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**IDA's Role in Enhancing Country-Level  
Effectiveness:  
Strengthening Harmonization and Alignment**

**International Development Association  
Operations Policy and Country Services (OPCS)**

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## ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
EC	European Commission
ESW	Economic and Sector work
DFID	Department for International Development
GDP	Gross domestic product
HLF	High-Level Forum
IDA	International Development Association
IMF	International Monetary Fund
KPI	Key Performance Indicator
MDB	Multilateral development bank
MDGs	Millennium Development Goals
MEFF	Multilateral Effectiveness Framework
MOU	Memorandum of Understanding
MTEF	Medium-term expenditure framework
OECD	Organization for Economic Co-operation and Development
PBA	Program-based approach
PEFA	Public Expenditure and Financial Accountability
PFM	Public financial management
PIU	Project implementation unit
PRS	Poverty reduction strategy
PRSC	Poverty reduction support credit
PRSP	Poverty Reduction Strategy Paper
QAG	Quality Assurance Group
UN	United Nations

# IDA'S ROLE IN ENHANCING COUNTRY-LEVEL EFFECTIVENESS: STRENGTHENING HARMONIZATION AND ALIGNMENT

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# IDA'S ROLE IN ENHANCING COUNTRY-LEVEL EFFECTIVENESS: STRENGTHENING HARMONIZATION AND ALIGNMENT

## EXECUTIVE SUMMARY

i. This paper responds to IDA Deputies' request for an analysis of progress in harmonization and alignment, as part of the discussion of the effectiveness of IDA's assistance at the country level. It builds on the paper *Harmonization and Alignment for Greater Aid Effectiveness: An Update on Global Implementation and the Bank's Commitments*,<sup>1</sup> which was discussed in November 2006 with the Executive Directors and with IDA Deputies during the IDA14 Mid-Term Review. That paper showed that the Bank and IDA have been part of the leadership in promoting the international aid effectiveness agenda and are making substantive contributions to progress in harmonization and alignment at the country level. It also identified areas in which the Bank and IDA could further improve their aid effectiveness and actions to address them. Since then, implementation and monitoring of those actions have continued. This paper analyzes the new developments; assesses their implications at the country, institutional, and global levels; and identifies additional actions IDA is taking to strengthen its role in and contribution to aid effectiveness. Progress in managing for development results, which is also part of the Paris Declaration agenda, the status of IDA's two-tier results measurement system, and the lessons of implementing results management in IDA are discussed in a companion IDA paper.<sup>2</sup>

### Implementation of Aid Effectiveness Actions is Better Monitored

ii. **In recent years an international consensus—supported by active IDA engagement and leadership—has emerged to strengthen the quality of development assistance.** This consensus is framed by the international commitments made under the Monterrey Consensus (2002) and the Rome (2003) and Paris Declarations (2005), and reinforced by the International Roundtables on Results at Marrakech (2004) and Hanoi (2007). Following up on these commitments, partner countries and donors are drawing on a diverse menu of actions to improve aid effectiveness. A number of these actions are being captured through surveys and evaluations.

iii. **One key survey is part of the internationally agreed monitoring framework to measure progress in implementing good practice principles for aid effectiveness and development impact embodied in the Paris Declaration.** The results of the 2006 baseline monitoring survey of the 12 indicators in the Paris Declaration, published earlier this year by the OECD-DAC,<sup>3</sup> show that alignment and harmonization actions are being undertaken in a growing number of countries. However, in half of the surveyed countries, progress is limited and countries and development partners still have many

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<sup>1</sup> See *Harmonization and Alignment for Greater Aid Effectiveness: An Update on Global Implementation and the Bank's Commitments* (R2006-0193), November 2, 2006.

<sup>2</sup> *Focus on Results: The IDA14 Results Measurement System and Directions for IDA15*, October 2007.

<sup>3</sup> See *2006 Survey on Monitoring the Paris Declaration - Overview of the Results*, OECD-DAC, 2007.

opportunities to improve country-level effectiveness. These results, along with those of the forthcoming World Bank report *Results-Based National Development Strategies* and other reviews, make it clear that continued attention to aid effectiveness work is needed at the country, institutional, and international levels.

### **IDA Performs Well, Though with Areas for Improvement**

iv. **The core of IDA's strategy for fostering ownership, alignment, and harmonization at the country level is to establish a supportive policy, incentive, and procedural framework at the institutional level, augmented by corporate oversight through internal review and monitoring.** In recent years the Bank has made substantial changes in its operational policies and procedures, described in detail in the November 2006 report and in other previous reports. The Bank has also undertaken substantial efforts with other multilateral development banks (MDBs), the UN system, the European Commission, and other donors to enhance collaboration, reduce transaction costs for clients, and thus increase effectiveness.

v. **Harmonization and alignment actions at the country level bring benefits to clients.** Key aspects of implementing the Bank's commitments on alignment are basing IDA assistance programs on countries' poverty reduction strategies and using IDA programs to help countries strengthen the policies, plans, and institutions needed for development. IDA Results-based Country Assistance Strategies emphasize defining realistic results chains, aligning with the country's long-term vision and priorities, and coordinating with other donor partners on major elements of strategy.

vi. **IDA's country-level harmonization actions are many and growing, reflecting country and sector strategies and priorities identified with clients and partners.** Contributions include providing analytic leadership in developing common performance assessment frameworks, coordinated budget support, and sector-wide approaches; participating in division of labor exercises and common arrangements for project and program management; sharing information on IDA programs; performing joint diagnostic work and working closely with other donors on joint or collaborative assistance strategies; respecting governments' mission-free periods, and co-chairing donor meetings. Disseminating good practice from one country team to another is also a crucial part of IDA's implementation strategy.

vii. **IDA supports division of labor at the country level through country-led selectivity, including taking more frequently a supporting rather than leading role among development partners.** Improved division of labor is an important objective of the harmonization agenda. There is a large potential to reduce transaction costs for both partner governments and development agencies from actions in this area. IDA's current approach to an effective division of labor is grounded in efforts for enhanced selectivity in country assistance strategies. Areas and forms of support are determined based on partner countries' views on IDA's comparative advantage and value added in a specific country context. While IDA remains the lead donor for many projects and programs, it is taking, with more frequency, a supporting role with other development partners being in the lead. Notable examples include the education sector in Burkina Faso, where the Netherlands is the lead donor for basic education, while IDA leads on secondary and

higher education; Bangladesh where the Asian Development Bank leads support to the education sector by a donor group including IDA; the education sector program in Mali, led by the Agence Française de Développement; and the multi-donor budget support group in Tanzania, chaired on a rotating basis by a bilateral donor.

viii. **Quantitative and qualitative evidence indicates that IDA's effectiveness in providing assistance is improving.** The Bank's Key Performance Indicators on harmonization, adopted at the beginning of IDA14 and discussed at the IDA14 Mid-Term Review, show continuing increases in the level of commitments through program-based approaches and in joint analytic work. This internal monitoring by the Bank/IDA can now be complemented by client surveys and other sources and by the Paris monitoring survey,<sup>4</sup> which reports that IDA performs better than the average of all donors on eight of the nine Paris indicators and sub indicators for which cross-donor comparisons are possible. According to the Paris survey, IDA performs particularly strongly on one of the "alignment" indicators: virtually all its disbursements were reflected in governments' budget estimates (97 percent for IDA compared to 91 percent for all donors). It also performs well on a key harmonization indicator: in the surveyed countries 58 percent of IDA disbursements were for program-based approaches (compared with 42 percent for all donors). The survey also reports that IDA is performing well in coordinating technical cooperation with other donors (58 percent for IDA, 46 percent for all donors), in using country financial management systems, and in untying aid. In addition to the areas covered by the Paris indicators, IDA has made significant progress in decentralization: Bank-wide, 55 percent of Regional staff are located in the field, up from 45 percent in FY00. Of the 40 country director positions at present (which have substantial decision making authority), 30 are in the field (including 9 of the 11 country directors in Africa), and the share of internationally recruited staff located in country offices has increased from 15 percent in FY00 to 23 percent in FY07. Significant progress has also been made with respect to the decentralization of financial management and procurement staff, improving support to clients for implementing projects and strengthening country systems.

ix. **Despite implementation progress, there is scope for continued improvement.** Reports by partner countries and development partners and quantitative data indicate areas in which the Bank and IDA can clearly continue to improve. For instance, according to the Paris monitoring survey, 51 percent of IDA's analytic work was done jointly with other partners. This represents a substantial effort—over 90 pieces of country analytic work in 30 countries prepared with other donors or with the countries concerned—and is greater than the average for all donors; however, Bankwide data highlight opportunities for further improvement. Another area needing attention is project implementation units (PIUs): in the surveyed countries, there were 207 parallel PIUs for projects using IDA financing, with one of every two investment lending projects in these countries relying on a parallel structure for project implementation. The third key area is decentralization: IDA's clients and development partners are asking for a greater presence of Bank staff on the ground.

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<sup>4</sup> The Paris Declaration Baseline Survey covered 34 self selected countries, 30 of which are IDA-eligible.

## **IDA as a Platform: Initiatives and Implementation Challenges**

x. **IDA is not only working with countries to apply aid effectiveness good practice principles to the operations it funds, but is also assisting partner countries and development partners to make greater collective progress on aid effectiveness.**

Donors and partner countries alike recognize IDA as a core element of the development assistance architecture in the world's poorest countries. IDA's role in this architecture is twofold: (a) directly providing finance and knowledge services to countries in support of their priorities and needs; and (b) supporting a platform for dialogue and the delivery of aid in which others may collaborate as partners. As a credible multilateral institution whose financial and analytic presence in most low-income countries is strong and spans the macro framework and key sectors, IDA has both the expertise and the convening power to work with governments and development partners to strengthen the country-based development model—either leading the effort or actively following others, depending on the country and sector circumstances. Thus IDA is uniquely placed to foster the broader and deeper work on the harmonization and alignment agenda so that international development assistance is more effective.

xi. **IDA recognizes the practical difficulties of this role and is taking steps to address them; however, achieving broad and deep progress requires collective effort.**

Early experience with collaborative country assistance strategies indicates that they can promote wider harmonization and alignment and foster better donor division of labor at country and sector levels. However, they can also be costly in time and resources. Similarly, division of labor exercises can offer large benefits in terms of reduced transaction costs for both partner countries and donors, but they require clear direction and strong guidance from managers with decision making authority. Broadened use of programmatic modes of aid delivery that include common arrangements concretely supports alignment and harmonization, but brings additional transaction costs to donors. To help meet these challenges, IDA is carrying out or planning efforts to identify the strengths of these approaches, address the weaknesses, and communicate to staff the good practices identified. Nonetheless, it is clear that the need for harmonization and alignment reflects a number of deep-seated problems that face all donors, not just—or even mainly—IDA. It will take a collective effort by the international community to address these issues.

xii. **IDA has a history of strong cooperation—at the international, regional, and country levels—with other actors in the global aid effort.**

For example, the Bank collaborates with the other multilateral development banks on a broad range of work on harmonization of operational policies, procedures, and approaches. At the country level it works closely with each regional development bank, the European Commission, and the UN to improve the effectiveness of aid delivery. It is strengthening collaboration with the UN system, working with the UNDP on the scaling-up agenda and in developing a coordinated approach to support in fragile states. In fragile and conflict-affected states, in particular, IDA and the UN are working toward a partnership agreement that will guide and support collaboration between them in post-crisis situations. In addition, the Bank/IDA will be collaborating more closely with the IMF under a Joint Management Action Plan.

xiii. **The development community is adapting to the increasing complexity of the global aid architecture.** Recent years have seen a proliferation of donor channels—the growth of global/vertical funds and trust funds that focus on specific issues with earmarked funds, and an increasing role of non-DAC donors (a number of which are signatories to the Paris Declaration) and of the private sector and non government actors. All these actors bring needed additional resources to partner countries, but the fragmentation of assistance generates inefficiencies and imposes transaction costs on both partner countries and donors. It is both a challenge and an opportunity of the aid effectiveness agenda to ensure that all aid modalities support national processes and priorities, and that all development partners are engaged in supporting country-led development strategies. IDA is working with a number of the non-DAC bilateral development partners to promote the country-based model—for instance, it is in dialogue with China, Russia, and other non-DAC partners on their plans and programs, and is providing technical assistance to the Czech government on monitoring and evaluating its donor program. IDA has also initiated work with the OECD-DAC and other partners to understand how partner countries are managing and coordinating aid from vertical funds and the private sector, and particularly how they are linking this aid with the priorities they established in their national strategies and assistance programs.

xiv. **IDA is closely involved in supporting the preparation of the Accra High-Level Forum (HLF).** Planning has begun for the Accra HLF, to be held on September 2-4, 2008, at which over 100 partner and donor country ministers, heads of bilateral, regional and multilateral development institutions, and representatives of non-governmental organizations are expected to participate. With the OECD-DAC and the Government of Ghana, the World Bank is playing a key role in the substantive and logistic preparation of the HLF through its active participation in the many relevant international working groups. IDA is undertaking a major share of the preparatory work: developing concept notes, defining issues, developing a communications strategy, and so on. IDA is emphasizing consultation with all stakeholders to ensure broad ownership of the agenda, including substantive roles and responsibilities in Accra, and to broaden the number of countries where discussions and actions are taking place.

### **Conclusions and Actions Planned**

xv. **IDA senior management is committed to improve IDA's capacity and performance in line with the Bank's strategy for harmonization and alignment, and with the international framework embodied in the Paris Declaration principles.** Recent surveys provide important feedback for sharpening IDA's efforts to further improve its performance in harmonization and alignment to achieve greater effectiveness at the country level. Harmonization and alignment actions planned and implemented in line with priorities identified at the country level can promote improvements in country effectiveness. IDA's senior management will also continue to promote and support the harmonization and alignment agenda at the international level.

xvi. **IDA is implementing the harmonization and alignment actions that were presented at the time of the IDA14 Mid-Term Review and is planning additional measures.** IDA's management is on track to achieve the internal and external objectives that it set out at the time of the IDA14 Mid-Term Review with respect to harmonization

and alignment. In particular, it understands that incentives—including recognition by managers—play a crucial role in whether or not programs are developed in ways that are consistent with aid effectiveness good practice principles. Thus it is communicating its commitment to these principles, and is working to ensure that IDA's guidance to staff on processes conveys the importance of this effort and strengthens skills in collaborative behavior. In addition, with the benefit of more time and experience and feedback from surveys and reviews, IDA has identified further measures that it will undertake in the IDA15 period to accelerate progress:

- To encourage country capacity development by decreasing reliance on parallel PIUs, the revised investment lending guidelines will require that integration of PIUs into government structures become the default option for IDA projects; any proposal to establish a new parallel PIU would be considered an exception and would need to be clearly justified. This approach should lead task team leaders to pay more attention to capacity building measures in financial management, procurement, and monitoring and evaluation.
- To assist IDA's and the Regions' consideration of decentralization, management is currently analyzing different models of staff location and developing an approach to measure cost-effectiveness. For different client groups and types of services, the analysis aims at laying out options to better calibrate and target expertise needed and the scale and scope of decentralization. It will also help to better define cost-effectiveness in light of budget implications. In Dublin, management will discuss this ongoing analysis and the next steps foreseen.
- In implementing its action plan, the Africa Region is pursuing an ambitious decentralization of internationally recruited staff to country offices. A net increase of 50 internationally recruited staff in the field compared to FY06 is planned by end FY08, and all new and vacant internationally recruited positions are currently planned to be field-based. The Region will continue to progressively move sector leaders to the field, and it aims to have most task team leaders working on two or three countries, and based in one of them.
- Management will review IDA's performance with respect to the predictability of disbursements at the country level and will report on findings and planned actions at the IDA15 Mid-Term Review.
- Regional management will support and monitor IDA's actions at the country level to assist in the preparation and implementation of country-led plans for harmonization and alignment.
- IDA will update the good practice guidance on CASs to recognize joint/collaborative CAS preparation, provide guidance on how best to manage this work, and encourage considering such collaborative work when it makes sense from a country perspective.
- To reduce the transaction costs of reaching agreement on legal documentation in operations involving multiple donors, IDA will lead an effort to gain agreements with other lenders/donors on common (harmonized) legal

requirements for MOUs in joint financing operations. Such agreements will, for example, facilitate the efficient operation of multidonor trust funds and the use of harmonized safeguard and fiduciary systems in joint operations.

