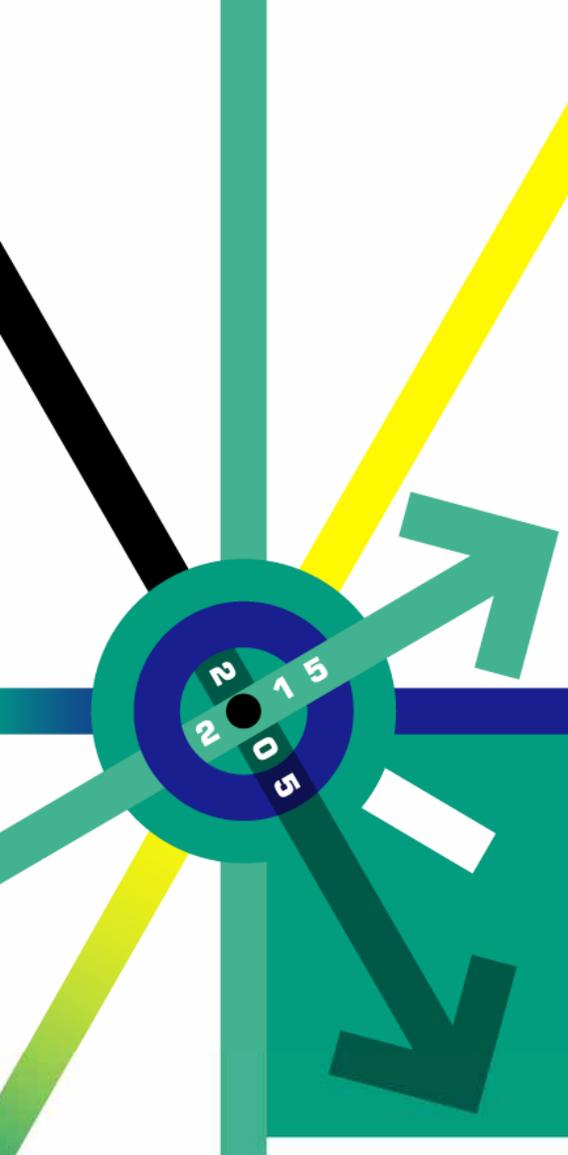




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A decorative graphic on the left side of the cover. It features a central circular hub with a black dot in the middle. The numbers '2005' are arranged around the hub: '2' at the top, '0' at the bottom, and '5' on the left and right. Several thick arrows radiate from the hub in various directions, including a large green arrow pointing up and to the right, and a dark green arrow pointing down and to the right. The background consists of a vertical green line and a horizontal blue line intersecting at the hub.

Empowering Developing Countries to Lead the Aid Partnership

Johnson, Alison, and Matthew Martin. 2005.

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**EMPOWERING DEVELOPING COUNTRIES
TO LEAD THE AID PARTNERSHIP:**

A BACKGROUND PAPER FOR THE
UNDP HUMAN DEVELOPMENT REPORT

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1) ASSESSING THE QUALITY OF AID FLOWS

The first step in empowering developing countries to lead the aid partnership should be for them to be in a position to assess the quality of donor aid. Yet, in spite of recent initiatives to harmonise donor practices and align aid behind a PRSP-based partnership between developing country governments and donors, there is no systematic monitoring by developing country governments, at an individual country level, of whether donors are living up to their pledges on aid quality and support for the PRSP framework, or behaving consistently across countries. Even more important, developing countries are not systematically empowered to lead monitoring of improvements in aid quality themselves – donors still lead the process in most countries.

HIPCs' METHODOLOGY FOR ANALYSING DONOR AID QUALITY

To redress this situation, Heavily Indebted Poor Countries (HIPCs) have led the preparation of a methodology to enable them to assess the quality of aid they receive as part of the process of designing overall national debt and new financing strategies.¹ They have designed an objective framework to analyse donor and creditor (and their own) policies and procedures, to help them identify which are the 'best' external financing sources to fund their national development programmes, and how they can improve the quality of all their external finance. The 'traditional' factors used by developing country governments to assess resources available from donors and creditors are the amount and concessionality (grant element) of funds. To these, their new methodology adds many qualitative aspects of the funds, notably:

For policies:

- Types of assistance: budget/balance of payments support, project, TA or food/commodity
- Channel of assistance: via the budget or off-budget
- Sectors and projects: support is for PRSP or donor-led priorities
- Flexibility of assistance: can aid be channelled to new areas and/or used to meet unexpected financing gaps arising from economic shocks
- Predictability of assistance: multi- or one-year commitments and whether they are fulfilled
- Policy conditionality: the number and degree of enforcement of policy conditions
- Policy dialogue: the degree of donor engagement in the economic policy dialogue and independent support for government policies or alignment with Bretton Woods Institutions.

