and procurement.
- Donors should better equip themselves to carry out their commitments related to using country PFM systems. Donors should align their interventions with the countries own strategies, adopt internal measures and incentives that will enhance their ability to fulfil their Paris Declaration commitments to use countries' PFM systems and decrease their use of parallel project implementation units.
- Partner countries and donors need to work together to operationalise this agenda at the country level. Country and donor staff need to work together in partnership by forming country PFM teams, developing mutual trust, establishing realistic goals, choosing aid modalities that promote sound budgeting and an integrated approach, and showing that they are delivering on their commitments.
- The development community should develop a multiyear program of PFM diagnostics and increase its reliance on the emerging lessons.
- There is a need for better communication at all levels. At the country level, partner and donor countries need to collaborate in strengthening the role of supreme audit institutions, parliaments and public accounts committees, and civil society organizations. In addition, all parties should give greater attention to enhancing communications.

## *Annex VII*

### **Results from Regional Preparatory events for Accra HLF**

The annex summarizes views from regional seminars arranged for Pacific Islands (4-7 April), South East Asia (21–22 April 2008), South Asia (5–6 May 2008), Central & West Asia (8–9 May 2008), Africa (29-30 April) and Latin America & Caribbean Region (5-6 June 2008).

#### ***Conclusions on Alignment from Pacific Islands***

- **Use of country systems.** Donors are using country systems only partially. Some countries may prefer that donors use other mechanisms (e.g. trust funds) to disburse funding. There are situations where the use of government systems may not always be optimal as it depends on the capacity of those systems as well as needs and desires of Governments. Some donors may sometimes also work through civil society, rather than through government systems, which further complicates alignment. Some governments are benefitting from the increased use of government systems as they are taking on more responsibilities. However, there is a need to move gradually as systems need to be strengthened simultaneously. Ideally, the transfer of responsibilities to partner countries takes place through budget support.
- **Quality of country systems:** The limited use of country systems can be explained by a need to secure accountability, checks and balances as well as risks of corruption. It should be assessed whether using these systems can strengthen them from within. Country specific and case specific approach should be used to assess the possibility to increase the use of these systems.
- **Aligning donor systems.** Donor systems seldom align with each other as they have different requirements for partner governments. The Pacific Plan is a useful document to foster harmonisation.
- **Aligning with other donor systems.** In the Pacific, assistance is also provided through regional organizations and other donor systems, rather than directly through partner government systems (e.g. CROP agencies in the Pacific). The question arises how far these organizations deliver assistance through national systems. In addition, there is a question of regional effectiveness versus bilateral effectiveness that has an impact on aid predictability.
- **Supporting country systems.** A long-term approach for strengthening country systems is needed with a certain volume of funding used for these systems. One strategy is to take a progressive approach and build on these systems. A standardized approach should be taken to the strengthening of country system with the help of donors. When the systems are improving, donors should also increasingly use these systems as long as certain requirements are met.
- **Capacity development.** Many issues around alignment relate to capacity and the number of available people rather than skills. Often partner country agencies are understaffed and overwhelmed with the amount of work. Therefore, capacity development should take place concurrently with the increased use of country systems.
- In discussions on alignment, it is important to maintain a focus on cross cutting issues, which need to be highlighted and addressed by governments in their strategic plans. A lack of predictability can also act as an incentive for the more effective use of funds in the short term.

#### ***Conclusions on Alignment from Asia Region***

- **Use of country systems.** Donors are reluctant to use country systems even when they have been strengthened to international standards. Increased use of country systems by donors is the best route to improving systems. Donors should be obliged to give reasons for not using country systems, indicate the specific improvements required and contribute to capacity development measures.