- IDA will step up efforts to upgrade country procurement policies and procedures and support their efficient implementation. These efforts, which will build on the experience in procurement-related harmonization among MDBs, will be closely coordinated with other donors, and will encourage countries to adopt standardized procurement documents. Helping countries strengthen their procurement systems will facilitate donors' progressive reliance on those systems.
- IDA will facilitate and support partner countries' efforts to incorporate nontraditional partners—vertical funds, non-DAC donors, and the private sector—in harmonization and alignment actions. To broaden this engagement and contribute to the collective effort to address aid effectiveness issues, IDA also plans to undertake further analytic work on the changing aid architecture.
- Joint financing arrangements are one tangible outcome of harmonization efforts. IDA will carry out—jointly with other interested donors—a survey of selected IDA country programs and the total amounts of co-financing, pooled and parallel financing they leverage through IDA's budgetary support and investment lending. The survey should contribute to a better understanding of country-level behaviors and incentives that affect the overall joint financing of government-owned programs and projects.



# IDA'S ROLE IN ENHANCING COUNTRY-LEVEL EFFECTIVENESS: STRENGTHENING HARMONIZATION AND ALIGNMENT

## I. INTRODUCTION

1. **This paper responds to IDA Deputies' request for an analysis of progress in harmonization and alignment, as part of the discussion of the effectiveness of IDA's assistance at the country level.** During the IDA14 Mid-term Review in November 2006, IDA presented an update on harmonization and alignment actions taken globally and by the Bank and IDA.<sup>1</sup> Since the Mid-Term Review, the OECD/DAC 2006 Survey on Monitoring the Paris Declaration has been completed and the results published.<sup>2</sup> This survey provides a basis for comparing performance across partner countries and donors. Together with the Bank's report on *Results-Based National Development Strategies*, client survey reports, and other reviews and analyses,<sup>3</sup> it provides a good basis for framing IDA's performance in fostering alignment and harmonization in the context of global efforts, and for identifying priority areas for action.
2. **As the reviews indicate, there is broad international support—by both partner countries and development partners—for the framework that has emerged to address aid effectiveness issues at the country level.** Harmonization, alignment, and managing for results at the country level are being guided by the commitments made under the Monterrey Consensus (2002) and the Rome (2003) and Paris Declarations (2005), and reinforced by the international Roundtables on Results at Marrakech (2004) and Hanoi (2007). Following up on these commitments and understandings, governments and development partners are undertaking a diverse set of actions—some of which are captured in surveys and others in country-level reporting. All the evidence shows that, while there has been progress, more remains to be done.
3. **This paper is organized as follows:** Section II presents the results of the Paris Declaration Monitoring survey and compares IDA's performance with that of the other donors. Section III summarizes collective progress and remaining challenges in enhancing aid effectiveness at the country level and outlines IDA's role in promoting ownership, harmonization, and alignment, including in fragile states. Section IV focuses on how IDA provides a meaningful platform for work by client countries and donors to enhance aid effectiveness. Section V details IDA's proposed corporate actions to strengthen its contribution to aid effectiveness.

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<sup>1</sup> *Harmonization and Alignment for Greater Aid Effectiveness: An Update on Global Implementation and the Bank's Commitments* (October 2006). Paper presented at IDA14 Mid-Term Review, Washington, DC, November 2006.

<sup>2</sup> See *2006 Survey on Monitoring the Paris Declaration - Overview of the Results*, OECD-DAC, 2007.

<sup>3</sup> See *Results-Based National Development Strategies: assessment and challenges ahead* (World Bank, forthcoming); see also *MOPAN Survey 2005 – Perceptions of Multilateral Partnerships at Country Level, Synthesis Report*, November 21, 2005; *DFID's Assessment of Multilateral Organizational Effectiveness: an Overview of Results*, Alison Scott, DFID, June 2005; *2005 Review of Progress in Implementing the PRS Approach* (IDASecM2005-0069), February 22, 2005; and *Good Practice Principles for the Application of Conditionality: A Progress Report* (R2006-0201 IDA/R2006-0210), November 13, 2006.

## II. MONITORING AID EFFECTIVENESS ACTIONS

4. **The Paris Declaration reflects the broad consensus of the international development community on a set of far-reaching commitments to increase aid effectiveness:**

- Partner countries will exercise effective leadership over their policies, strategies, and in-country aid management (ownership);
- Donor countries will align their overall support with countries' national development strategies, institutions, systems, and procedures (alignment);
- Donor partners will work to make aid delivery more harmonized, transparent, and collectively effective (harmonization);
- Donors and partner countries will manage resources and improve decisionmaking for results (results orientation);
- Donors and partner countries will be mutually accountable for development results (mutual accountability).

5. **The Paris Declaration is underpinned by an internationally agreed monitoring framework, with implementation progress monitored through a variety of instruments.** The results of the OECD-DAC 2006 baseline monitoring survey of the 12 indicators in the Paris Declaration<sup>4</sup> show that actions on harmonization and alignment are being undertaken in a growing number of countries. However, in half of the surveyed countries, progress is not yet substantive: governments and development partners still have many opportunities to improve country level effectiveness. These results, along with those of the World Bank report on *Results-Based National Development Strategies*, country consultations,<sup>5</sup> and other analyses, make it clear that more remains to be done at the country, institutional, and international levels to broaden and deepen the implementation process.

6. **The World Bank, in monitoring its own implementation of the aid effectiveness consensus, relies on both quantitative and qualitative assessments of progress.** As described in the Bank's November 2006 paper on harmonization and alignment, which was discussed during IDA14 Mid-Term Review,<sup>6</sup> the quantitative assessment relies in large part on the Paris Declaration framework. In addition, the Bank is tracking (a) internal Key Performance Indicators (KPIs) that measure Bankwide data for joint analytic work and disbursements using program-based approaches, and (b) the proportion of poverty reduction support credits (PRSCs) that are undertaken collaboratively with other donors. The qualitative aspect of the Bank's monitoring framework for harmonization and alignment aims at tracking actions and measuring progress that the 12 Paris indicators were

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<sup>4</sup> The baseline survey was carried out in 34 self-selected countries (of which 30 are IDA-eligible), covering about 37 percent of aid programmed across the world in 2005. During the survey, several methodological issues arose, and hence some caution needs to be exercised in interpreting the data. Nonetheless, the data provide some of the first quantitative insights into implementation of the Paris Declaration. The OECD-DAC group responsible for the survey is planning improvements to the next round of monitoring.

<sup>5</sup> Over the past two years regional consultations have been carried out in Africa (Ghana, Mali, Mauritius, Uganda), Asia (two meetings in the Philippines), and Latin America (Bolivia, Honduras).

<sup>6</sup> *Harmonization and Alignment for Greater Aid Effectiveness: An Update on Global Implementation and the Bank's Commitments*, op. cit.

not designed to track—for example, Bank involvement in and support to collaborative assistance strategies and country-level harmonization action plans.

7. **This monitoring framework indicates that IDA’s performance on harmonization and alignment is strong.** The data show that IDA performs better than the all-donor averages for eight of the nine Paris indicators and subindicators dealing with donor behavior for which cross-donor comparisons are feasible (see Table 1). IDA performs especially well in the use of program-based approaches, coordinating its technical assistance with country programs, and undertaking its analytic work jointly with other donors. A particular effort will be required in reducing IDA’s use of parallel project implementation units (PIUs) (see Section III). IDA performs marginally below average on the indicator for predictability of aid; however, this indicator has methodological flaws and does not provide a complete picture of aid predictability. The DAC working group for monitoring the Paris Declaration is addressing these and other shortcomings in the indicators.

**Table 1. Paris Declaration indicators: IDA performance compared to the donor average**

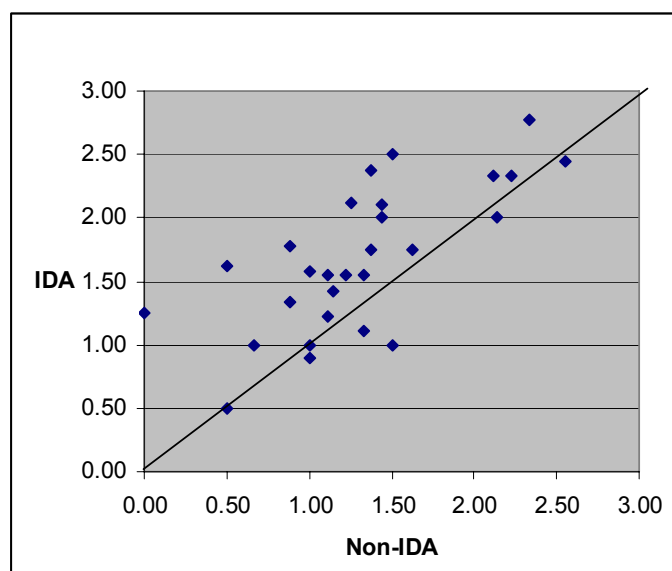
<i>Indicators</i>	<i>Definitions</i>	<i>2005 baseline ratio</i>		
		<i>IDA</i>	<i>IDA</i>	<i>All</i>
3 Aid flows are aligned on national priorities	<b>Aid for government sector in budget</b> <b>Aid disbursed for government sector</b>	USD 4,957 m USD 5,133 m	97%	91%
4 Strengthen capacity by coordinated support	<b>Coordinated technical cooperation</b> <b>Technical cooperation</b>	USD 223 m USD 383 m	58%	46%
5a Use of country public financial management systems	<b>Use of PFM systems</b> <b>Aid disbursed for government sector</b>	USD 2,236 m USD 5,133 m	44%	40%
5b Use of country procurement systems	<b>Use of procurement systems</b> <b>Aid disbursed for government sector</b>	USD 2,131 m USD 5,133 m	42%	39%
6 Avoid parallel implementation structures	<b>Number of parallel PIUs</b> <b>Number of countries</b>	207 30	207	1,612
7 Aid is more predictable	<b>Aid recorded as disbursed</b> <b>Aid scheduled for disbursement</b>	USD 4,150 m USD 5,796 m	72%	75%
8 Aid is untied	<b>Untied aid</b> <b>Total bilateral aid</b>	-- --	100%	76%
9 Use of common arrangements or procedures	<b>Program-based approaches</b> <b>Total aid disbursed</b>	USD 2,997 m USD 5,133 m	58%	42%
10a Joint missions	<b>Number of joint missions</b> <b>Total number of missions</b>	393 1,924	20%	18%
10b Joint country analytical work	<b>Number of joint analyses</b> <b>Total number of country analyses</b>	91 179	51%	42%

Source: 2006 Survey on Monitoring the Paris Declaration – Overview of the Results, OECD-DAC, 2007.

8. **At the country level, the Paris Monitoring Survey results indicate that IDA’s performance on harmonization and alignment is stronger than that of other donors and is positively correlated with country performance.** IDA’s performance was above the average for other donors in 25 countries that participated in the Paris Monitoring

Survey, was the same in 2 countries, and was worse in only 5 countries (see Figure 1). There is a correlation between how IDA performs and how other donors perform in a given country: IDA does better where the country/donor community is more advanced in harmonization and alignment. This underlines both the importance of strong country leadership in advancing the implementation of the Paris Declaration and the need for all development partners—governments, IDA, and other donor agencies—to work together to make substantial progress. (Further analysis of the Paris Declaration monitoring survey is presented in Annex A).

**Figure 1. Aggregate harmonization and alignment performance, IDA vs. other donors**



Non-IDA donors' and IDA's performance are an average of the scores in the Paris Declaration indicators directly related to donors' actions (see Annex A for details). Each dot is one of the countries that participated in the Paris Declaration monitoring survey.

Source: 2006 Survey on Monitoring the Paris Declaration and World Bank's calculation as explained in Annex A.

**9. The survey also shows that IDA performs relatively well in fragile states.<sup>7</sup>** Although fragile states often lack the characteristics that are considered necessary for effective harmonization and alignment, the international consensus is that harmonized and aligned approaches are not only possible but critical to success in these most challenging circumstances. In these countries, therefore, it is particularly important to tailor harmonization to support capacity building and lower transaction costs. The five

<sup>7</sup> *Fragile states* is the term usually used to refer to countries that face particularly severe development challenges such as weak institutional capacity, poor governance, political instability, and, frequently, ongoing violence or legacy effects of past violence. Different organizations have defined fragility using varying methodologies, most of which are based on a measure of the Country's Policy and Institutional Assessment (CPIA) ranking. The World Bank defines fragile states as those countries that have a CPIA rating of 3.2 or below or that are low income and do not have a CPIA score. Since fragility is determined for each year, it is a status, not a permanent classification; thus countries may be intermittently fragile.

fragile states that participated in the Paris Monitoring survey<sup>8</sup> demonstrated that it is possible for fragile states to effectively participate in international efforts to implement and monitor the Paris Declaration.<sup>9</sup> For example, IDA does 63 percent of its analytic work in Afghanistan jointly, 82 percent in Cambodia, and 100 percent in Republic of Congo and Mauritania; and it disburses 100 percent of its aid through program-based approaches in Afghanistan and Republic of Congo, and 71 percent in Mauritania (about double the average of all donors in those countries). However, in Cambodia (where there are governance concerns), it disburses only 16 percent of its aid through program-based approaches. The overall positive results cannot be generalized to the larger set of fragile states. Nevertheless, they do underline that even in the difficult circumstances that are prevalent in these countries, joint analytic work, use of country systems, and programmatic approaches can be used in line with good practice principles for aid effectiveness.<sup>10</sup>

### III. PROGRESS AND CHALLENGES IN IMPLEMENTING AID EFFECTIVENESS ACTIONS

**10. This section outlines progress on three key principles of the Paris Declaration—ownership, harmonization, and alignment—and discusses IDA’s role in that progress.** Progress in managing for development results, another important principle of the Paris Declaration, the status of IDA’s two-tier results measurement system, and the lessons of implementing results management in IDA are discussed in a companion IDA paper.<sup>11</sup>

#### A. Ownership

**11. Ownership and country leadership are central to making progress on harmonization and alignment at the country level.** Donors cannot drive the process, but they need to support it by delivering aid based on good practice principles. Operational development strategies are an important indicator of country ownership. This is important for IDA, as IDA CASs start from the country’s own vision of its development goals and its strategy for achieving them, as set out in the country’s Poverty Reduction Strategy Paper.

##### *1. Global Progress and Challenges*

**12. Many partner countries have improved the quality of their poverty reduction and national development policies.** Of 62 IDA countries covered in the World Bank report *Results-based National Development Strategies*, two-thirds have taken action toward an operational development strategy, and 8 (13 percent) have achieved the threshold established by the Paris Declaration for operational development strategies (see

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<sup>8</sup> Afghanistan, Burundi, Democratic Republic of Congo, and Mauritania, as well as Cambodia, which comes from a legacy of conflict and is now further along a path to stability. Mauritania, a fragile state at the time of the survey, is no longer considered to be in that category.

<sup>9</sup> Separate data are not available for IDA’s activities in Burundi.

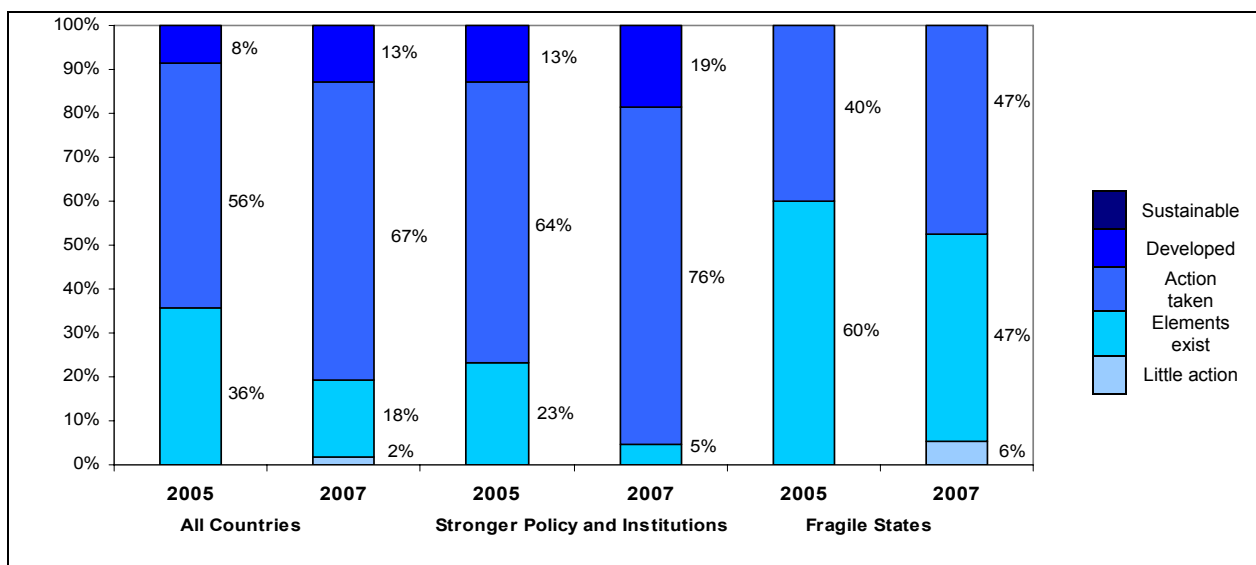
<sup>10</sup> For a more comprehensive treatment of IDA’s strategy for fragile states, see *Operational Approaches and Financing in Fragile States* (IDA-SecM 2007-0449), June 14, 2007.