For procedures:

- Conditions precedent: the types and degree of enforcement and the disbursement delays arising in meeting these conditions
- Disbursement methods: via cash direct to the budget or reimbursement claims
- Disbursement procedures: the number and complexity and disbursement delays arising
- Procurement procedures: the number and complexity and disbursement delays arising
- Co-ordination: the degree of harmonisation between government and donors/creditors.

Each donor is assigned a score for each of 23 evaluation criteria (with 1 scoring lowest and 5 highest) on the basis of objectively verifiable thresholds, and the scores are aggregated to identify which qualitative aspects are the worst problems, and which donors have the best/worst quality aid.

HIPC governments also identify whether they themselves have clear aid policies, and preferences for disbursement and procurement procedures. They also analyse the impact of government procedures to fulfil conditions precedent, disbursement and procurement on the delivery of external assistance.

By combining the assessments of donors and government, HIPCs can:

- Prioritise the most desirable donor and creditor sources of future new financing,
- Highlight donors/creditors which government should look to for better quality aid in future,
- Identify priority areas for overall improvement of donor and government policies and procedures,
- Design a matrix of measures for governments and donors to strengthen aid quality and delivery,
- Exchange information among HIPCs to monitor donor behaviour against international policy declarations and best practices, and identify priorities for global initiatives on aid quality.

¹ This methodology has been prepared by the HIPC Capacity-Building Programme, financed by the Governments of Austria, Canada, Denmark, Ireland, Sweden, Switzerland and the United Kingdom. The methodology can be used by all countries which receive aid, as well as applied to non-aid external finance flows. For more details, see Johnson et al 2004.

OUTCOMES OF HIPC ANALYSIS OF DONOR AID QUALITY

The main outcomes of HIPC governments' analysis are:

- The most problematic issue is the lack of flexibility of funds, as many donors and creditors are much less willing than desired to provide additional budget or balance of payments support to combat exogenous shocks, or to switch funds to new developing country government priorities.
- Excessive conditionality on funds, poorer types of assistance, funds continuing to go to non-priority sectors and projects and low predictability of funds (donors failing to disburse as pledged, to pledge multiyear funding, or to disburse in line with HIPCs' budget timetables) are other very important negative aspects, which reduce the effectiveness of aid resources in HIPCs to support the Millennium Development Goals (MDGs).
- Cumbersome and time-consuming disbursement procedures, such as requirements to provide matching funds, donor bureaucracy, over-complex disbursement methods such as reimbursement claims, and burdensome and tied procurement are the main factors causing disbursement delays.
- Multilateral sources of finance tend to be more reliably channelled through budgets as programme aid, to the priority sectors and projects of the government, and more predictable. On the other hand, bilateral sources have greater concessionality, more flexibility and less conditionality.
- However, the performance of individual donors varies dramatically (see Box 1 on the G7).

Box 1 How HIPCs View G7 Aid

The main areas for improvement in policy and procedures for G7 bilateral donors and creditors are as follows:

- Canada provides highly concessional resources in support of government priorities but its aid tends to be less flexible, less predictable and channelled off-budget. Changes in aid disbursement methods and better co-ordination with governments and other donors/creditors would enhance delivery.
- France's aid is less concessional, less focused on government priority sectors and projects, less flexible and with more conditionality. In addition, its disbursement methods and procurement procedures need improving.
- Germany's aid policies are above average with the exception of its tendency to channel funds off-budget. In terms of procedures, delivery is good overall, although there is a need to improve disbursement methods.
- Italian aid scores very low, because it is less concessional, less flexible, less predictable, delivered more in the form of project aid and technical assistance, and directed more towards Italian than government priorities. In procedural terms, there is a need to improve almost all aspects of its aid delivery.
- Japan would benefit by switching to flexible programme support, provided on-budget. Less cumbersome and time-consuming disbursement and procurement procedures would also lead to improved aid delivery.
- United Kingdom is assessed as having among the best aid in policy and procedural terms. Fewer conditions precedent and better disbursement procedures would improve aid delivery.
- United States aid is highly concessional but tends to be less flexible, less predictable, with more conditionalities and provided more in projects and technical assistance. Less cumbersome and time-consuming disbursement procedures would enhance its aid delivery.