- **Predictability of aid.** Insufficient predictability is a serious concern. Donors should provide indicative three-year commitments for a growing share of their aid – without which it is difficult for countries to deliver on their Paris Declaration commitment of effective national planning and budgeting. Countries also requested that the gap between pledges or commitments and actual disbursement be closed as soon as possible.
- **Aligning with partner country priorities.** To improve the alignment of ODA with national priorities, partner countries and donors should develop and make use of national ODA Aid Management Systems to record and manage all funds. Cambodia, Indonesia (Aceh), Maldives, Sri Lanka and Vietnam (among others) offer examples of country-owned systems to track and manage ODA. Many countries expressed concern that some donors have difficulty in periodically reporting their totality of aid (across their ministries and departments) in a format consistent with country systems, and called for some donors to invest in strengthening their internal systems.
- **Aligning at sector level.** There has to be real commitment from donors to harmonise, align and adapt to partner country requirements at the sector level, otherwise the partner country capacity and ownership can be undermined. Programme based approaches at the sector level were seen as an important mechanism to improve harmonisation and alignment, and if combined with support for related financial and administrative reforms, can also reinforce mutual trust.
- **Division of labour** can help tackle fragmentation and misallocation of resources, but must be done under country leadership.

### *Conclusions on Alignment from Africa Region*

- Donors need to do more to simplify and harmonize their procedures to reduce the transaction costs of aid delivery. Country partners need to undertake necessary reforms to strengthen their procurement and financial management systems. Donors should coordinate technical assistance programs to address long-term capacity development issues at the institutional and staffing level. Non-state actors need to be included in the harmonization process.
- A key message was for donors to honour and deliver on their commitments to harmonize their procedures, increase their reliance on strengthened government systems and procedures, and not shift goal posts. When harmonization does not lead toward greater use of the country's system and donors continue to use parallel systems, it weakens country systems and procedures and undermines the principles of ownership. Alignment is also hindered by tied aid, which often increases transaction costs and reduces the value of aid, especially in technical assistance programs.
- Ownership and alignment to country priorities are complementary. Support of national priorities must be accompanied by use of country systems. Important measures of alignment are increased predictability of aid flows, including multiyear aid; transparency and sharing of information about aid; and alignment to government budget cycles. The AAA should include a call for donors to align to government policies and programs and for donor coordination to take place within a common policy framework. General budget support is the preferred mode of financing as it has a stronger influence on the policy environment, superior ownership properties, and greater aggregate coherence.

### *Conclusions on Alignment from Latin America and Caribbean Region*

- The role of donors, as external partners, is to align their programs with the country's development agenda.

- **Use of country systems.** There are varying practices among donors in the use of public financial management (PFM) systems and procurement systems. The use of country systems helps to strengthen these systems, reduces the transaction costs of aid, and speeds up implementation. Changes of government can cause changes in country priorities, which can be a reason for a limited use of country systems. However, there are also examples of countries that have showed remarkable continuity in government priorities. There is a need for institutional strengthening to promote the use of country systems. In reality there is no significant increase in the quantity or quality of capacity support since the adoption of the Paris Declaration.
- **Strengthening of country systems.** Donors should provide support at all levels to strengthen weak public financial management and procurement systems, thereby developing capacity in partner countries and consolidating the development process.
- **Predictability of aid.** Donors should move beyond multiyear commitments of aid toward multiyear appropriation in order to assure aid predictability. This is also relevant for middle income countries.
- Donors should commit to establish, together with partner countries, medium term priority frameworks and joint monitoring and evaluation mechanisms.

## *Annex VIII*

### **Civil Society and Aid Effectiveness, Synthesis of Finding and Recommendations, Advisory Group on Civil Society and Aid Effectiveness, Second working draft, 16 April 2008**

This document summarizes the main findings and recommendations emerging from the work of the Advisory Group on Civil Society and Aid Effectiveness that was established to engage civil society in the international aid effectiveness debate and consensus building process by advising the DAC's Working Party on Aid Effectiveness.

#### ***Recommendations on the role of civil society***

- The Accra HLF should recognize CSOs as development actors in their own right, with their own priorities, programs, and partnership arrangements. The AAA should encourage stakeholders to define the conditions required for the voice of civil society to be as effective as it can be, locally, nationally and internationally. Efforts should be envisaged to help civil society to develop its capacity to engage in constructive policy dialogue.