<sup>11</sup> *Focus on Results: The IDA14 Results Measurement System and Directions for IDA15*, October 2007.

Figure 2). Increasingly, these strategies are well prioritized and are linked with sector strategies, and civil society is consulted on the frameworks for measuring progress. In several countries making advances in this area—for example, Burkina Faso, Ghana, Mozambique, Tanzania, Uganda, and Vietnam—the governments use their national plans and strategies as a key input to their medium-term expenditure framework (MTEF), budget planning, and aid discussions with donors.

**13. Creating operational development strategies is a complex and time-consuming task.** It requires political commitment by governments and mobilization of substantial technical resources, and it has direct implications for budget allocations. Countries need to develop their long-term vision, derive a single national development strategy from it, establish priorities, carefully estimate the costs of priority programs, and use the cost estimates to prepare MTEFs. Preparing an MTEF itself is technically demanding: it usually requires prior progress on the public financial management (PFM) system, and progress is likely to proceed sector by sector on the basis of detailed sectoral strategies. External partners need to provide coordinated technical assistance to such efforts, and to provide reliable and timely information about their own project financing.

**Figure 2. Progress toward operational development strategies: 2007 compared to 2005**  
(Distribution of scores)



Source: *Results-Based National Development Strategies: Assessment and Challenges Ahead*, forthcoming.

**14. Country leadership is hampered by weak aid management capacity and systems and by weak domestic accountability processes.** Improving aid management capacity requires countries to give attention to public finance and the budget process, and to clarifying and rationalizing administrative responsibilities among government ministries, especially the Ministry of Finance, sector ministries, and the President/Prime Minister’s Office; it also requires more transparency and discipline from donors in providing reliable information on aid flows. Many countries are implementing aid effectiveness action plans to improve their capacity to better manage aid (for example Benin, Burkina Faso, Cambodia, Ghana, Honduras, Kyrgyz Republic, Lao, Mali, Papua New Guinea, and Senegal). Other countries are working to strengthen domestic

accountability by opening up the relationship between donors and the executive to a wider range of stakeholders—parliaments and national assemblies, civil society, and the private sector—and by giving greater attention to such domestic accountability structures as the judicial system and audit institutions.

## ***2. IDA's Performance***

**15. IDA promotes ownership by supporting country leadership in formulating their development strategies, and by supporting efforts to strengthen country systems, build institutional capacity, and reinforce domestic accountability.** As countries gain experience with the development of poverty reduction strategies, IDA has been supporting the integration and adaptation of these strategies into countries' core policy processes.<sup>12</sup> In cases where countries have introduced "silent periods," IDA limits missions and interactions with senior government officials to provide space for authorities to focus on their own budget process. The reform of IDA's approach to conditionality in development policy operations has also put a heavy emphasis on supporting country-owned reforms.

**16. IDA provides a wide range of analytic support to help inform country-led development strategies and programs.** Some key examples include: general analyses of poverty and growth, work on the linkages between the macroeconomic framework and structural reforms and sector programs, assessments of institutional structures and incentives and of the quality of PFM systems, and development of indicator-based diagnostic tools to measure country performance. Between 2003 and 2007, IDA has supported the preparation of more than 150 Poverty and Social Impact Assessments—in collaboration with partner countries and often also with other development partners. This has contributed to a better understanding of reform options and implications. IDA is supporting governments in improving their aid management systems, strengthening institutional capacity, and launching reforms. In formulating recommendations and advice, it takes into account capacity, human and financial resource, and political constraints.<sup>13</sup> (Box 1 presents examples of IDA's analytic contributions to country development strategies). IDA also provides financing: between 2000 and 2005 financing for PFM reform doubled to US\$1.5 billion and the number of countries helped rose from 10 to 25. As a result, countries such as Ghana, Mali, Rwanda, Senegal, Uganda, and Vietnam have made rapid progress in improving their public financial management systems.

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<sup>12</sup> *2005 Review of the PRS Approach: Balancing Accountabilities and Scaling Up Results*, World Bank and International Monetary Fund, September 2005.

<sup>13</sup> Following the piloting in 12 countries of the Rodrik, Hausman, and Velasco approach to the identification of binding constraints to growth, IDA country teams are increasingly using that experience in their analytic work and policy dialogue (see Hausman, R., D. Rodrik, and A. Velasco, 2005, *Growth Diagnostic*, Cambridge: Harvard University).

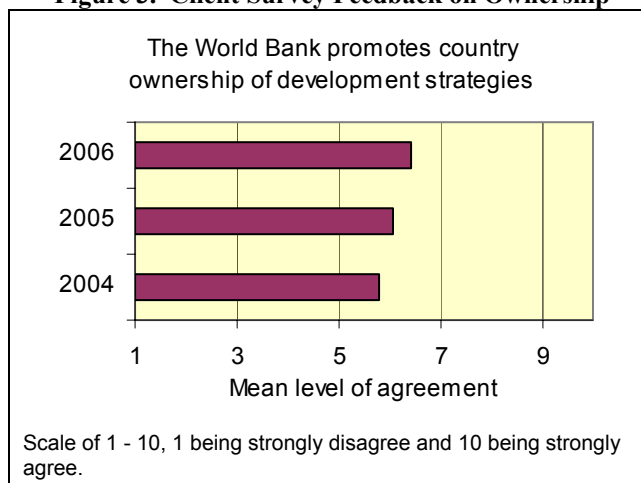
**Box 1. Supporting the preparation of poverty reduction strategies in Mozambique and Senegal**

**Mozambique.** The analytic products IDA prepared with the Government helped define the policy priorities and institutional systems that underpin the national poverty reduction strategy (PRS). The Poverty Assessment provided the analytic basis for the overall identification of priorities. The Country Economic Memorandum (prepared with the review of the donors of the G17 coordination group) helped to focus the strategy on the links between key sectors and the overall growth strategy, analyzing how Mozambique’s natural resources—land, forests, fisheries, mines, and water—could be better managed to contribute more to overall growth. Reviews of the financial sector, investment climate, and legal and judicial sector contributed to improving the country’s institutional foundations for shared growth and helped to form the basis for the strategy’s structural reforms. Finally, reviews of public expenditures, financial accountability, and procurement helped form the basis for improving PFM and the links between the strategy and national systems.

**Senegal.** Some 20 pieces of IDA analytic work helped to build the knowledge base for sectoral and cross-sectoral policies and programs and strengthen national systems to support strategy execution: a Country Economic Memorandum (jointly prepared with the IMF), Country Framework Report, Integrated Framework, Public Expenditure Reviews, Poverty Assessment, Investment Climate Assessment, fiduciary reviews (the Country Financial Accountability Assessment involved a multidonor task team, and the Country Procurement Assessment Report was done jointly with the African Development Bank), and various sector reviews. For example, the 2005 Public Expenditure Review (executed in collaboration with the IMF) led to the adoption of a 2006 budget proposal on a programmatic basis for at least four ministries, and of a uniform nomenclature for current and investment expenditures as the basis for budget preparation. In addition, IDA’s consistent message about the importance of attaining the MDGs related to the social sectors is believed to have contributed to a significant increase in budget allocations to the social sectors. Its large-scale involvement in infrastructure, rural development, and social services promoted the identification of intersectoral linkages—for example, between infrastructure and agricultural growth, and between access to clean water and public health outcomes.

**17. Recent surveys show that IDA is seen as effectively supporting country ownership.** The Bank’s client surveys indicate an improved perception of IDA’s effectiveness in fostering country ownership (see Figure 3). According to the Multilateral Organizations Performance Assessment Network (MOPAN) survey,<sup>14</sup> stakeholders tend to agree that IDA promotes country ownership of development strategies through the way it supports PRSs; and about 70 percent of respondents see the World Bank as actively supporting national and local participatory approaches.

**Figure 3. Client Survey Feedback on Ownership**



Source: World Bank client surveys.

<sup>14</sup> *The MOPAN Survey 2005: Perceptions of Multilateral Partnerships at Country Level*, November 21, 2005, p. 11. MOPAN is a network of nine donor countries that jointly conduct an annual in-house survey of multilateral partnership behavior in developing countries. The survey is based on the perceptions of MOPAN member embassies or country offices, arising from their day-to-day contacts with multilateral organizations. The 2005 edition of the MOPAN survey is the most recent to cover the World Bank.

## **B. Alignment**

**18. Alignment is the practice of basing donor support on partner countries' development strategies, institutions, systems, and procedures.**

### *1. Global Progress and Challenges*

**19. In the past few years, alignment has improved significantly.** Today almost all bilateral and multilateral donors base their support in large measure on established country policy frameworks such as PRSs, national development strategies, or sector strategies. This requires that institutional country assistance strategies be structured as business plans in support of broadly owned country strategies. In turn, country strategies need to be clear in terms of setting out priorities, translated into operational terms; and the institutions and systems responsible for implementation must be reliable. Alignment is facilitated when national authorities use their budget as a central resource allocation instrument that credibly supports agreed policy priorities and MTEFs. Helping countries improve these supportive elements of alignment, as well as avoiding parallel implementation structures, providing more predictable aid, and untying aid, are among the key challenges donors face in advancing alignment.

### *2. IDA's Performance*

**20. IDA works to align its aid with the priorities and policies each country articulates in its PRS.** IDA prepares its strategies in consultation with partner governments and other stakeholders, and tailors its program to country needs and priorities defined in the PRS. Results-based Country Assistance Strategies emphasize defining realistic results chains, aligning IDA's support with the country's long-term vision and priorities, and coordinating with other donor partners on major elements of strategy. In the Africa Region alone, 15 country teams<sup>15</sup> have prepared or retrofitted country CAS and Interim Strategy Note results frameworks to strengthen outcome orientation and alignment with country priorities.

**21. IDA is committed to helping countries enhance their capacities in financial management, procurement, monitoring and evaluation, and environmental and social safeguards.** IDA, given its comparative advantage in these areas, can help facilitate progressive donor use of strengthened country systems. For instance, to harmonize the diagnosis and monitoring of country public financial management systems, IDA collaborated with other donors to develop the Public Expenditure and Financial Accountability (PEFA) framework, which tracks indicators on public expenditure, procurement, and financial accountability. The PEFA framework has been applied in 34 countries, with a further 50 (mostly IDA) countries planned to be covered by end-2007 (see Box 2 for an example). Paris Declaration monitoring data confirm that IDA uses its enabling policy framework to allow the use of countries' PFM systems and institutions when they are assessed as adequate. As regards the use of countries' environmental and social safeguards systems, the Bank has launched a series of 12

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<sup>15</sup> Burkina Faso, Central African Republic, Democratic Republic of Congo, Gambia, Ethiopia, Kenya, Malawi, Mali, Mauritania, Mozambique, Nigeria, Senegal, Sierra Leone, Uganda, and Zambia.

project-level pilots (5 of which are in IDA countries), many of which involve multiple donors. Before launching a broader pilot program, the Bank is holding wide consultations (including in three IDA countries) on the methodology for assessing countries' capabilities in procurement, PFM, and safeguards, and for selecting pilot countries.<sup>16</sup> Where such assessments find weaknesses, IDA will coordinate with other donors to help countries build capacity.

**Box 2. Supporting financial management in Ghana**

With a wide range of support from IDA, Ghana applied the PEFA framework and achieved rapid improvements in its PFM system. It met seven benchmarks in 2004, compared to one in 2002. It improved its budget classification system and the identification of pro-poor spending in the budget to enable better management and tracking of expenditures. In budget execution, Ghana initiated regular reconciliation of accounting and banking data to ensure the integrity of budget expenditure reporting, and also took steps to reduce expenditure payment arrears. In budget reporting, Ghana improved the budget classification of in-year expenditure reports to match the budget and enable closer management and tracking of spending, and reduced the end-of-year complementary period to improve accounting accuracy.<sup>a</sup> Key factors that came together to produce progress were country commitment, galvanized by joint IDA-IMF agreement with the Government on a reform strategy based on a fiduciary assessment carried out jointly with other donors; and active donor coordination to reach a harmonized reform program that IDA supported with technical assistance and a PRSC.

<sup>a</sup> Other countries that made substantial progress in PFM and benefited from significant IDA support include Afghanistan, Albania, Armenia, Azerbaijan, Georgia, Guyana, Kyrgyz Republic, Mali, Moldova, Niger, Senegal, Tanzania, Uganda, and Vietnam.

**22. IDA recognizes the importance of general budget support as a key instrument to support alignment with country strategies.** IDA provides general budget support in 21 countries through PRSCs, most of which it prepares in collaboration with other donors (see Table 2 and Box 3). IDA works to ensure that its conditionality is appropriately aligned with the country's strategies, according to the Bank's good practice principles.<sup>17</sup> IDA's role in multi-donor budget support arrangements varies according to the country context. While in many countries IDA plays a lead role among development partners in the interaction with recipient countries, in other countries—usually those with more advanced budget support arrangements—IDA provides primarily technical inputs to the dialogue. For example, in Tanzania the multi-donor budget support group is chaired on a rotating basis by one of the bi-lateral donors. Similarly, only one of the five technical working groups is chaired by IDA, while IDA contributes its technical expertise and operational experience to all these groups.

<sup>16</sup> See *Use of Country Systems in Bank-Supported Operations: Status Report* (R2007-0079/3), June 12, 2007.

<sup>17</sup> See *Good Practice Principles for the Application of Conditionality: A Progress Report* (R2006-0201), November 6, 2006.

**Table 2. Proportion of PRSCs undertaken in coordination with other donors**

<i>Year</i>	<i>Total volume of PRSC lending (\$ million)</i>	<i>Total number of PRSCs</i>	<i>PRSCs undertaken jointly</i>	
			<i>No.</i>	<i>%</i>
FY05	1400	17	10	59
FY06	1403	16	10	63
FY07	1368	19	12	63
Total FY05-07	4178	52	32	62

**Box 3. Partnership for budget support in Nicaragua**

With IDA support, Nicaragua’s Government actively worked toward greater harmonization and alignment through its sectoral roundtables. These roundtables provided the policy input for sectoral budget support through several sectorwide approaches, and they paved the way for financing through general budget support. In 2004 the Government and the donors organized a Budget Support Group (BSG) to deliver this aid more effectively. Since then, IDA has been working with the donor community to better coordinate and ultimately harmonize budget support instruments and free up government resources. In 2005 IDA and the nine other donors from the BSG signed a Joint Financing Arrangement covering the disbursement of budget support until 2009. The agreement, which incorporated IDA’s PRSC, the EC’s budget support program, and some bilaterals’ programs, established mechanisms for dialogue, review, disbursement, and reporting and put into place a comprehensive performance assessment matrix. This matrix put the performance expectations of various donors into a common format—something that had not been done before. IDA has used the BSG to review progress on its budget support operations.

23. **Enhancing the predictability of aid and ensuring that aid is integrated into recipient countries’ budgets is a key element of greater aid effectiveness.** Analysis presented at the first and second IDA replenishment meetings suggests that “the use of the Performance Based Allocation system backed up by stable IDA resources improves the stability and predictability of resource flows where this is most needed—to those countries maintaining stable performance.”<sup>18</sup> In particular, IDA resources flow to recipient countries with less than half the volatility of other multilateral resource flows, and only about one-third of the average volatility of all official aid flows.<sup>19</sup> In addition, resource flows provided through PRSCs and other development policy operations have become more stable as the design of operations has given greater attention to predictability and the use of multi-tranche operations with ex post conditionality has declined. For most countries, PRSC disbursements have been well aligned with the recipient government’s budget cycle, as is shown by the 13-month average time between PRSCs. In addition, volumes have been reduced in less than a handful of cases and the change was typically communicated to the country authorities well before the start of their fiscal year.