2) CHANGING DONOR BEHAVIOUR: LEADERSHIP BY RECIPIENTS

Most developing countries lack a formal external financing policy on aid, except on concessionality and priority sectors. This allows donors to maintain the leading role in driving the quality of aid flows. It also makes it very difficult for developing country governments to reject poor quality aid, or to rationalise the number of donors (more than 40 in several countries) providing resources. Nevertheless, a few countries have taken important steps to lead in designing their own aid strategies. Notable examples are the Tanzania Assistance Strategy (TAS) and the Uganda Poverty Eradication Action Plan (PEAP) Partnership Principles. This section draws lessons for changing donor behaviour.

Borrowing Ceilings

Most HIPCs want to take control of the overall amounts they borrow in order to keep their debts sustainable. They have established projections of annual borrowing levels, either in nominal amounts

or in terms of the impact on national debt sustainability. However, these projections, documented in IMF programmes, are usually treated by donors and especially lenders as merely indicative. As a result, countries are becoming tougher: Nicaragua and Uganda are setting legal annual external borrowing ceilings, at a level designed to maintain debt sustainability.

Concessional

Many HIPC countries are establishing policies for a minimum grant element on loans as part of a national debt strategy, instead of just relying on a ban on non-concessional borrowing which is standard in IMF PRGF conditions. However, they face difficulties in getting these policies formally adopted and ratified by parliament, because donors are not providing enough concessional funds. Tanzania has enshrined a minimum grant element (50%) for new borrowings in its Government Loans, Guarantees and Grants Act of 2003, and has rejected loans which do not meet this level. Other governments have tended to establish a "strong preference" for higher concessionality (between 40 and 65% as a minimum), with some exceptions for essential projects.

Box 2

Rwanda: Borrowing Less from the IMF

A number of HIPC countries, starting with Rwanda in 2002, have been borrowing only minimal amounts from the IMF while still having a programme. This is because the Fund's Poverty Reduction and Growth Facility (PRGF) loans are far less concessional than other available donor money.² As a result, Rwanda found that if it borrowed large amounts from the IMF, its debt would rapidly become unsustainable according to HIPC Initiative thresholds. It therefore decided to source funds for anti-poverty spending from World Bank and African Development Bank concessional loans, and bilateral donor grants, rather than from the IMF, in order to keep its debt levels lower. As a result, Rwanda's latest PRGF loan is for just SDR 4 million or 5% of its IMF quota. Other countries following the same policy are Mauritania, Senegal, Tanzania and Uganda.

Donor Fragmentation

The most favoured developing countries have suffered from a high degree of donor "fragmentation", with many donors providing very small amounts of aid with high transaction costs relative to the amount disbursed. As a result, in recent years, a few developing country governments (notably India – see Box 3) have attempted to limit the number of donors in order to reduce fragmentation.

Box 3

India: Selecting Bilateral Donors

The Government of India's policy is to accept bilateral aid only from the G8 and European Union countries which offer at least \$25 million per annum. Other countries are allowed to aid autonomous institutions, universities, NGOs and other organisations, but not to the Government of India. In addition, the Government rejects all tied aid. These policies are intended to allow more effective use of aid and reduce administration costs.

However, doubts have been expressed about the impact of this policy shift because G8 bilateral donors provide virtually all India's bilateral aid, so excluding other smaller donors will not change much. There have also been suggestions that it is motivated by government desire to curb donor political intervention and centralise decision-making: several of the excluded donors have been critical of India's nuclear and communal policies, or tried to enhance involvement of NGOs and civil society.

Types of assistance

Many HIPC countries have a clearly stated preference for programme assistance (eg Uganda in its PEAP Partnership Principles). In addition, HIPC Finance Ministers have expressed their wish to receive more programme aid,³ which allows them to use external resources to fund its priority spending needs, rather than having aid diverted to donor priority projects or recruiting technical assistance.

Eleven HIPC countries⁴ have established multi-donor budget support programmes, whereby pooled funds are released on a regular basis, to support poverty reduction spending. While HIPC countries welcome these moves, most of them have been led by like-minded donors in-country. The programmes also have several risks which require careful consideration up front, as described in Box 4.

² The grant element of a PRGF loan is 30%, which compares with 63.5% grant element of an IDA loan.

³ Declaration of the 8th HIPC Ministerial Meeting In Kigali, April 2003 available on www.dri.org.uk.

⁴ Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Madagascar, Malawi, Mozambique, Rwanda, Tanzania and Uganda.