#### ***Conclusions and recommendations on Alignment***

- The emphasis of alignment in the Paris Declaration is on donor alignment with the priorities identified in the PRSP and alignment to country systems of public financial management, procurement and results management. However, CSOs emphasize a plurality of views, and Northern CSOs often work directly with host-country CSOs. As a result, they are likely to understand alignment in term of the priorities identified by their Southern CSO partners and constituencies, resulting from decentralized country systems of priority setting and program implementation. CSOs thus contribute to alignment in their own ways through solidarity with the priorities and needs of partners and constituencies that may sometimes differ from government priorities. This requires a broader interpretation of the concept of alignment in line with that of local and democratic ownership.
- Alignment should be understood broadly to mean respect for local and democratic priorities and emphasis on the use and strengthening of country systems in general. This will require attention not only to the centralized government mechanisms required for more effective aid management, but also to local and democratic structures of good governance and decentralized programming.
- In terms of specific actions that might be included in the Accra Agenda for Action, this suggests that efforts to develop and use country systems should extend beyond the current emphasis on public financial management, procurement systems, and results-based management, to also include parliaments, local governments, and CSOs.

## *Annex IX*

### **Relevant sections on Alignment from the Final Draft (of 25 July 2008) of the Accra Ministerial Declaration "*Accra Agenda for Action*"**

- The AAA identifies country ownership as one of the key challenges to accelerate progress: Developing country governments will take stronger leadership of their own development policies, and engage with their parliaments and citizens in shaping them. Donors will support them by respecting country priorities, investing in their human resources and institutions, making greater use of their systems to deliver aid, and increasing the predictability of aid flows.
- The following actions will be taken to **strengthen and increase the use of country systems**:
  - a) Donors agree to consider use of country systems as the first option for aid programmes in support of activities managed by the public sector.
  - b) Developing countries and donors will jointly assess the quality of country systems in a country-led process using mutually agreed diagnostic tools.
  - c) Where there are quality systems, donors will use them. When donors continue to rely on aid delivery mechanisms outside country systems (including parallel project implementation units), donors will state transparently the rationale for this and will review their positions at regular intervals.
  - d) Where country systems require further strengthening, countries will lead in defining reform programmes and priorities. Donors will support these reforms and provide capacity development assistance.
  - e) Donors further agree to set out in a transparent manner their plans for undertaking their Paris commitments on using country systems; to provide staff guidance on how these systems can be used; and to ensure that internal incentives encourage their use.
- The following actions will be undertaken to accelerate the **untying of aid**:
  - a) OECD-DAC donors will extend coverage of the 2001 DAC Recommendation on Untying Aid to non-LDC HIPC<sup>2</sup> and improve their reporting on the 2001 DAC Recommendation.
  - b) Donors will elaborate individual plans to further untie their aid to the maximum extent.
  - c) We will promote the use of local and regional procurement by adjusting donor procurement procedures and by building on examples of good practice to help improve local firms' capacity to compete successfully for aid funded procurement. OECD-DAC donors will extend coverage of the 2001 DAC Recommendation on Untying Aid to non-LDC HIPC<sup>2</sup> and improve their reporting on the 2001 DAC Recommendation.
- The following actions will be undertaken to improve **predictability of aid**:
  - a) Developing countries will strengthen budget planning processes for managing domestic and external resources and will improve the linkages between expenditures and results over the medium term.
  - b) Donors will provide full and timely information on annual commitments and actual disbursements so that developing countries are in a position to accurately record all aid flows in their budget estimates and their accounting systems.
  - c) Donors will provide

each year, at country level, comprehensive estimates of aid flows they plan to provide over a 3-5 year period.

- d) Developing countries and donors will work together at the international level to review ways of further improving medium-term predictability of aid, including developing tools to measure it.