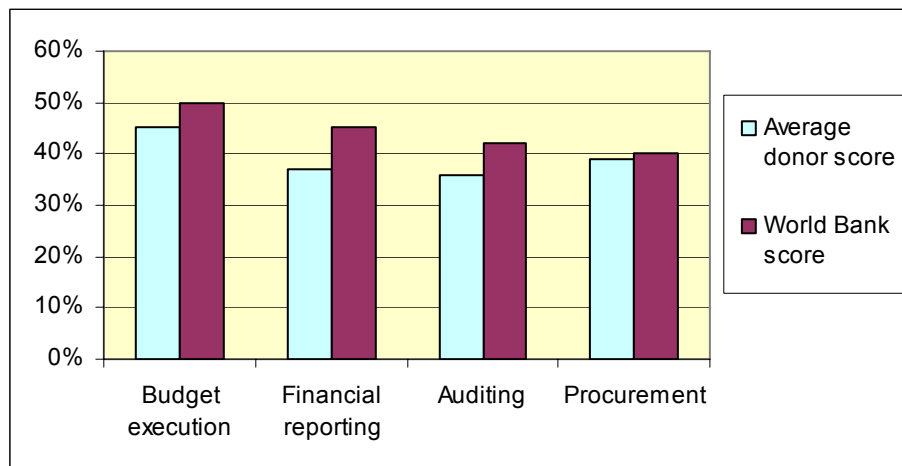
<sup>18</sup> *Selectivity and Performance: IDA’s Country Assessment and Development Effectiveness*, February 2007, p. 25.

<sup>19</sup> *The Role of IDA in the Global Aid Architecture: Supporting the Country-Based Development Model*, June 2007, p. 18.

24. **The definition of the Paris Declaration indicator on aid predictability makes it difficult to interpret its findings.**<sup>20</sup> According to the 2006 survey, 72 percent of planned IDA disbursement was recorded in governments' accounts as actually disbursed, against a donor average of 75 percent. However, the recent update on IDA commitments and disbursements shows a marked increase in IDA's disbursement ratios in recent years,<sup>21</sup> attributed in part to proactive management of the IDA investment portfolio. These data suggest that IDA's performance on predictability is stronger than that captured by the 2006 Paris Declaration survey. To understand better the determinants of this score and IDA's performance with respect to predictability, IDA will use data from the 2006 and the 2008 Paris Declaration monitoring surveys and other analyses and will report its findings and actions needed at the IDA15 Mid-Term Review.

25. **IDA is performing well with regard to the integration of its assistance into countries' budget and financial management systems.** Partner countries need accurate annual disbursement projections at the project/program level so that they can plan their budgets accurately; and these projections should be reflected in the government budget to strengthen domestic accountability as parliaments review and approve the budget. Data from the Paris Declaration baseline survey suggest that 97 percent of IDA's disbursed aid was reflected in countries' budgets. In addition, IDA does better than the donor average on using country financial management systems (see Figure 4). IDA will continue to support countries' efforts to strengthen budget, financial management, and procurement systems as the basis for progress in the use of country systems by development partners.

Figure 4. Use of country financial management systems in four categories



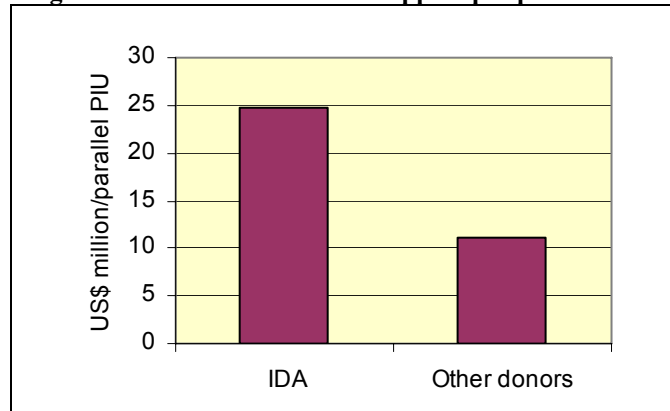
Source: 2006 Survey on Monitoring the Paris Declaration.

<sup>20</sup> Deviations from 100 percent on this indicator can be the result of inaccurate recording of flows by the recipient, deviations between donor commitments and donor disbursements, or a mix of these two reasons. IDA will propose ways to improve the clarity of this indicator.

<sup>21</sup> *IDA Commitments and Disbursements, FY95-07, Technical Note*, document for the third IDA15 meeting.

**26. Use of PIUs is another area for attention.** In the surveyed countries there were 207 parallel PIUs (that is, PIUs that are not integrated into the responsible ministry or other institution) for projects using IDA financing. This means that one of every two investment lending projects relies on a parallel structure for project implementation. While comparable numbers are not available for other donors, this performance is better than the donor average when measured in terms of PIUs per dollar of aid commitments (see Figure 5). The large number of PIUs in IDA projects suggests though that the Bank should step up its efforts to enable and support staff to shift towards the use of embedded structures. While recognizing that in some circumstances the trade-offs involved in not using such PIUs may be unacceptably costly, in terms of fiduciary and implementation risks, the Bank will need to place greater emphasis on providing technical assistance to strengthen fiduciary systems and implementation of reforms and build country capacity, especially in these cases. Going forward, revised investment lending guidelines will require that integration of PIUs into government structures will be the default option for IDA projects; any proposal to establish a new parallel PIU would be considered an exception and would need to be clearly justified. This approach should lead task teams to pay more attention to capacity-building measures in financial management, procurement, and monitoring and evaluation.

**Figure 5. Amount of financial support per parallel PIU.**



Source: 2006 Survey on Monitoring the Paris Declaration.

**27. IDA recognizes the importance of field-based staff, including at the decision making level, to facilitate alignment and harmonization.** While it is crucial for IDA to continue sending technically skilled task teams on mission to countries to support the preparation and implementation of projects and programs in line with country needs and priorities and with the Bank's policies, experience indicates that field-based country directors, managers and staff are often better placed to support progress on country-led alignment and harmonization. Country-based staff are usually in the best position to build relationships with partner governments and other donors, undertake joint work (project preparation and supervision, sector coordination, etc.), or animate the overall aid effectiveness agenda (supporting governments in preparing and reviewing progress on harmonization action plans, setting up resources and results Consultative Groups, etc.). When country offices have committed staff and management support, the results have been apparent (see Box 4).

**28. The World Bank has a significant field presence in all Regions.** Between FY00 and FY07 the overall number of staff in the Regional Vice Presidencies declined by 3.7 percent, the number of staff located in country offices increased by 17 percent, and the number located at headquarters declined by 21 percent; thus the share of Regional staff located in country offices increased from 45 percent in FY00 to 55 percent in FY07

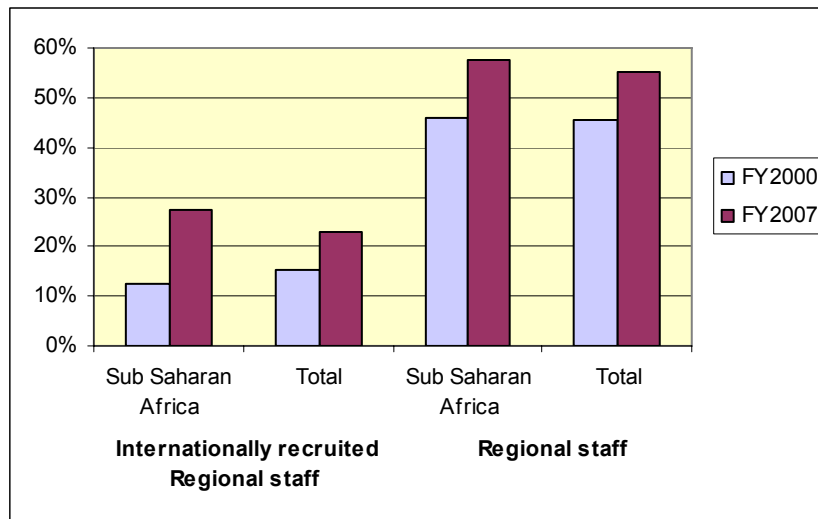
(Figure 6). Over the same period, the share of internationally recruited staff located in country offices increased from 15 percent to 23 percent. Significant efforts have been made to decentralize fiduciary staff—for instance, 23 of the 33 financial management specialists in the Africa Region are located in the field, and 32 of the 37 procurement specialists in the East Asia and Pacific Region are in country offices. Each Region deciding on the basis of its needs has also increased the share of country directors—who have substantial decision making power—located in country offices from 53 percent in FY00 to 75 percent in FY07. As a result, today 30 of the 40 country directors are based in country offices.

**Box 4. Examples of impact of decentralization on alignment and harmonization**

The country offices in Bangladesh, Burkina Faso, Cambodia, Cameroon, Ethiopia, Ghana, Kyrgyz Republic, Mali, Mauritania, Tanzania, and Uganda show how important the commitment and skills of country office staff and management are to the successful implementation of the harmonization and alignment agenda. In all of these offices, country management has pursued this agenda—internally, in discussions with project staff, and externally, in contacts with other development partners and the government. In most of these country offices, senior operations officers with specific responsibility for the implementation and monitoring of the agenda have boosted practice and served as useful advisers for all actors involved in the aid arena. Examples of results:

- Mali: the CAS defines concrete harmonization and alignment objectives, and work has started on a joint assistance strategy.
- Ghana and Tanzania: joint assistance strategies are being implemented.
- Cambodia, Mauritania, Uganda, and Zambia: the development partners try to improve their division of labor.
- Cameroon: the development partners and the government are working to restore trust in their relationship and to establish a new consultation mechanism.
- Kyrgyz Republic: donors develop joint arrangements and completed a joint assistance strategy prepared with four other development partners.
- Bangladesh: harmonization has progressed at the country level through a joint assistance strategy with three other development partners, and at the project level through the use of sectorwide approaches, including a noteworthy second primary education project in which IDA and 11 other development partners participate with the Asian Development Bank as the lead donor.

**Figure 6. Share of staff located in country offices**

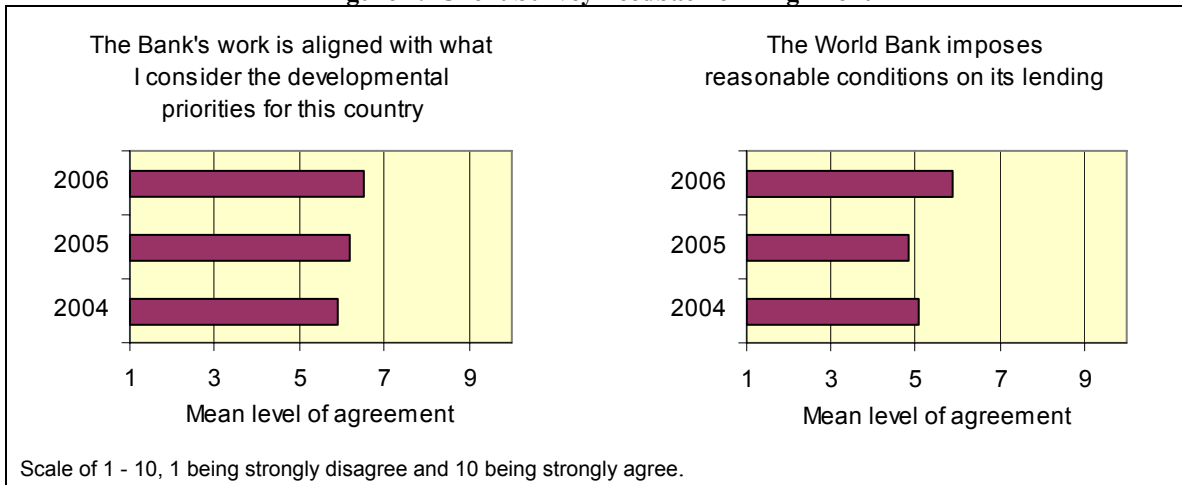


Source: World Bank.

29. **With the largest number of IDA eligible countries and some of the most difficult development challenges, the Africa Region has been a particular focus of IDA's recent decentralization efforts.** Nine of the Region's 11 country directors are now based in country offices. The 11 country management units have been grouped in "collaborating country clusters" so as to share scarce decentralized staff resources more productively. Between FY00 and FY07, the number of country-based staff increased by 35 percent, while the number of Washington-based staff dropped by 16 percent. A net increase of 50 internationally recruited staff in the field compared to FY06 is expected by end FY08, and the Region currently plans for all new and vacant internationally recruited positions to be field-based. The Region envisages progressively moving sector leaders to the field, and it aims to have most task team leaders working on two or three countries, and based in one of them. These approaches will also help address the need to improve the quality of the sector dialogue with clients.

30. **Stakeholder feedback suggests that IDA's work is increasingly aligned with country development priorities and that its conditionality is reasonable (see Figure 7), although there is clearly room for improvement.** The MOPAN survey<sup>22</sup> concludes that IDA actively supports alignment to national strategies and procedures in principle, but shows slow progress with its implementation, particularly when developing new operations. DFID's Assessment of Multilateral Organizational Effectiveness<sup>23</sup> assesses country-level results focus—which is closely linked to the alignment of country programs with national PRSs—and rates the World Bank fairly highly in comparison to other multilateral organizations (see Figure 8). IDA's highly concessional, predictable, on-budget aid in support of government priority sectors, in particular, was favorably noted.

**Figure 7. Client Survey Feedback on Alignment**

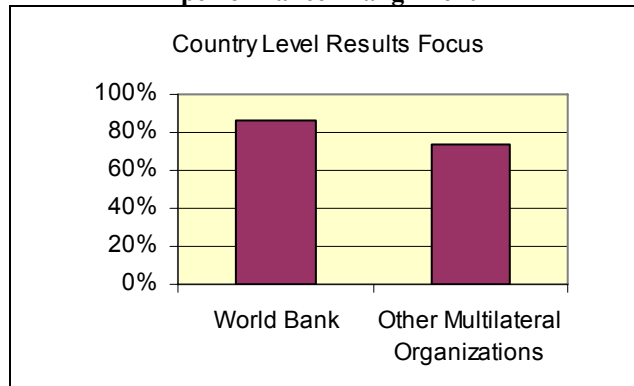


Source: World Bank client surveys.

<sup>22</sup> See *MOPAN Survey 2005*, op. cit.

<sup>23</sup> *DFID's Assessment of Multilateral Organizational Effectiveness: An Overview of Results*, Alison Scott, DFID, June 2005.

**Figure 8. DFID MEFF assessment of IDA's performance in alignment**



Source: *DFID's Assessment of Multilateral Organizational Effectiveness*, op. cit.

### C. Harmonization

**31. Donor harmonization has been a central concern of the aid effectiveness agenda.** Donors have been working to reform and harmonize their procedures and policies to encourage collaborative work, eliminate duplicative tasks, and reduce the administrative burden on partner governments. After several years of collective country experience, the international donor community widely agrees that harmonization and alignment actions drawn from good practice principles are necessary for aid effectiveness. (Box 5 illustrates recent achievements in harmonization in Yemen.)

#### **Box 5. Supporting harmonization in Yemen**

At the country strategy level, approximately 39 donors, both DAC and non-DAC members met in 2006 to support the Third Five Year Socio-Economic Plan for Poverty Reduction and the Public Investment Program. The meeting was hosted by the UK Department for International Development and sponsored by the Gulf Cooperation Council while the discussion was co-chaired by the Government of Yemen and the World Bank. It was an unprecedented effort at collaboration across international and regional development partners which commended the Government of Yemen's progress in a number of areas including governance and agreed to meet regularly to review progress on the ongoing reform program.

At the sectoral level, there has been ongoing donor collaboration and alignment through a Partnership Declaration signed by 12 donors working with the Government on Basic Education and this collaboration has involved, among others, multidonor financing of two major projects. Donors participate in missions together and meet monthly to review progress on donor harmonization.

Collaboration has also been effective in the areas of public expenditure management through joint work on the Country Financial Accountability Assessment (CFAA) carried out with DFID and the Netherlands. Activities included, among others, a joint workshop with the following objectives: (a) developing common language for and common understanding of the issues and challenges facing public financial management (PFM) reform, and (b) agreeing on a set of priority areas and actions to develop a detailed plan for PFM reform. DIFD is providing financing for follow-up work.

The Aid Harmonization Assistance unit in the country's Ministry of Planning and International Cooperation is an important step towards promoting greater harmonization and alignment. At the same time, there are efforts underway to track progress on reform efforts as well as improve development effectiveness overall. A program for the improvement of country systems has been developed (a Statistical Master Plan), and IDA will provide technical assistance to ensure that the financing arrangements are in place and to assist the Government in supervising the implementation of this plan. Simultaneously, sector and thematic monitoring systems are being established in the context of IDA (or other donor) projects.

## ***1. Global Progress and Challenges***

**32. Progress in harmonizing programs and strategies has been notable.** For example, program-based approaches, under which donors use common arrangements for fiduciary controls, monitoring, and evaluation, have become increasingly common. These approaches reduce reliance on parallel PIUs and provide a good basis for building capacity in government agencies. In addition, donors are responding to good-quality development strategies by increasingly coordinating and harmonizing their support in the planning stages. In a number of countries—for example, Bangladesh, Cambodia, Ghana, Kyrgyz Republic, Tanzania, and Uganda—donors have completed joint or coordinated assistance strategies. These strategies commonly feature a shared analysis of the development challenges facing the country, on which assistance programs are developed and agreed with government. In some cases harmonization then extends to joint programming. In other countries—such as Vietnam, where the donor agencies’ different programming cycles could not be synchronized with the Government’s development strategy and a fully joint assistance strategy was not feasible—IDA has collaborated with donors on critical and selective areas. These new developments are facilitating division of labor, which helps address the issue of “orphan” and “darling” sectors and can also promote delegated cooperation measures.