Box 4

The Pros and Cons of Multi-Donor Budget Support Programmes

Multi-donor budget support programmes are designed to provide more budget support directly to the government to fund its poverty reduction strategy. Participants have included multilateral institutions, such as the African Development Bank, European Union and World Bank; and governments of Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

The main benefits of such programmes for governments can include:

- Common benchmarks for assessing the country's performance, based on the country's PRGF and PRS,
- Improved dialogue between donors/creditors and the government,
- Funding commitments based on government's poverty reduction strategy and MTEF budget process,
- Realistic triggers for performance-based disbursements. In the Ghana agreement there is a two-tranche disbursement mechanism with (1) a base payment of 50% each year based on the IMF PRGF review and (2) a performance linked payment of 50% of the annual allocation, linked to six specific triggers,
- Regular disbursement schedules agreed and followed,
- Common review processes, and reporting, auditing and banking arrangements,
- Regular meetings, timed in order to facilitate the budget process and minimise additional technical work.

The potential drawbacks can include the following:

- Risk of all participants suspending disbursements if the government goes off-track with the IMF,
- Conditionalities for disbursements turn into the highest common multiple amongst the donors and creditors.
- Increased inflexibility of donors/creditors in interpreting compliance with conditionalities, because they may need to be unanimous on whether performance-linked triggers have been met.
- Lack of consultation and agreement amongst donors/creditors prior to review meetings with government, which can mean that meetings often focus on donor issues rather than dialogue with government,
- Excessive time taken to negotiate a joint framework. In Mozambique, a 21-page Memorandum of Understanding between the government and 15 donors, required 19 drafts and took more than one year, and
- Heavy burdens of joint review processes on key government officials and donor representatives.

Channels of assistance

Developing country governments want aid to be directed via the budget, rather than going directly to line ministries or other agencies, although this preference may not be stated formally. This can be achieved by shifting towards more programme aid and by ensuring that the Ministry of Finance leads negotiations on all prospective new financing and the Minister of Finance has the sole authority to sign loans and grants. In Burkina Faso and Tanzania, line ministries are required by law to submit a request for any loan or grant to a National Committee responsible for advising the Minister of Finance on whether it can be contracted.

Where developing countries have increased aid monitoring procedures and budget support, this has resulted in higher on-budget aid flows. In Tanzania, on-budget accounting for aid has risen from 15% in 1996 to 55% in 2003 (OECD DAC 2002).

Sectors and projects

HIPCs Poverty Reduction Strategies set out clearly their priority sectors and projects, so there should be little excuse for donors to insist on their own priorities. Countries which have been very clear about their priorities such as Universal Free Primary Education, and presented donors with stark choices highlighting the impact of potential lack of financing on child mortality or reduction (as Uganda did in its 2000 Consultative Group), have often achieved dramatic changes in donor sectoral allocations.

Although donors acknowledge government priorities in principle, there are still difficulties with some donors/creditors earmarking (1) budget support to specific sectors, thereby reducing inter-sectoral flexibility of funding and (2) sector support to sub-sectors or projects, thereby reducing intra-sectoral flexibility. Donors sometimes use earmarking to be able to participate in sectoral reviews and thereby impose additional conditionalities through this process. Sectoral and sub-sectoral coordination and review processes can then become very onerous and time-consuming for donors and government alike: Senegal has 23 such groups.

However, while some donors support government priority sectors, their aid is nevertheless directed to donor-driven projects. Some donors and creditors have influenced governments to ensure that their

priorities are included in the PRSP. For example, one European donor built a “turn-key” hospital in Ghana, which did not meet government requirements as it was built without an operating theatre.

Some developing country governments have tried to limit the number of donors funding a particular sector in order to enhance coordination, but they have had little success. Instead, some donors or creditors have decided to concentrate funding on a few sectors where they feel their resources will be most effectively and efficiently used. For example, the Dutch government is restricting the number of sectors it supports in each partner country to at most three.

Flexibility

HIPCs desperately need more flexible donor funds to combat exogenous (eg climate or commodity price) shocks or to respond to changes in their own priorities (as a result of changes of governments or revisions of PRSPs). Lack of donor flexibility is the biggest problem for developing countries.

Some multilateral agencies, such as the IMF, IDA and EDF, have limited scope to top up country allocations to meet unforeseen shocks, but these additional funds can take time and be surrounded by cumbersome conditions. A few bilateral donors (eg the Netherlands and the United Kingdom) have contingency facilities or ability to wire funds for flexibility. However, developing country governments rarely have information on these opportunities.

A few HIPCs (Benin, Cameroon) have insisted on including alternative scenarios in PRGF documents to show their need for greater funds to reach the MDGs. Others have agreed more realistic forecasts of “shocks” in PRGF or HIPC Initiative documents, but this has not increased donor allocations of contingency funds. As a result, African governments are advocating a special anti-shocks facility (Martin and Bargawi 2004b).

Predictability

HIPCs prefer multi-year pledges of aid to support their Medium-Term Expenditure Frameworks (MTEFs) and budget planning processes, but only a few donors provide these. Some developing country governments, such as Mozambique, Rwanda and Uganda, have managed to improve their relations with donors so that they pledge multi-year funds (but this has often been due equally to a policy decision or normal practice by the donor).

Furthermore, while donors are good at making pledges at Consultative Group or Round Table meetings, their ability to make actual disbursements is often risible. As a result, some donors have huge pipelines of undisbursed funds (the EU’s is currently €20 billion). At a country level, this can lead to disbursement shortfalls of 30% compared to pledges (as in Ghana). Mozambique and Tanzania have improved predictability of budget support disbursements by liaising more closely with donors through MDBS processes. Tanzania has also advanced its aid projection exercise by two months to allow more time for improved forecasting of external resources. Uganda and other HIPCs have another strategy. They ignore donor disbursement projections as being too optimistic, and instead ‘discount’ them in the budget to lower levels, which reflect past donor performance.

The third problem in this area is that many donors disburse funds late in the developing country’s budget year. To overcome this, Bolivia, Tanzania and Uganda have requested donors to front-load budget support at the beginning of the financial year. In Tanzania, this has increased first half year disbursements of budget support to 80% in 2003-04, improving budget implementation.

Conditionality

HIPCs want donors to minimise the aggregate number of conditionalities beyond policies designed through PRSP processes, including those under PRGF programmes agreed with the IMF. HIPCs are particularly keen to discourage bilateral conditionalities beyond PRGF. However, in spite of some progress in streamlining IMF and World Bank conditions, there is no evidence that aggregate conditions are falling (Martin and Bargawi 2004). HIPCs are also concerned about cross-conditionalities between donors and creditors, which can lead to multiple donors suspending aid, although there is no formal breaching of their own bilateral agreements, because one donor has decided to suspend disbursements for reasons of its own. In spite of their efforts to reduce conditionalities in MDBS arrangements, this is an area in which they have so far had little success.

Policy dialogue

In most HIPCs, policy dialogue with donors occurs at regular Consultative Group or Round Table meetings. However, many find that they need to explain policies and monitor donor behaviour more regularly, and have instituted monthly, quarterly or semi-annual meetings (such as the Donor Assistance Group in Ethiopia, the mini-Consultative Group in Ghana, the G14+ Group in Mozambique and the Development Assistance Committee in Tanzania). These meetings are often linked to multi-donor budget support programmes, which have the advantage of focussing on budget-support donors who are more interested in macroeconomic policy and aid quality issues. However, the quality of dialogue depends on the level and degree of engagement of in-country donor representatives.

Outside these processes, governments have virtually no in-country fora for more frequent policy dialogue with donors, often leaving such dialogue to be led by and conducted amongst donors (chaired by the UNDP or World Bank), even though they perceive this as a highly negative circumstance which undermines their ability to inform donors accurately about their policies.

Conditions precedent

Conditions precedent severely delay initial disbursements in many aid agreements. Developing countries prefer donors to eliminate all conditions precedent except a legal opinion that the agreement conforms to national laws. However donors frequently impose numerous conditions precedent, including financial and project-related institutional conditions such as project implementation units. While recipients continue to advocate removal of such conditions, they have seen little progress.

Many developing countries want to have more transparent processes for aid approval and therefore submit loans and grants to parliament. However, this can cause major delays. In Mali and Benin, parliamentary holidays can add 3 months, Supreme Court approval 6-12 months, and publication of each decision in the official government journal 3 months. To expedite approval, some governments are moving from loan-by-loan approval to presenting a 'package' of agreements for approval.

Disbursement methods

HIPCs prefer advance cash disbursements as this provides resources immediately, whereas donor reimbursement based on claims can cause lengthy delays and heavy documentary requirements. However, there is little evidence that donors are being more flexible in this respect.

On the other hand, HIPCs see direct payments by donors to foreign suppliers as highly problematic, as they are often not informed of the actual disbursements. This is especially true for technical assistance provided by expatriate experts, who are hired and paid by the donor; and for food/emergency aid, which is provided as aid-in-kind. Ghana has instituted a quarterly survey system which allows it to track all of these payments, even if they do not go through the budget, in order to have a more comprehensive ability to monitor aid flows.