**33. Notwithstanding progress in a number of areas, harmonization processes are not easy, and they involve transaction costs.** In-country harmonization processes need to have clear and agreed objectives, and they need support and authority from headquarters for follow-through. CASs produced in collaboration with other donors are central to the harmonization agenda, but they pose challenges of timing and coordination for review by Bank management and the Bank’s Board; they require committing jointly to outcomes while reserving clearly defined accountability for each donor partner. Disconnects between headquarters and field offices and incentives that often work to maintain the status quo have slowed progress. The transaction costs of negotiating Memoranda of Understanding (MOUs) on sector wide approaches, budget support operations, and even general donor coordination, are high, entailing multiple drafts and considerable back-and-forth between country offices and headquarters. Indeed, some of these transaction costs may not be temporary—donor agencies may need to absorb them as permanent costs of delivering aid more effectively, and reflect them in administrative budget allocations.<sup>24</sup> In addition, to accelerate the pace of harmonization, continued attention and leadership by senior management in addressing incentive issues and facilitating early involvement of legal staff in harmonization initiatives will be important.

**34. Coordinated budget support has facilitated not only alignment, but also harmonization among donors.** In a number of countries, the government and donors agree on an MOU that frames the coordination, with such provisions as alignment of disbursements with the country’s budget cycle, common evaluation framework for country performance, and joint preparation and review processes. This process helps

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<sup>24</sup> Our analysis of the Paris Declaration data (Annex A) suggests a strong relationship between the absolute amount of IDA support and net aid inflows on the one hand and performance with respect to the implementation of the Paris Declaration on the other. Further analysis of the cost of implementing the Paris Declaration will be needed to better understand the budgetary implications of implementing the Paris Declaration in countries with small IDA allocations.

strengthen and structure the policy dialogue between the government and development partners and can (as in Burkina Faso and Mozambique) promote mutual accountability through external reviews of progress on agreed commitments. However, two issues commonly arise with budget support:

- Aid disbursements often deviate from commitments.<sup>25</sup> If disbursements fall short of commitments, government program implementation may be disrupted; and if they exceed commitments, governments may not have appropriate plans for using the excess aid efficiently. Therefore partner countries often cite lack of aid predictability as a key issue to address in aid effectiveness.
- Donors use conditionality and earmarking to ensure that recipient country accountability and preferences are aligned with their own. The growing understanding that conditionality is effective only if there is strong domestic ownership of the reform agenda has led donors to change their practices significantly, giving increased attention to selectivity, assessment of ownership, domestic accountability, and the strength and quality of the country's processes for managing its development agenda. However, donors have also increased their use of earmarked aid—that is, determining ahead of time how the aid will be used. Such aid may not be targeted to the recipient country's highest priorities or may provoke costly adaptive behavior by recipients.

## *2. IDA's Performance*

**35. IDA initiates and supports increased donor harmonization in many countries.** Contributions include participating in joint or collaborative assistance strategies;<sup>26</sup> providing analytic leadership in common performance assessment frameworks, coordinated budget support, and sectorwide approaches; participating in division of labor exercises and common arrangements for project and program management; helping partner countries to improve their aid management capacities; performing joint diagnostic work; agreeing on mission-free periods with governments; and cochairing donor meetings. (Box 6 describes IDA's involvement in Tanzania's Joint Assistance Strategy).

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<sup>25</sup> See "Predictability and procyclicality of aid: Do fickle donors undermine economic development?", draft working paper by Oya Celasun and Jan Walliser. The paper shows that the absolute deviation in percent of GDP of committed and disbursed aid declining but is still large. During 1990-97, annual aid disbursements deviated by an average of 4.4 percent of GDP from aid commitments in Sub-Saharan Africa. This figure declined to a still-large 2.8 percent of GDP during 1998-2005. Although Sub-Saharan Africa had the highest degree of unpredictability, other regions also showed deviations of disbursements and commitments exceeding 1 percent of GDP on average over the two time periods.

<sup>26</sup> In addition to the joint or collaborative CASs already completed (Bangladesh, Cambodia, Ghana, Kyrgyz Republic, Tanzania, and Uganda), efforts are ongoing or have been agreed to in Kenya, Malawi, Mozambique, Nicaragua, and Vietnam; and preparation of such documents is being discussed in Burkina Faso, Cameroon, Honduras, Jamaica, Mali, Mauritania, Philippines, Rwanda, Senegal, and Yemen. Similar achievements have also been obtained in fragile states, as this paper discusses below.

**Box 6. Tanzania’s Joint Assistance Strategy**

Under strong Government leadership, 34 development partners in Tanzania were involved in the development of the Joint Assistance Strategy (JAS). In action since December 2006, this common strategy encapsulates the spirit of ownership, mutual accountability, and the commitment to harmonization and alignment that has grown in Tanzania since the 1990s.

The JAS consists of two parts: the Joint Assistance Strategy for Tanzania (JAST), and the Joint Programming Document. The JAST, prepared by the Government, lays out the principles to which development partners should adhere to ensure effective support to the implementation of Tanzania’s PRS: use of Government systems, increased aid predictability, and a greater focus on division of labor.

The Joint Programming Document was developed by the donors to put the JAST into practice. It lays out the development partners’ analysis of Tanzania’s key development issues and donors’ planned program of support, following the principles laid out by the Government and linked to its MTEF. The document shows a strong commitment to greater use of general budget support, program-based approaches, and division of labor, and includes a clear results framework drawn from the Government’s PRS monitoring process. In addition, the development partners supplemented this document with agency-specific texts that project how they would meet their individual obligations.

**36. Internal monitoring provides additional insight on IDA performance on harmonization and is an essential aspect of the Bank’s strategy for implementing harmonization and alignment.** The Bank’s KPIs capture information across the entire set of IDA countries (rather than just the 34 countries surveyed for the Paris Declaration monitoring).

- IDA is monitoring its participation in program-based approaches (PBAs) through an internal KPI that measures commitments in sectorwide approaches, development policy operations, and other forms of PBAs. This KPI shows a regular increase in commitments over the last three fiscal years (Table 3) and confirms IDA’s good performance on this indicator (57 percent of total commitments in the 30 surveyed countries, and 38 percent last year IDA-wide)—a high level of commitments that should lead to sustained IDA performance on the Paris Declaration indicator. (At the same time, IDA recognizes that strategic considerations will continue to justify self-standing operations in many instances.)

**Table 3. Volume of total IDA program-based lending**

<i>\$ millions</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>
DPL commitments	2,161.00	2,424.60	2,645.00
Other program-based commitments <sup>a</sup>	693.80	1,082.95	1,827.00
Total commitments through program-based approaches as a share of total IDA lending	32%	37%	38%

<sup>a</sup> “Other program-based approaches” are investment projects that are supporting a sectorwide or similar approach, and projects financed jointly with other donors.

- According to the Paris Declaration survey, among the largest providers of joint country analytic studies; only the UN and the United Kingdom show a significantly higher share of joint work than IDA (69 percent each). The Bank’s KPI on joint ESW has recently been aligned with the Paris Declaration

definition to emphasize joint work with either donors or government.<sup>27</sup> Recent data show that the Africa Region performs better than the IDA average, but suggest that IDA staff do not seize all opportunities for joint work (see Table 4); progress will require increased management attention.<sup>28</sup> As the IDA15 paper on results discusses, IDA is also planning to analyze several issues regarding analytic work in more detail.<sup>29</sup>

**Table 4. ESW prepared in coordination with country and/or donors**

Category	All Regions			Africa Region
	FY05	FY06	FY07	FY07
Total number of ESW	204	203	186	67
Joint ESW	54	75	80	40
Proportion	26%	37%	43%	60%

*Note:* This KPI measures major ESW that is prepared (a) jointly or with significant coordination with a least one other donor, and/or (b) with significant country involvement.

- According to the Paris Declaration monitoring survey, in 2005 20 percent of IDA missions were undertaken jointly with another development partner, compared to an average of 18 percent for all donors. Considering the number of missions in relation to the amount of financial support provided, on average there is one IDA mission for every US\$2.6 million of support, compared to one donor mission for every US\$1.8 million of support by other donors. Still, IDA undertook nearly 2000 missions per year in the 30 countries, the second-largest number among the donors participating in the survey. To facilitate the monitoring and management of joint missions, IDA is adding to the Country Analytic Work website a feature to facilitate mission tracking and coordination.<sup>30</sup>

**37. Improved division of labor is an important objective of the harmonization agenda.** There is a large potential to reduce transaction costs for both partner governments and development agencies from actions in this area. IDA's current approach to an effective division of labor is grounded in efforts for enhanced selectivity in country assistance strategies. Areas and forms of support are determined based on partner countries' views on IDA's comparative advantage and value added. While IDA

<sup>27</sup> IDA will also continue to maintain the Country Analytic Work Website (CAW), a central repository through which development partners can share their work. The CAW website carries over 4,700 reports contributed by more than 30 bilateral and multilateral donors, and it had more than 55,000 visitors in August 2007. IDA is the only donor to post its planned ESW on this website to facilitate up-front coordination with donors and partner countries; IDA also shares plans for country ESW by publishing CASs.

<sup>28</sup> An additional insight on IDA's analytic work is provided by QAG's series of country assessments of analytic and advisory activities (AAA) during the periods FY02-04 and FY06-07. These two assessments found that 85 percent of country AAA programs were moderately satisfactory or better with respect to the quality of partnership arrangements with other donors; 99 percent were moderately satisfactory or better for the quality of the mechanisms and opportunities for donor consultation; and 86 percent were moderately satisfactory or better for the consideration of other donors' comparative advantages, requirements, and needs. See *Quality of AAA, A QAG Assessment*, November 22, 2005, QAG, World Bank.

<sup>29</sup> *Focus on Results: The IDA14 Results Measurement System and Directions for IDA15*, op. cit.

<sup>30</sup> This capacity is being developed at the suggestion of the Ghana country office.

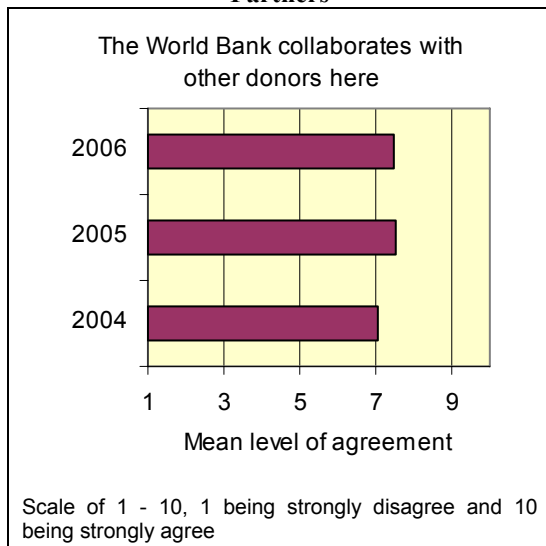
remains the lead donor for many projects and programs it supports, with more frequency it is taking a supporting role with other development partners being in the lead. Examples include the education sector in Burkina Faso where the Netherlands is the lead donor for basic education while IDA leads on secondary and higher education; Bangladesh where the Asian Development Bank leads support to the education sector by a donor group including IDA; the education sector program in Mali, led by the Agence Française de Développement; and the multi-donor budget support group in Tanzania, chaired on a rotating basis by a bilateral donor.

**38. Perceptions of IDA's collaboration with other development partners are generally positive.** The MOPAN assessment characterizes the World Bank's performance with respect to harmonization and alignment as follows:

- forthcoming with general information, but less proactive with other types of information;
- positive performance in the area of interagency coordination, but sometimes seen as too dominant;
- cooperation with UN agencies should be enhanced;
- actively supports harmonization at a strategic level, but slow progress in applying it to its own procedures; and
- improvements in country responsiveness and decentralization are needed.

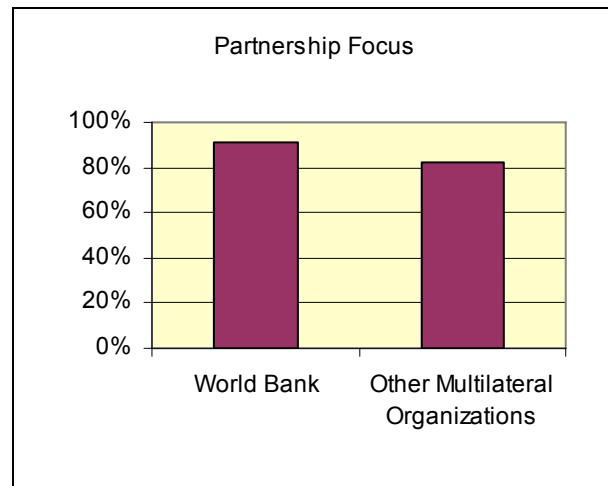
Respondents to the client survey also indicate a relatively high degree of satisfaction with IDA's collaboration with other donors (see Figure 9). The Assessment of Multilateral Organizational Effectiveness (MEFF)<sup>31</sup> carried out by the Department for International Development (DFID) assesses the World Bank's partnership focus (which reflects interagency coordination and efforts to deliver on the harmonization agenda) and rates the Bank fairly highly in comparison to other development banks (see Figure 10).

**Figure 9. Client Survey Feedback on Collaboration with Other Development Partners**



Source: World Bank Client Surveys.

**Figure 10. DFID MEFF assessment of IDA's performance in harmonization**



Source: DFID's Assessment of Multilateral Organizational Effectiveness, op. cit.

<sup>31</sup> See DFID's Assessment of Multilateral Organizational Effectiveness: an Overview of Results, op. cit.

#### IV. IDA AS A PLATFORM – INITIATIVES AND IMPLEMENTATION CHALLENGES

39. **IDA is well suited as a platform for greater aid effectiveness at the international and country levels.** IDA's core strengths are its financial resources, its technical skills, and the quality of its knowledge products and policy advice.<sup>32</sup> IDA is valued also for its global knowledge and reach; its adaptability to country priorities and ownership, rather than narrower interests; and its multisectoral perspective, which brings greater strategic coherence to development assistance programs.

##### A. International Platform

40. **Cooperation between IDA and the multilateral development banks (MDBs) has increased.** In recent years the MDBs have moved beyond merely acting as each others' main cofinancing partners to play a greater role in promoting and implementing the country-based approach to development cooperation (see Box 7). Operational cooperation at the country and regional levels provides joint analytic and advisory work and helps secure financing of US\$35-40 billion annually to client countries. To provide coherent support to governments, the MDBs agreed with the IMF on a protocol on collaboration in the preparation of PRSs. To reduce transaction costs for clients and increase effectiveness, the MDBs collaborate on a broad range of work on harmonization of operational policies, procedures, and approaches: for example, some 15 technical working groups have prepared common documents or good practice references on financial management, procurement, environmental assessments, managing for results, evaluation, and fragile states. An MDB Roundtable of policy officials meets each year to share information on policy development and assess progress on issues of harmonization and alignment. As chair of the MDB forum on financial management, IDA also played the leading role in the MDBs' adopting the use of country financial management systems as the default option when those systems meet an agreed set of performance criteria.

41. **IDA is increasing its partnership and cooperation with the European Commission (EC).** In the Middle East and North Africa Region, collaboration is based on an MOU and is enhanced by a high-level policy dialogue known as the "Luxembourg Process." In Africa, the "Limelette process" partnership focuses on a range of policy discussions<sup>33</sup> and seeks complementarity between the Africa Action Plan and the EU's Strategy for Africa. The EU has recently adopted a voluntary *Code of Conduct on Complementarity and Division of Labor in Development Policy*, and the Bank is exploring collaborative efforts to pilot this code in a number of African countries. With regard to trust fund and cofinancing arrangements, the relationship between the two institutions is governed by a Framework Agreement concluded in 2001. The World Bank and the EC are also considering the idea of a comprehensive institutional framework that would formalize a wide range of operational, policy, and financing cooperation. The European Investment Bank is a partner in these processes.

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<sup>32</sup> See *The Role of IDA in the Global Aid Architecture: Supporting the Country-Based Development Model*, World Bank, Resource Mobilization Department, June 2007.

<sup>33</sup> The annual topics of the Limelette process have included PRSPs (2003); budget support and public finance management (2004); infrastructure, public finance management, and trade and regional integration (2005); and infrastructure and division of labor (2007).