Disbursement procedures

HIPCs object strongly to donor requirements that they provide a percentage of matching funds from their budget to cofinance donor projects. This can cause disbursement delays because governments can be unable to provide matching funds in the current budget planning; can not be informed by line ministries or district authorities of the need to include matching funds in their budgets; or (especially if they have cash budgets) can suffer aid or revenue shortfalls during the year which prevent compliance with matching fund rules. To reduce these problems, a number of countries are considering establishing ceilings of 5-10% matching funds. Others are considering asking donors to treat customs exemptions on project imports as matching funds.

Developing countries are also improving their own national reporting, accounting and auditing procedures, but donors continue to show considerable reluctance adopting them.

Procurement procedures

HIPCs want to establish their own procurement procedures and to have all donors adopt them, thereby eliminating multiple donor procedures. A number of HIPCs, such as Ethiopia, Mauritania and Uganda, are taking the lead in developing national procurement procedures. DAC 2005 survey results show that 34% of donors adopting national procurement procedures for project aid, although there is a wide variation between countries, and most donors continue to insist on their own procedures.

Co-ordination

International efforts to harmonise donor disbursement and procurement procedures have improved co-ordination. Various developing countries (including Bolivia, Cambodia, Fiji, Kyrgyz Republic, Nicaragua, Vietnam and 14 African countries) have completed national harmonisation and alignment Action Plans to provide a framework for improving donor performance. However, HIPC see these initiatives as focusing more on harmonising donor procedures, rather than on aligning donors behind HIPC government procedures. They are also seen as too focussed on the minutiae of procedures rather than sufficiently considering the larger policy issues discussed above.

Overall Results: Higher Quality and Absorption

As discussed above, some countries have managed to achieve major changes in donor behaviour. For example, as a result of Uganda's Poverty Eradication Action Plan (PEAP) partnership principles, multi-donor budget support, universal primary education policies and improved procurement and absorptive capacity initiatives, aid disbursements to Uganda have risen more than 50%, from an average of US\$ 600 million in 1996-98 to an average of US\$ 910 million in 2002-04. This reflects improvement in donor aid quality: the share of this aid being provided as budget support has increased from 35% to 53% and the share of grants from 57% to 67%.

However, the countries which have achieved the most change in donor behaviour have been the "donor favourites" which are receiving high amounts of aid in relation to GDP, and where "like-minded" (ie quality-improving) donors are predominant. It is very difficult for the majority of developing countries to change donor behaviour profoundly, because they receive much lower levels of aid even when they have comparable performance, their MDG targets and PRSPs are severely underfunded, and they have very few like-minded donors to lead the process of improving aid quality.

3) PRIORITIES FOR FURTHER ACTION

What more needs to be done to empower developing countries, to increase the effectiveness and absorption of aid ? Measures are needed at (1) the country level, (2) the regional level and (3) the level of the international financial institutions (IFIs). At each level there are two aspects to empowerment: the first is advocacy to ensure developing country views and priorities are properly enunciated; and the second is more practical (including analytical and technical support), to ensure countries mobilise the best quality aid for poverty reduction and economic development.⁵

1. At the developing country level:

The most crucial aspect is to improve the dialogue at the national level, through genuinely country-led PRSP processes to prepare a government strategy for financing the national budget, in discussion with donors and civil society. The strategy would include objectives for financing amounts (based on costed programmes for the MDGs and other national poverty reduction objectives). It would also plan types of financing (external grants; external loans; domestic debt) based on their relative costs, risks and other advantages/disadvantages. Most important, it would also define precise and time-bound objectives for the quality of aid based on a partnership between donors and government, in which each side would take actions to:

- Make aid concessionality appropriate to achieve national debt sustainability
- Increase programme rather than project aid
- Reduce technical assistance and switching to capacity-building
- Reduce emergency assistance by establishing financing to combat shocks
- Channel higher proportions of assistance via the budget
- Focus donor assistance on PRSP priority sectors and projects
- Increase the predictability of aid (through 3- or 5-year agreements with each donor)
- Increase the flexibility of aid (by having greater contingency funding against shocks)
- Reduce conditionality through coordinated streamlining by all donors
- Simplify and accelerate disbursements to increase absorption and avoid shortfalls. This would include eliminating conditions precedent, disbursing in advance rather than through reimbursement, simplifying disbursement procedures and untying all aid including technical assistance and emergency aid.
- Ensuring that procedures are harmonised around developing country procedures (especially the budget cycle) as these are improved, not just among donors.