**Box 7. Examples of country-level harmonization with regional development banks**

**Asian Development Bank.** In Tajikistan, IDA and the Asian Development Bank have held several joint retreats to strengthen harmonization efforts, generally including other donors as well. Most recently, in July 2007, staff of both institutions agreed to join efforts in the following fields:

- Joint technical assistance to set up a monitoring system for the Paris Declaration;
- Joint country economic and poverty reduction work;
- Joint education sector portfolio review;
- Joint analytic and sector work in the health sector, and joint support to the health sector Management Information System;
- Upgrading the multifunctional role of the joint Development Information Center;
- Adding a common public information window to joint portfolio reviews; and
- Joint databases and daily subsistence allowance rates.

**African Development Bank.** IDA and the African Development Bank are involved in cooperation on several levels:

- Using a common financial management platform (e.g., in Nigeria), common PIUs, joint supervision missions, and joint reviews of sector and budget support (e.g., in Rwanda), and preparing joint assistance strategies.
- The joint assistance strategy under way in Gambia which provides a recent example of close collaboration in a country that is relatively less advanced in harmonization and alignment. Gambia's strategy will allow the two institutions to avoid duplication of efforts and combine their technical expertise. Under this joint strategy, they have developed shared objectives and a common platform for lending and nonlending services, which will include joint contribution to budget support, joint investments in growth and competitiveness, and joint analytic work in the areas of public finance, civil service reform, and governance.

**Inter-American Development Bank.** The World Bank and the Inter-American Development Bank have been collaborating actively on:

- Preparing ESW and using common procurement bidding documents and common thresholds for national competitive bidding.
- In both middle-income and IDA countries (such as Bolivia and Nicaragua), jointly undertaking Country Financial Accountability Assessments and Country Procurement Assessment Reports and using them as a platform for PFM reform.

**Cross-regional cooperation.**

- In February 2006, the heads of the major MDBs set up a joint task force to develop a consistent and harmonized approach to **anticorruption** work. On the basis of the task force's recommendations, the heads of these seven MDBs agreed to a common framework for fighting fraud and corruption in the activities and operations their institutions fund. The joint actions include standardizing the definitions the institutions use in sanctioning firms involved in corrupt activities, improving the consistency of investigative rules and procedures, and strengthening information sharing.
- The major MDBs will continue to work together to assist countries in strengthening governance and combating corruption in cooperation with civil society, the private sector, the media and judiciary.
- MDBs have also focused increasing attention on the special challenges posed by **fragile states** and are working on identifying opportunities for increased harmonization amongst their approaches to fragile situations. One of the key recommendations is a proposal for MDBs to adopt a common approach for identifying fragility, recognizing that it exists at both national and subnational levels, and to partner with the UN and other development partners in shared post-conflict and post-disaster recovery planning.

42. **The World Bank will strengthen collaboration with the UN system and is collaborating with the UNDP on the scaling-up agenda and in developing a coordinated approach to support in fragile states.** In June 2006 the World Bank and the UNDP jointly presented a paper on scaling up and the country-based development

model at an OECD/DAC-World Bank meeting on scaling up assistance in well-performing African countries. Under its 2006 differentiated assistance strategy framework for work in fragile states,<sup>34</sup> IDA tailors its role to the country context: it may take a larger role in a state of transition or gradual reform, or follow the lead of the UN or other donors if there is limited or no government capacity. To ensure a more coordinated approach to engagement in fragile states, the Bank and UN are working toward a partnership agreement that will guide and support collaboration between them in post-crisis situations. The agreement will build on the existing productive relationship between the two organizations, which includes a common approach for post-conflict needs assessments and transitional results frameworks, coordination with peace-keeping and humanitarian planning processes, joint operations at the country level, transfers of funds between the organizations, and joint commitment to strengthening national institutions. It is intended to ensure the timely delivery of financing from the Multi-donor Trust Fund while providing appropriate safeguards. The Global Facility for Disaster Reduction and Recovery helps developing countries mitigate their risks from natural hazards. This global initiative, financed by the Bank's Development Grants Facility and multi-donor trust funds, is a collaboration among UN agencies, the World Bank Group, and other development partners. Various interventions in disaster risk mitigation and preparedness at the global, regional, and country levels help disaster-prone countries integrate risk factors in their development policies, reduce their vulnerabilities, and harmonize the disaster risk management approaches of such partners as UN agencies, donor countries, international financial institutions, and other stakeholders.

43. **World Bank collaboration with the IMF has developed further.** A recent report<sup>35</sup> on collaboration between the IMF and the World Bank identifies examples of good cooperation between the two institutions while highlighting the scope for improvements in a number of areas. It called for the strengthening of the culture of collaboration and made proposals for improving Bank-Fund collaboration in the two institutions' country and thematic work. In response, the World Bank and the IMF developed a Joint Management Action Plan, which was presented to the Boards of the two institutions on October 9, 2007.<sup>36</sup> The action plan aims to achieve the following objectives:

- **Improved coordination on country issues**—through new procedures for country team coordination, including regular meetings on work programs, agreement on instruments and division of labor, and new systems for requesting and tracking inputs from the other institution.
- **Enhanced communications between the staff of the two institutions working on common thematic issues**—through new electronic platforms for sharing of focal point names, documents, mission schedules, and other information among staff in the two institutions working on country teams and/or the financial sector, fiscal issues, and technical cooperation.

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<sup>34</sup> *Operational Approaches and Financing in Fragile States*, op. cit.

<sup>35</sup> *Report of the External Review Committee on IMF-World Bank Collaboration*, February 23, 2007.

<sup>36</sup> *Enhancing Collaboration: Joint Management Action Plan (Follow-Up to the Report of the External Review Committee on World Bank-IMF Collaboration)*, SecM2007-0117, September 2007.

- **Improved incentives and central support for collaboration on policies, reviews, and other institutional issues**—through new procedures for reflecting collaboration in staff and managerial performance reviews, and the replacement of the Joint Implementation Committee by an information and monitoring clearinghouse function anchored in the Poverty Reduction and Economic Management Network in the World Bank and the Policy Development and Review Department in the Fund, which also will manage the institutional systems for cross-support.

44. **IDA is engaging with non-DAC donors.** IDA recognizes that in many developing countries, emerging and transition economies and other non-DAC donors are becoming increasingly important as sources of development finance. It has held workshops or consultations with such donors as China, the Czech Republic, and Russia as a way to strengthen working relations and discuss specific topics on a range of fiduciary and operational matters. It has signed an MOU with the Export Import Bank of China, an increasingly important provider of development financing, especially in Africa (see Box 8). An MOU with the China Development Bank is under discussion. At the country level, IDA has been working with a diverse group of donors and has (a) encouraged non-DAC and new donors to become part of the country-based local donor groups, (b) welcomed these donors into collaborative work and strategies, and (c) encouraged their participation in the Resources, Results, and Partnership (see next section) and other Consultative Group processes.

**Box 8. Partnership with the Export-Import Bank of China**

In May 2007, the Export-Import Bank of China and the World Bank signed an MOU aimed at building collaboration on development, particularly in Africa. Established in 1994, Eximbank is China's state policy bank for international economic development and cooperation. It serves as a key channel of financing for exports, overseas construction contracts, and overseas investment projects and is the only arm for concessionary lending. The World Bank has established a strong working partnership with Eximbank through workshops, seminars, and training events on such topics as fiduciary and financial management, procurement, environmental safeguard analysis, social impact analysis, and monitoring and evaluation. The MOU, which represents an important step forward in the institutions' cooperation, draws on the complementary strengths of each organization: China's own development experience and the World Bank's expertise in analysis and capacity building.

45. **Aligning with vertical funds is an emerging challenge.** In recent years the growing practice of earmarking aid resources for specific purposes—including through global programs, trust funds, or vertical funds<sup>37</sup>—has expanded the sources of development assistance but has also posed challenges to effective aid delivery and management within a country-based development model. The governing bodies of some of these programs have signed the Paris Declaration, and there is a growing recognition that their development impact will depend upon alignment with national systems and strategies. IDA helps to support the country-based model by providing the analytic and operational framework within which these donors can align their programs with country priorities and participating in common arrangements for aid delivery and management.

<sup>37</sup> These trends are discussed more fully in *Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows*, February 2007, a paper prepared for the IDA15 negotiations.

In particular, IDA's public expenditure work in many partner countries provides an important entry point to identify untapped complementarities and synergies among various sources of finance. The Global funds are increasingly addressing issues of alignment and are using joint instruments. In Mozambique, for instance, the Global Fund has joined a sectorwide approach involving IDA, and the Education for All Fast-Track Initiative is pooling funds with IDA to provide education sector support.

**46. IDA will work with global programs to support the country-based model of development.** Together with WHO and the OECD, IDA is working on aid effectiveness in the health sector, which—with its inherent complexity and its number of active donors (including vertical funds and private foundations)—poses particularly acute challenges. IDA is also partnering with the OECD and others to explore good practices for the use in global programs at the country level in a few representative partner countries. Both of these work streams are meant to lead to evidence-based concrete actions that the international community could consider in the 2008 High-Level Forum. To contribute to broadened engagement with all donors, including nontraditional ones, and to the collective effort that is required to meet aid effectiveness challenges, IDA will also continue its analysis of the global aid architecture. In this context, partner countries' leadership in aid management and donors' demand for operationalizing good practice principles of aid delivery remain critical.

**47. IDA's platform role is also relevant in addressing regional and global issues that ultimately need to be tackled at the country level.** IDA can assist in addressing cross-border dimensions of certain problems, such as climate change, through its analytical capacity, ability to deliver complex regional projects and build consensus among countries involved. IDA also can play a part in leveraging and managing funds from other donors, e.g., for the Avian Flu Initiative.

## **B. Country-Level Platform**

**48. As surveys and evaluations of IDA point out, IDA is valued at the local level for its technical expertise and relationship with governments.** IDA-supported projects and programs often serve as anchors for financial support by other donors. While previously such support was often through formal co-financing, in recent years many development partners have used parallel, pooled, or basket funding arrangements to provide financial support. Where harmonization is relatively strong, this results in a strong partnership between IDA and other development partners. At present, however, there is no systematic information that would allow quantifying IDA's contribution to such parallel financing arrangements or the overall level of finance leveraged.

**49. Joint financing arrangements are one tangible outcome of harmonization efforts.** IDA will discuss joining with other donors to carry out a survey of selected IDA country programs and the total amount of co-financing and of pooled and parallel financing they leverage through budgetary support and investment lending. The survey would also contribute to a better understanding of country-level behaviors and incentives that affect increasing overall joint financing of government-owned programs and projects.

50. **IDA's convening power supports the broadening and deepening of aid effectiveness approaches.** Recent concrete examples of use of IDA's convening and catalytic capacities at the country level include the following:

- With the Netherlands, Sweden, UK, EU, and UNDP, IDA is promoting the **Results, Resources, and Partnership (RRP)** process to support PRS implementation and country-driven development.<sup>38</sup> The RRP process aims at enhancing the results-orientation of national strategies, increasing the transparency and predictability of resources, and strengthening mechanisms of mutual accountability for achieving results. Depending on countries' needs, this may entail costing the PRS, enhancing monitoring and evaluation, or developing mechanisms to improve the predictability of external resources. By enhancing the country-driven development process, RRP aims to enable a more effective scaling-up of resources and results. IDA is initially promoting this approach in Ghana, Madagascar, and Tanzania.
- IDA has been closely involved in several **division of labor** exercises—processes through which donors coordinate in limiting the number of sectors in which each is active. The goal is to reduce the transaction costs of intra-sector coordination for the country government, ensuring a better allocation of resources across sectors and improving overall aid effectiveness.
  - Zambia undertook its first division of labor exercise as part of the preparation of a joint CAS, to decongest “over-supported” areas and ensure adequate support to “orphan” sectors. After intense discussions, IDA, bilateral donors, and the Government reached agreement on a definition and repartition of roles (with lead, active, and background partners in each sector). Annual reviews are envisaged at the sector level and more broadly, to assess donors' performance in sector management, reduction of transaction costs, and improvement of policy dialogue.
  - In a Joint Assistance Strategy in Uganda, donors committed to achieve a better division of labor among themselves. This triggered an extensive discussion process that is still ongoing, but is already delivering benefits in terms of improved sector dialogue and mapping of aid flows. With IDA's active involvement, this process is being facilitated by independent consultants and involves donors' peer reviews of their comparative advantages in various sectors.
  - In Mauritania, IDA prepared its CAS in a highly participatory way, sharing and discussing with the Government and all donors its analysis of the country context and challenges, drawing up an updated status of donors' flows and sector needs, and building a common view on the country's PRS. To help define its future sectors of operation, IDA engaged with the Government to assess the strengths and weaknesses

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<sup>38</sup> See *Country-Based Scaling Up: Assessment of Progress and Agenda for Action*, September 26, 2007. Paper prepared for the October 21, 2007 Development Committee meeting.

of its teams in all PRS sectors. The choice of the sectors where IDA would intervene was then based on (a) the Bank's comparative advantage as reflected in these discussions, (b) the sector financing gap, and (c) the existing support from other donors. Building on this experience, the Government plans to ask all donors to undertake the same analysis.

- In Madagascar, IDA is the nodal agency in a consortium to support the Government's health sector strategy through a **sector-wide approach**. An MOU between the Government and development partners outlines the organizational, institutional, and coordination arrangements of each partner in the implementation of the project. Cooperation with development partners and supervision will be coordinated by means of biannual Health Summits. The project's fiduciary dimensions and focus on strengthening public budgeting, financial management, and procurement is integrated with the country's broader development plans and assistance programs (e.g., the PRSC). Similar arrangements have been or are being developed in Bangladesh, Cameroon, the Kyrgyz Republic, and Malawi.
- In Haiti, IDA's **support for education** has been designed in close coordination with the Caribbean Development Bank. Project implementation will be undertaken by the ministry, without reliance on a parallel PIU, and both donors will use the same project management team and project implementation procedures, harmonized fiduciary arrangements, project reporting procedures, and audits, and will conduct joint supervision missions. It is anticipated that this program will be implemented in partnership with the Education For All—Fast Track Initiative.
- In Georgia, the U.S. Millennium Challenge Corporation (MCC) and IDA have forged a strong partnership for **regional development**. Given IDA's long experience with both municipal development and irrigation in Georgia, it was agreed that, for a fee, IDA would assist in supervising MCC funds.
- In Timor-Leste, AusAID and IDA have agreed on common technical and financial procedures and common project performance indicators for the **Education Sector Support Project**. The Government will handle coordination, implementation, procurement, disbursement, and financial management; capacity needs assessments will be completed in coordination with NZAID.
- There is a growing demand for IDA support for **regional activities**, especially in Africa, where IDA cofinances many of its regional operations with the African Development Bank. Responding to this demand, IDA has used its convening power to advance several regional integration programs among development partners. It intends to step up its efforts to improve harmonization and alignment for these programs, which present particular challenges because of the many countries involved.

51. **IDA will encourage harmonization of legal documentation and provisions in multidonor financing arrangements and facilitate a community of practice.** The

development institutions face common legal challenges in a variety of policy matters relevant to the activities they finance: for example, challenging legal agreements may be required for the procurement and financial management procedures under pooled funding arrangements, delegated cooperation arrangements, and governance and anticorruption measures. Sharing knowledge and experience in these areas can help in developing solutions on matters of common interest. More importantly, developing joint solutions to these issues can facilitate harmonization of approaches, and thereby joint operations. Building on the consultations donor agencies have undertaken in recent years, early next year IDA will host a roundtable of legal, operational, and policy advisers from the bilateral and multilateral agencies to discuss ways to reduce the transaction costs of reaching agreement on the legal aspects of MOUs and other legal documentation involving multiple donors.

**52. IDA will step up efforts to upgrade countries procurement policies and procedures and ensure their efficient implementation.** These efforts, which will build on the experience in procurement-related harmonization among MDBs, will be closely coordinated with other donors and will encourage countries to adopt standardized procurement documents. Helping countries strengthen their procurement systems will facilitate donors' progressive reliance on those systems, as called for in the Paris Declaration.

**53. IDA's governance and anticorruption strategy aims to strengthen IDA's bilateral and multilateral partnerships in accordance with the Paris Declaration.** To help countries strengthen the accountability and transparency of their state institutions, IDA will provide more consistent, continuous, and systematic assistance to government programs in governance and anticorruption, in accordance with the Bank's recently adopted governance and anticorruption strategy.<sup>39</sup> Support for strengthening domestic accountability will be complemented by increased attention to the use of local institutions and processes and a continued focus on participation by a wide spectrum of stakeholders. IDA will support harmonized approaches with other actors, division of labor to address the limitations of IDA's legal framework, work to make investigative rules and procedures more consistent across MDBs, information sharing, and establishment of mechanisms by which donors recognize each other's sanctions.