⁵ We are not discussing wider issues of governance of the international system such as, for example, the desirable allocation of funds among different institutions (IFIs vs UN vs AfDB vs EU) or channels (multilateral vs bilateral), which have been covered by many other authors.

Whatever system is established for assessing donor performance, it should be based on:

- data validated by developing countries themselves.
 - indicators of donor performance at the level of each individual country, aggregated into a coherent picture of country-level behaviour, in addition to global indicators such as aid/GNP, % of tied aid, % of budget support, % of grants etc.
 - indicators which measure donor policy and procedural changes (the equivalent of “intermediate” indicators in Poverty Reduction Strategies) as these can be directly influenced by donors, as well as output indicators (eg delay between commitments and disbursements) which may be affected by absorptive capacity or exogenous factors.
 - indicators which are defined in detail, time-bound, and led by varying priorities for different developing countries (eg for priority sectors).
 - indicators which are comprehensive across the range of policy and procedural issues, and not on selected indicators designed to fit with priorities established in international summits or harmonisation initiatives.
-
- Government and donors should update policy and reporting (facilitated if necessary by an independent third party) at annual Consultative Group or Round Table meetings between donors, government and civil society, on their progress in meeting PRSP aid goals and on plans to meet them in future. Government officials would conduct an annual national evaluation of aid quality, and identify areas where the donor community as a whole (or government policies and procedures) needed improvement. Donors would indicate 3-year disbursement schedules for their aid, and report on progress in improving their aid quality. Civil society would be able to discuss donor and government aid management policies including issues of transparency.
 - Quarterly meetings between government and donors, in a forum such as a budget support group or mini CG, would have their agenda expanded beyond developing country government policies, to focus on donors updating commitment and disbursement schedules, and specific proposals to improve aid quality. Developing countries would take the lead in designing the proposals.
 - Using the government “partnership principles” In joint government-donor reviews of PRSP support, and discussions with each individual donor, as the key means to evaluate progress in the relationship between government and donors.

Box 5

Building Developing Country Aid Management Capacity

For developing country governments and civil societies to play the leading roles in the aid partnership, most will need large-scale capacity-building. Aid mobilisation departments will need to extend their mandates beyond compliance with donor policies and procedures, to critically evaluate the quality of the aid, based on a quality-focussed government financing strategy. In some cases this will require training in aid quality concepts, and in many it will mean improving aid databases, and compiling compendia of donor procedures and policies, as the basis for evaluations. Some countries will need assistance with institutional reforms to improve coordination of aid management across government agencies. Most developing country CSOs have not been trained to evaluate aid, and will need considerable assistance to design their priorities and criteria, and contribute to national policy.

2. At the regional level:

A second key contribution to empowering developing countries lies in strengthening the role of regional and sub-regional organisations, as well as ensuring that aid quality issues are a high priority in initiatives such as the New Partnership for Africa’s Development (NEPAD). It will be essential for all such organisations and initiatives (in their roles as both advisors/assessors of regional development, and direct recipients of aid funds) to have their capacity built in evaluating aid quality, rather than maximising amounts to fund individual projects or programmes. It will also be vital that regional development banks and sub-regional funding institutions focus more closely on enhancing aid quality. Regional organisations could also jointly organise meetings of regional governments and donors interested in that region, to assess aid quality, help developing countries advocate their views, and agree with donors and regional aid providers on regional targets for quality improvement.

3. At the international level

It is also vital that developing country governments have a global forum at which they can collectively express to donors their concerns and visions for improving aid quality. This would ideally occur at an Annual Meeting between OECD development ministers and a representative group of developing country finance or planning ministers to assess aid quality. The secretariat for meetings must be based in a relatively neutral institution (such as UNDP) rather than in a creditor-dominated institution or donor grouping such as the DAC – though it would cooperate closely with such institutions.

The organisation hosting the secretariat could also be mandated to publish an annual report on the quality of aid, based on developing country views, and annual data from developing countries on donor commitments and disbursements (to be compared with OECD data) and an analysis of best practices in terms of policies and procedures to increase aid effectiveness and absorption. The meeting and report could also be discussed in a separate dialogue among developing country governments about donor practices, to benefit from best practices by donors in other countries.