## V. IDA CORPORATE ACTIONS TO STRENGTHEN HARMONIZATION AND ALIGNMENT

**54. At the November 2006 IDA14 Mid-Term Review, management discussed IDA's plans to strengthen its implementation of harmonization and alignment.** These actions are being implemented (Annex B reports on progress). This section describes the Bank's strategic approach to aid effectiveness and the progress being made in implementing the action plan, and proposes complementary measures to be taken over the course of IDA15 to meet the challenges of the aid effectiveness agenda.

**55. The World Bank has been among key donors implementing the international aid effectiveness agenda over the past five years.** With its focus on implementation at

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<sup>39</sup> *Report of the Executive Directors: Strengthening World Bank Group Engagement on Governance and Anticorruption* (DC2007-0005), March 28, 2007.

the country level, the Bank's/IDA's strategy for guiding internal actions has three elements: providing a supportive policy and procedural framework at the institutional level, exercising corporate oversight through internal review and monitoring processes, and providing international leadership on the harmonization and alignment agenda.

#### **A. A Supportive Policy and Procedural Environment**

**56. Over the past few years, IDA has implemented policy and procedural changes to support harmonization and alignment work.** Among other things, the Bank has updated Country Assistance Strategy (CAS) guidelines to improve alignment with PRSPs, adopted a new policy on development policy lending that substantially reformed the use of conditionality, simplified operating processes, facilitated pooling of funds, widened procurement eligibility, and facilitated joint analytic work. Moreover, recent Board guidance on the use of country systems and the good practice principles for the application of conditionality, as well as the governance and anticorruption strategy, will broaden the Bank's policy framework and provide clearer direction to assist staff engaged in harmonization and alignment efforts. In the November 2006 discussions, the Executive Directors and the IDA Deputies welcomed progress achieved under this enabling environment but also emphasized the need to continue seeking ways to improve performance, particularly with respect to addressing staff and institutional incentives and capacity to implement at the country level.

**57. IDA is working to strengthen staff incentives and capacity.** Aid effectiveness efforts involve trade-offs for both management and staff. IDA recognizes the role of incentive systems, including management leadership, in supporting or hindering them.<sup>40</sup> In particular, operations staff often cite budget allocations, pressure to deliver, or lack of recognition from management as factors limiting their ability to engage more on aid effectiveness efforts. Shortly after the IDA14 Mid-Term Review, a corporate message was sent to all operational vice presidents and communicated to all staff, setting out the expectations for greater engagement and asking Regions to support harmonization and alignment work. To promote more systematic attention to harmonization and alignment issues, in July 2005 work on harmonization was added as a parameter to be considered in senior technical and managerial promotions (levels GH and GI). Following on this, guidance will be prepared to help managers evaluate staff's contribution to harmonization and alignment at the country and sector levels. In addition, to emphasize concrete accountabilities on harmonization and alignment, good practice terms of reference for country managers, country directors, sector managers, and sector directors are being put forward. Recently posted internal vacancy listings for country director and country manager positions contain explicit reference to the Paris Declaration, implementing harmonization and alignment, and donor coordination as duties and accountabilities for these positions. Also, in the context of the OECD-DAC Joint Venture on Managing for Development Results, IDA is working with DFID on a draft guidance note on incentives for implementing good practice principles in aid effectiveness in donor aid agencies.

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<sup>40</sup> With DFID and the Swiss Cooperation, IDA undertook a first study on incentives for harmonization in 2004 (see Paulo de Renzio et al., *Incentives for Harmonization and Alignment in Aid Agencies*, Overseas Development Institute WP 248, June 2005). In 2006, IDA commissioned a follow-up study (Overseas Development Institute, 2006).

58. **Changing aid delivery and management practices requires investment in skills development.** IDA continually seeks ways to provide guidance to staff on aid effectiveness principles, IDA commitments, and implementation good practices: for example, information is being provided in the new “Fundamentals of Bank Operations” course and sector network meetings; a skills development pilot for operational staff is being prepared in the Africa region; and harmonization unit staff are participating as core team members of several CAS and PRSC task teams to facilitate harmonization and alignment action.

59. **Investment lending guidelines will address reliance on PIUs.** IDA recognizes that heavy reliance on parallel PIUs drains capacity from country systems and undermines the incentives for institutional capacity development. Paris monitoring data indicate that while IDA accounted for 27 percent of the disbursements in 2005, it accounted only for 13 percent of parallel PIUs. Nonetheless, as IDA is one of the largest donors, its leadership is important to make progress in this important area

- To encourage country capacity development by decreasing reliance on parallel PIUs, the revised investment lending guidelines will require that integration of PIUs into government structures become the default option for IDA projects; any proposal to establish a new parallel PIU would be considered an exception and would need to be clearly justified. This approach should lead task team leaders to pay more attention to capacity-building measures in financial management, procurement, and monitoring and evaluation.

60. **IDA will continue to explore options for further decentralization.** Although, as Section II described, the Bank has achieved significant decentralization, this has entailed budgetary as well as other trade-offs. Career reasons, family issues, security concerns, language constraints, or alternative Washington-based opportunities have often made it difficult to fill a rapidly increasing number of field-based positions, and recruiting local staff with the right skills mix also presents challenges. It is clear that decentralization cannot be considered as cost-neutral. Besides the budgetary framework, many other considerations also affect decisions about staff location—for example, IDA’s human resource management policy, strategic interests and operational planning, and the need to maintain staff’s cross-country knowledge and technical excellence. The Bank is working to enhance its HR policies with the aim of increasing flexibility and mobility; it is preparing additional proposals including on the compensation framework, overseas assignment benefits, and rotation policy, with special attention to fragile states.

- To assist IDA’s and the Regions’ consideration of decentralization, management is currently analyzing different models of staff location and developing an approach to measure cost-effectiveness. For different client groups and types of services, the analysis aims at laying out options to better calibrate and target expertise needed and the scale and scope of decentralization. It will also help to better define cost-effectiveness in light of budget implications. In Dublin, management will discuss this ongoing analysis and the next steps foreseen.
- In implementing its action plan, the Africa Region is pursuing an ambitious decentralization of internationally recruited staff to country offices. A net

increase of 50 internationally recruited staff in the field compared to FY06 is planned by end FY08, and all new and vacant internationally recruited positions are currently planned to be field-based. The Region will continue to progressively move sector leaders to the field, and it aims to have most task team leaders working on two or three countries, and based in one of them.

## **B. Corporate Review and Oversight**

**61. Upstream and downstream reviews of CASs and Quality Assurance Group (QAG) assessments are being used to reflect the corporate priority on improving the effectiveness of IDA program delivery.** CAS reviews are now being used more systematically to advise operations staff on aid effectiveness and on harmonization and alignment elements: promoting partnership arrangements using collaborative country assistance strategies, division of labor exercises, and coordinated technical cooperation; relying more on programmatic approaches and using common arrangements; increasing use of country systems where conditions are in place; and moving away from stand-alone projects where there are better alternatives. QAG, which assesses random samples of the Bank's work to identify systemic issues and track overall trends, has included donor harmonization and alignment in the Country Analytic and Advisory Activities assessment since FY04 and is now updating its assessment questionnaires to ensure that harmonization and alignment are addressed. The first set of modifications—to the QAG questionnaires on the quality at entry of investment and development policy lending—was incorporated in February 2007, and other questionnaires will be updated in the coming months.

- IDA will update the good practice guidance on CASs to recognize joint/collaborative CAS preparation, provide advice on how best to manage this work, and encourage considering such collaborative work when it makes sense from a country perspective.

**62. Country and Regional management will encourage country teams to increase their attention to harmonization and alignment.** Ultimately, it is country teams that must take advantage of the Bank's enabling policy environment to implement programs in a manner consistent with aid effectiveness principles. Country units and Regions are best placed to identify the most efficient avenues and set appropriate targets for progress that would truly reflect each country's needs, challenges, and opportunities. They can allocate the necessary resources of staff, administrative budget, and training support (for instance, establishing harmonization and alignment focal persons in country offices can help IDA, other donors, and governments deal with such issues as improved flows of information, timely provision of disbursement projections, or sharing of concept notes for analytic work and project preparation). Building on recent experience in the East Asia and Pacific and Africa Regions, IDA is working to improve country-level review processes to help country teams and Regional management discuss progress in CAS outcomes and aid effectiveness (including harmonization and alignment). Monitoring of the Bank wide KPIs and of the each Region's country action plans for harmonization and alignment will promote accountability and allow senior management to review progress.

- Regional management will support and monitor IDA's actions at the country level to assist in the preparation and implementation of country-led plans for harmonization and alignment.
- In addition, management will review IDA's performance with respect to the predictability of disbursements at the country level and will report on findings and planned actions at the IDA15 Mid-Term Review.

### **C. Supporting and Leading the International Aid Effectiveness Agenda**

**63. IDA is actively engaged in the international aid effectiveness agenda and providing substantive support to the preparation of the Accra High-Level Forum (HLF).** The World Bank is playing a key role in the substantive preparation of the HLF through its role as co-chair of the DAC Working Party on Aid Effectiveness, and its active role in its subsidiary Joint Ventures (for instance, the World Bank currently co-chairs the Joint Ventures on public financial management, Fragile States, and on procurement). Planning has begun for the Accra HLF, to be held on September 2-4, 2008, in which over 100 partner and donor country ministers, heads of bilateral, regional, and multilateral development institutions, and representatives of non-governmental organizations are expected to participate. The World Bank is the Executive Director and Vice Chair of the HLF Steering Committee; with the Government of Ghana it co-chairs the Core Group for planning and organization; and with the Development Directorate of the OECD-DAC it serves as the joint secretariat for the HLF. Since January 2007, the Steering Committee has been discussing the HLF agenda, the outcome document, potential invitees, budget/funding needs, and related preparatory events. In all this, IDA is undertaking a substantial amount of the preparatory work: developing concept notes, defining issues, developing a communications strategy, and so on. IDA is emphasizing consultation with all stakeholders to ensure broad ownership of the agenda, including substantive roles and responsibilities in Accra, and to broaden the number of countries where discussions and actions are taking place.

**64. Consistent with its role at the international and country levels, IDA will strengthen its efforts in key areas for greater progress in harmonization and alignment:**

- To reduce the transaction costs of reaching agreement on legal documentation in operations involving multiple donors, IDA will lead an effort to gain agreements with other lenders/donors on common (harmonized) legal requirements for MOUs in joint financing operations. Such agreements will, for example, facilitate the efficient operation of multi-donor trust funds and the use of harmonized safeguard and fiduciary systems in joint operations.
- IDA will step up efforts to upgrade country procurement policies and procedures and support their efficient implementation. This effort, which will build on the experience in procurement-related harmonization among MDBs, will be closely coordinated with other donors, and will encourage countries to adopt standardized procurement documents. Helping countries strengthen their procurement systems will facilitate donors' progressive reliance on those systems.

- IDA will facilitate and support recipient countries in efforts to incorporate nontraditional partners—vertical funds, non-DAC donors, and the private sector—in harmonization and alignment actions. To broaden this engagement and contribute to the collective effort to address aid effectiveness issues, IDA also plans to undertake further analytic work on the changing aid architecture.
- Joint financing arrangements are one tangible outcome of harmonization efforts. IDA will carry out—jointly with other interested donors—a survey of selected IDA country programs and the total amount of co-financing, pooled and parallel financing they leverage through IDA’s budgetary support and investment lending. The survey should contribute to a better understanding of country-level behaviors and incentives that affect the overall joint financing of government-owned programs and projects.

#### **D. Conclusion**

**65. Using the country-based development model, IDA is performing strongly in delivering and managing aid in collaboration with partner countries and a wide range of development partners and is working to further improve its performance.** IDA’s senior management is committed to improve IDA’s capacity to deliver and manage its resources, guided by aid effectiveness principles. With the support of the Board, it has put in place a strong policy and procedural base to support and facilitate harmonization and alignment actions at the country level, and it is using corporate review and oversight measures to encourage operational staff to adopt aligned and harmonized actions as a normal way of doing development business at the country level. To accelerate progress in improving the management and delivery of aid, it is taking the measures that were detailed in its management action plan during the IDA14 Mid-Term Review, and it will undertake additional measures to strengthen its contribution and support to aid effectiveness.

**66. Donors and partner countries alike recognize IDA as a core element of the development assistance architecture in the world’s poorest countries.** Meeting the challenges of improving aid effectiveness clearly requires a collective effort by all parts of the international aid community; it cannot be done by IDA alone. Still, IDA is uniquely placed to foster the broader and deeper work on harmonization and alignment that is required to achieve the objectives of aid effectiveness which are embodied in the Paris Declaration. IDA is also providing the critical analytic, diagnostic, capacity-building, and financial support countries need to achieve their own aid effectiveness goals. As indicated by the recent OECD-DAC survey, it is leading by example, influencing both countries and donors as it continues to improve its own overall effectiveness and results orientation. And its role in the international aid architecture gives it the perspective and respect it will need to engage with new players in the country-based development model.

## ANNEX A. AN ANALYSIS OF PERFORMANCE ON ALIGNMENT AND HARMONIZATION

**To facilitate the analysis of the Paris Declaration monitoring data, an aggregate indicator of country-level performance has been developed.** It is based on the 12 Paris Declaration indicators and on two additional measures for the 30 IDA countries which took part in the monitoring survey.

**The key element of this ranking is comparing across countries the scores of each Paris Declaration indicator.** For each indicator, the top third, middle third, and bottom third performers were identified. Countries in the top third are assigned three points, those in the middle third one point, and those in the bottom third zero points. Table A1 provides the resulting cut-off values for the various indicators. In addition, two other indicators were used to give a broader view of harmonization and alignment efforts at the country level: the existence of an aid effectiveness action plan (or similar country document) and of a collaborative Country Assistance Strategy. In the case of these two indicators, three points were given to countries where such documents existed, one to countries where work was in progress towards such documents, and zero to countries where no work had started. The average of all indicators, minus indicator 8 (for which there are no score to be ranked), provides the overall ranking of country-level performance on aid effectiveness shown in Table A2, and on which the analysis of this annex is based.<sup>45</sup> For the analysis of IDA vs. non-IDA donors' performance in Figure 1 of Section II of this document, a similar method was used, but the calculation was restricted to the 7 indicators that apply to the donors: indicators 3, 4, 5, 6, 7, 9, and 10. In any country, the performance of IDA on these 7 indicators was translated into a score between 0 and 3 using the cut-off ratios given by table A1, and these scores were then averaged. The same method was used to translate the value of the indicators for the non-IDA donors (using the average of the individual donor values of the indicators) into a single score.

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<sup>45</sup> We also experimented with other aggregation schemes, such as calculating an average rating for each country based on the cardinal ranking for each indicator, or normalizing the indicators on a range between 0 to 100 percent. Using these alternative indicators yields broadly similar results to those presented in this paper. The indicator used was chosen because of its simplicity as well as because of the potentially large measurement errors for individual indicators, which makes the clustering of countries into broader groups preferable to aggregation schemes that use the values of the variables more directly.

**Table A1. Cut-off values for scoring the Paris Declaration indicators**

<b>Paris Indicator</b>	<b>Cut-off values</b>	<b>Explanation</b>
<b>Do countries have a harmonization action plan?</b>	No	Based on internal database.
	Elements present / In progress	
	Yes	
<b>Do countries have a collaborative Country Assistance Strategy?</b>	No	Based on internal database.
	Elements present / In progress	
	Yes	
<b>Do countries have operational development strategies? (Indicator 1)</b>	D	On A-E decreasing scale, based on 2005 CDF report.
	C	
	B	
<b>2010 Target:</b>	75%	Countries scoring B or higher
<b>How reliable are country public financial management systems? (Indicator 2a)</b>	<3	Based on 2005 CPIA score.
	3-3,5	
	4-5	
<b>2010 Target:</b>	50%	Countries whose score moves up $\geq 0.5$
<b>Are government budget estimates comprehensive and realistic? (Indicator 3)</b>	0-57 %	Percentage gap between disbursements and government budget—based on Paris Monitoring Survey.
	58-75 %	
	76-100 %	
<b>2010 Target:</b>	Halve the gap	
<b>How much technical assistance is coordinated with country programmes? (Indicator 4)</b>	0-24 %	As percentage of total technical assistance—based on Paris Monitoring Survey.
	25-45 %	
	46-100 %	
<b>2010 Target:</b>	50%	
<b>How much aid for the government sectors uses country PFM systems? (Indicator 5a)</b>	0-25 %	Average of percentage of total aid that uses country systems for budget execution, financial reporting and auditing—based on Paris Monitoring Survey.
	26-44 %	
	45-100 %	
<b>2010 Target:</b>	Reduce by 1/3	Aid not using country PFM systems
<b>How much aid for the government sectors uses country procurement systems? (Indicator 5b)</b>	0-25 %	As percentage of total aid—based on Paris Monitoring Survey.
	26-44 %	
	45-100 %	
<b>2010 Target:</b>	TBD	
<b>How many PIUs are parallel to country structures? (Indicator 6)</b>	>15	PIUs per \$100 million of aid—based on Paris Monitoring Survey
	7-15	
	0-7	
<b>2010 Target:</b>	Reduce by 2/3	Number of PIUs

<b>Paris Indicator</b>	<b>Cut-off values</b>	<b>Explanation</b>
<b>Are disbursements on schedule and recorded by government? (Indicator 7)</b>	0-54 %	Percentage gap between disbursements recorded by donors and by government—based on Paris Monitoring Survey.
	55-71 %	
	72-100 %	
<b>2010 Target:</b>	Halve the gap	
<b>How much aid was programme-based? (Indicator 9)</b>	0-33 %	As percentage of total aid—based on Paris Monitoring Survey.
	34-47 %	
	48-100 %	
<b>2010 Target:</b>	66%	
<b>How much of analytic work was coordinated? (Indicator 10b)</b>	0-14 %	As percentage of total output of analytic work—based on Paris Monitoring Survey.
	15-20 %	
	21-100 %	
<b>2010 Target:</b>	40%	
<b>How many donor missions were coordinated? (Indicator 10b)</b>	0-36 %	As percentage of total missions—based on Paris Monitoring Survey.
	37-49 %	
	50-100 %	
<b>2010 Target:</b>	66%	
<b>Do countries have monitorable performance assessment frameworks? (Indicator 11)</b>	D	On A-E decreasing scale—based on 2005 CDF report.
	C	
	B	
<b>2010 Target:</b>	Reduce by 1/3	Countries scoring lower than B
<b>Do countries have reviews of mutual accountability? (Indicator 12)</b>	No	Based on Paris Monitoring Survey.
	Elements present / In progress	
	Yes	
<b>2010 Target:</b>	All	Countries have review in place

Table A2. Baseline Indicators for the Implementation of the Paris Declaration of Aid Effectiveness.

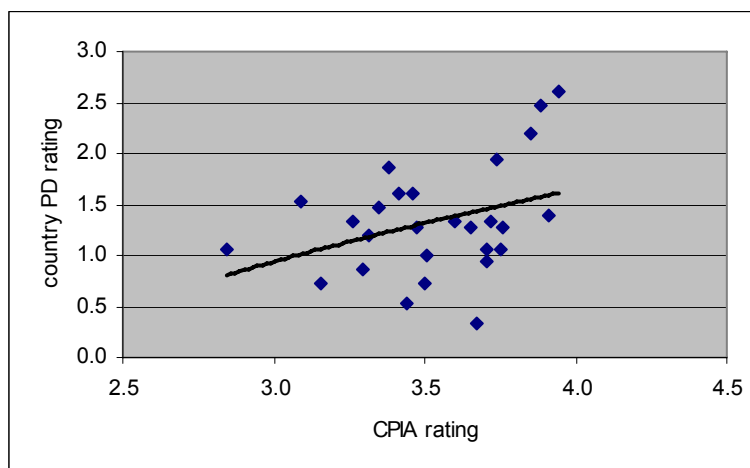
Overall	Country	Action Plan	Coll. CAS	Qual. Strat.	Qual. FM	Aid on Budget	Coord. TA	Use co. FM Sys	Use co. Pr. Sys	Paral. PIUs	Predictability	Progr Based	Coor. Mission	Joint Anal	Results Framework	Mutual Acctab.	Points	Score
1	Tanzania																39	2.6
2	Uganda																36	2.4
3	Ghana																33	2.2
4	Vietnam																29	1.9
5	Ethiopia																28	1.9
6	Bangladesh																24	1.6
7	Mozambique																24	1.6
8	Cambodia																23	1.5
9	Cape Verde																22	1.5
10	Malawi																22	1.5
11	Honduras																21	1.4
12	Afghanistan																16	1.3
13	Kenya																20	1.3
14	Nicaragua																20	1.3
15	Niger																20	1.3
16	Benin																19	1.3
17	Burkina Faso																19	1.3
18	Rwanda																19	1.3
19	Zambia																18	1.2
20	Kyrgyz Rep.																17	1.1
21	Congo DRC																16	1.1
22	Mali																16	1.1
23	Senegal																16	1.1
24	Bolivia																14	0.9
25	Yemen																13	0.9
26	Mauritania																11	0.7
27	Moldova																11	0.7
28	Burundi																10	0.7
29	Mongolia																8	0.5
30	Albania																5	0.3

Note: The color or shade of each cell refers to the ranking methodology detailed in Table A1. For each column, countries among the top third performers get 3 points (and are shown in green), those in the middle third get 1 point (shown in yellow), and those in the bottom third get 0 points (shown in red). As an illustration, 47 percent of technical assistance is coordinated in Honduras according to the Paris Declaration monitoring survey, placing the country in the highest third—see Table A1. Honduras therefore gets 3 points for this indicator. Similarly, 43 percent of aid to Honduras is program-based, which puts the country in the middle tier, for which 1 point is assigned.

This ranking methodology allows a number of interesting quantitative analyses of the Paris Declaration monitoring data which support the discussion in the main text:

**The correlation between harmonization and alignment performance and the quality of policies and institutions is weak.**<sup>46</sup> As Figure A1 shows, the countries that have made the most progress with respect to harmonization and alignment also rate fairly high in terms of the quality of their policies and institutions. However, for other countries there is only a very weak relationship between the quality of the policy and institutional environment and of aid delivery and management: countries with similar ratings on the World Bank’s Country Policy and Institutional Assessment (CPIA) show large differences in harmonization and alignment. This suggests that while a strong institutional and policy environment certainly facilitates the implementation of the Paris Declaration principles, targeted efforts by all development partners can also yield good harmonization and alignment performance in relatively weak institutional and policy environments.

**Figure A1. Weak correlation between harmonization and alignment performance and the quality of policies and institutions**



Source: Paris Declaration Monitoring Survey and World Bank data.

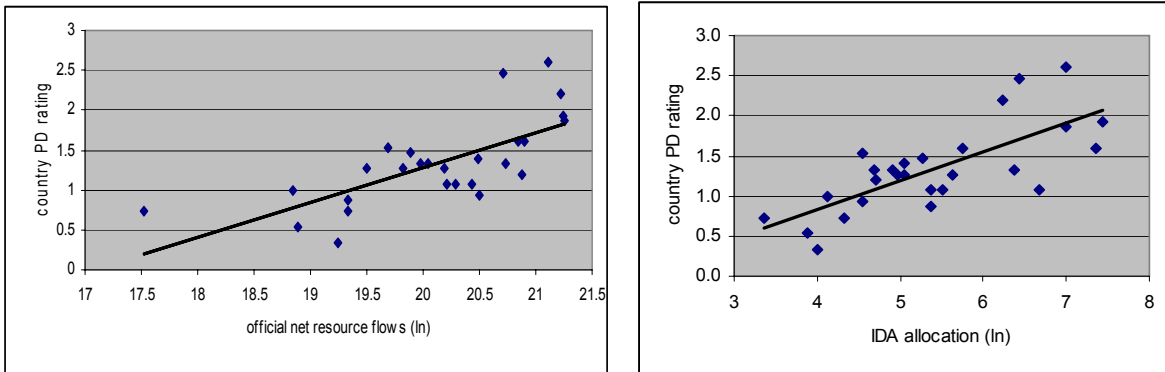
**Harmonization and alignment are stronger in countries with large absolute net aid inflows and large IDA allocations**<sup>47</sup> (see Figure A2). This finding may reflect the facts that alignment and harmonization are costly and that a significant effort is required to build an appropriate knowledge base, strengthen country systems, and create social capital as the foundation for improved alignment and harmonization. The effort and resources required to build these foundations are to a large extent fixed and similar for all countries, independent of their size or income. Donor and IDA resources allocated for such investments are typically in proportion to

<sup>46</sup> As the countries that participated in the survey were self-selected, countries with weaker CPIA ratings and fragile states are underrepresented.

<sup>47</sup> The coefficient of correlation between the aggregate harmonization and alignment indicator and the IDA allocation is 0.71. Multivariate regression analysis also confirms that the IDA allocation and net official resource flows are statistically significantly related to harmonization and alignment performance. A similar result is obtained when in the regression analysis the main determinants of IDA country allocations—population, income, and quality of policy and institutions—are used as explanatory variables.

the aid volume, which would explain the close relationship between aid volumes and performance on harmonization and alignment.

**Figure A2. Countries with large aid inflows show stronger harmonization and alignment performance**



*Note:* Official net resource flows are measured as the average of data for 2004 and 2005.

*Source:* WB development data platform and Paris Declaration Monitoring Survey.

The implication of these findings is that to fully capitalize on recent changes in IDA's policies and procedures that are aimed at fostering harmonization and alignment, IDA and the donor community will need to make continued investments in building the country level foundations for harmonization and alignment. In particular, this finding raises the issue of how countries with smaller aid inflows—where improved aid effectiveness is especially important—can make progress. Progress among the weaker performers could be accelerated if resources for harmonization and alignment were delinked from the overall level of assistance provided to a specific country. This delinking has already taken place for fragile states and is reflected in stronger harmonization and alignment performance than would be expected on the basis of aid inflows.

**ANNEX B. HARMONIZATION AND ALIGNMENT PLAN (IDA14 MID-TERM REVIEW)**

<b>Challenges</b>	<b>Actions</b>	<b>Expected result(s)</b>	<b>Timing</b>	<b>Responsibility</b>	<b>Progress</b>	<b>Next Steps</b>
<i>Internal management systems and informal incentives are aligned with the harmonization and alignment agenda.</i>	<b>Objective: To strengthen World Bank capacity to meet its commitments under the Paris Declaration on Aid Effectiveness</b> Continue to communicate Senior Management commitment to harmonization and alignment as key Bank priorities and its firm support for implementing the agenda in all lending and nonlending activities. <ul style="list-style-type: none"> <li>Assist Senior Management in developing and disseminating additional communication on H&amp;A.</li> </ul>	Increased awareness, recognition, and acceptance by staff of operational requirement to integrate H&A strategies and approaches in the formulation of all lending and nonlending work.	Continual  Q3 FY07	Senior Management  OPCS	- Message from OPCS VP to OVPs on importance of H&A, communicated to all staff on December 21 <sup>st</sup> , 2006.  - Preparation of regional action plans with regular monitoring	- Region Senior Management to take the lead in ensuring H&A is receiving proper attention  - Preparation of regional action plans with regular monitoring
	<b>Objective: To improve staff incentives to support harmonization and alignment agenda</b> Engage with HR to review application of H&A promotion criteria for levels GH and GI to date.	Review completed with HR, and agreement on timing and process to discuss proposals with sector boards and managers to more firmly establish H&A principles in promotion process.	Q4 FY07	OPCS and HR	- Discussions show that H&A criteria doesn't receive strong attention by sector boards when considering promotions	- Coherent approach of HR incentives for H&A, Results and Fragile States to be developed by end Q2 FY08
	Work with HR to develop guidance for managers to evaluate contribution of staff to harmonization and alignment at country and sector levels	Completed guidance to better recognize and evaluate staff work on H&A.	Q4 FY07  Continual	OPCS and HR	- Development of guidance underway	
	Work with HR to include in terms of reference for country directors, country managers, sector directors, and sector managers, the expectation that they promote and support H&A principles.	Completed TORs with H&A criteria integrated and ready for implementation.	Q4 FY07	OPCS and HR	- Review of good practice in ToRs for CMs and CDs underway	
	<b>Objective: To integrate H&amp;A into mechanisms for oversight and quality control.</b> Adopt aid effectiveness based on harmonization and alignment principles as explicit criteria in QAG's assessment methodology for lending and nonlending programs	Increased attention by staff to aid quality in the design and implementation of operations.	Q3 FY07	QAG	- QAG questionnaires for Quality at Entry in IILs and DPLs updated	- Work with QAG for updating other questionnaires by end Q2 FY08

Challenges	Actions	Expected result(s)	Timing	Responsibility	Progress	Next Steps
	and for its assessment of country programs.					
	<b>Objective: To streamline internal processes to facilitate implementation of harmonization strategies in lending and AAA operations.</b> Incorporate into relevant good practice notes and in other operational guidance the need to ensure direct and early involvement of legal staff to address harmonization issues (e.g., in developing MOUs and other coordination instruments).	Wider use of good practice notes and common templates (for example, MOUs) to minimize time spent on reinventing new formats and reduce time-lags in reaching agreement on harmonization.	Q4 FY07	OPCS	- Work in progress	- to be included in planned modernization of ILs policy and guidelines
<i>All lending operations and AAA are framed within broader H&amp;A strategy, and operational staff possess skills and competence to implement these strategies.</i>	Update guidance on CAS preparation, investment lending (as part of simplification/modernization program), and ESW to encourage up-front consideration and managerial review of harmonization issues, e.g., partnership arrangements, reducing parallel PIUs, use of strengthened country systems.	Regional processing guidelines for ESW incorporate harmonization objectives. Bankwide CAS guidelines reflect emerging experiences with collaborative assistance strategies. Investment lending guidelines recommend structured up-front Management consideration of harmonization issues.	End-FY07	OPCS working with Regions	- updated CAS and ESW guidelines under preparation  - Operations Portal for ESW updated for systematic tracking of coordinated work and reminder message to TTLs	- planned modernization of ILs policy and guidelines during FY08 will give due attention to H&A
	<b>Objective: To promote H&amp;A skill development among operational staff</b> Continue to prepare and disseminate operational guidance on good practices in harmonization to help staff.	Broader menu of good practice information made available in line with expanding needs at country offices.	End-FY07	OPCS working with Regions as needed	- 6 good practice notes (on Harmonization Action Plans, Pooled Financing, Independent Monitoring, Coordinated Capacity Development, Collaborative CASs, and H&A in Fragile States) developed and disseminated to staff (seminars, Bank intranet)	- Further Good Practice Notes planned
	Enlarge database of staff with experience in H&A and publicize their availability as resource persons	Greater recognition of staff experiences with H&A and availability of those staff as	Ongoing	OPCS and Regions	- discussion underway with Regions	

<b>Challenges</b>	<b>Actions</b>	<b>Expected result(s)</b>	<b>Timing</b>	<b>Responsibility</b>	<b>Progress</b>	<b>Next Steps</b>
	and “champions” who can mentor staff.	mentors to others.				
<i>Bank leads in promoting and supporting aid effectiveness issues internationally and at the country level.</i>	<p><b>Objective: To strengthen Bank’s role internationally in promoting and supporting global aid effectiveness agenda</b></p> <p>Engage proactively with donor and country partners and provide leadership and support in established international harmonization fora—including chairing and cochairing these groups as appropriate—in order to advance the Paris agenda, including on joint arrangements (e.g., MOUs), coordinated budget support, aid reporting (resources and results), common thresholds for international competitive bidding, and other procurement and fiduciary arrangements in all countries, and facilitating progress at country level.</p> <ul style="list-style-type: none"> <li>Play a substantive leadership role in the preparation of the next HLF in Ghana in 2008.</li> </ul> <p>Promote establishment of a new grouping with multilateral and bilateral donor institutions to discuss good practices and develop harmonized approaches to legal aspects of coordinated arrangements.</p> <p>Document and analyze experiences in donor division of labor (DoL) and initiate bilateral and international discussions to promote selectivity as an instrument of aid effectiveness.</p>	<p>International momentum and accelerated progress in implementing the Paris agenda at the country level.</p>	<p>Ongoing</p> <p>Ongoing to 2008</p>	<p>OPCS working other development partners</p>	<p>- World Bank is co-chairing the WP EFF, acts as Executive Director of the Ghana HLF Steering Committee (SC) and member of the HLF Core Group. World Bank contributed substantially to SC works, and has organized 4 regional consultation workshops with partner countries.</p>	<p>- Ongoing to September 2008</p>
		<p>A forum for MBDs and bilateral donor institutions to identify legal aspects of harmonized financing instruments and arrangements, discuss and document good practices, and facilitate progress in implementation</p> <p>Wider applications of selectivity in the menu of harmonization actions at the country level.</p>	<p>2<sup>nd</sup> half of FY07</p>	<p>LEG</p>	<p>- Preparation of a launching workshop</p>	<p>- Workshop planned for January 2008</p>
			<p>Q4 FY07</p>	<p>OPCS</p>	<p>- Seminar on DoL organized in March 2007, with presentation of experience in Zambia, Uganda and Mauritania, and discussion with Ghana and Kenya teams; internal issues paper prepared</p>	<p>- Selectivity of Bank’s operations to be looked at in the planned CAS retrospective</p>