But empowerment also depends on changing practices in all key global fora for aid governance: the Bretton Woods Institutions (IMF and World Bank), the United Nations, the European Union, and the Development Assistance Committee (DAC) of the OECD. The main ways to do this would be:

Bretton Woods Institutions

- Developing country and like-minded representatives on the Boards of these institutions, as well as their managements, should commit to judging and approving all programmes and projects on the basis of whether they meet the recipient country's partnership goals.
- In addition, the IFIs should not judge recipient countries from the perspective of the institution itself (as with the World Bank's CPIA). There is a fundamental contradiction between donor-decided criteria and country-owned policy priorities. At the very least, systems such as the CPIA should be transparently debated and criteria changed to make sure that they reflect only a general global consensus as to basic standards (for example on human rights), desired processes (such as fiduciary criteria for budgetary transparency) and outputs (such as the MDGs). They should also be agreed with other UN specialised agencies and donors. They should not specify precise policy paths or conditions, as this is inimical to country ownership.
- The management of the IMF and World Bank should publish annual reports indicating their own progress in terms of the quality of their financing but also, more importantly, a global review of progress by donors in improving aid quality. In particular, they should establish (especially by consulting their borrowing countries) more detailed criteria for judging the degree to which they have streamlined conditionality and made IMF programme economic frameworks more flexible.

United Nations

- The UN should publish annually a detailed assessment of the degree to which each of its agencies and programmes is meeting the partnership goals of its member countries, broken down by agency and programme. Each programme within each agency should also restructure its systems for evaluating effectiveness, in order to be sure that they support recipient priorities.

OECD

- The OECD has already started a process of mutual accountability with the African region, working in partnership with the UNECA. It is vital that this process should be balanced, with equal African as well as OECD representation, and African governments designing their own criteria for evaluating donor progress. It is also about to agree indicators for monitoring donor progress at a conference in Paris at end-February, as a follow-up to the Rome meeting on Harmonisation in 2003. It is vital that jointly agreed indicators for monitoring should be as detailed and comprehensive as possible in both of these processes (along the lines of those examined by HIPCs) and precisely defined and time-bound, rather than becoming a lowest common denominator of indicators agreed among donors, which allow the worst types of aid to persist, and that they measure progress by comparison with best practice (eg targeting 100% untying) and not by comparison with the low baseline of current progress.
- The OECD also needs to internalise these indicators in all its other work. For example, it should base its peer reviews (one donor evaluating another) on the concerns of developing country governments, reporting clearly on progress on all aspects of policies and procedures and stating the views of recipients as to the quality of the donor's aid. It should also conduct evaluations of multilateral institutions, global vertical funds and developed country NGOs on the same basis.

European Union

- The European Union already has a relatively well-balanced governance structure for the Cotonou Agreement – a joint donor-recipient Council of Ministers – and is committed to the principles of partnership at the country level. However, this structure lacks a recipient-driven system for monitoring aid effectiveness and for changing policies and procedures accordingly, and therefore will function would benefit from using a system of the type described above.
- The technical support for the developing country Ministerial group also needs to be strengthened, with more stress on staff able to analyse critically the quality of EU aid flows.

Bilateral Donors

- For effective changes in behaviour of the multilateral institutions, bilateral governments will need to provide financial contributions to multilaterals based above all on the quality and effectiveness of their aid in supporting the recipients' development goals. They will also need to ensure that they push strongly for developing country leadership and mutual accountability in all fora and all institutions, including by all DAC members, global "vertical funds" and NGOs. They might enhance incentives for donors and multilateral organisations to make progress by allocating extra aid mobilised through the IFF or global taxes on a competitive basis, according to "ratings" of agencies' performance in meeting country partnership goals.
- More importantly, to allow African governments to apply "selectivity" to their choice of external financing, and to avoid poorer-quality financing, like-minded donors will need to ensure that high-quality financing is more "balanced" across different African countries according to their commitment to, and performance in executing poverty reduction strategies, and not skewed to a few countries fortunate enough to have a high presence of like-minded donors. There are currently several good-performing countries which are penalised by a lack of like-minded donors (notably Francophone countries) and therefore are falling far short of the aid needed to finance the MDGs. They could receive more aid from like-minded donors channelled via "good-performing" multilaterals, but this might skew multilateral allocations away from disbursements based strictly on performance. As a result, it would be preferable for like-minded donors to disburse funds as co-financing in cooperation with the efforts of other "good performing" bilateral donors which are represented in "aid shortage" good performing countries. Most importantly, this "balancing" also needs to take place on quality issues, increasing "high quality" aid to all countries which are improving their own systems.

The above measures would open the door to developing countries to transform their relationship with donors into a genuine "partnership", rather than the current largely donor-driven position, and ensure that they were able to fund their future development with better quality aid, thereby continuing to build an international consistency for increased aid flows by showing that high-quality aid can be used more effectively.

Note on CBP New Financing Methodology

The HIPC CBP methodology for assessing the quality of donor and creditor has prepared as part of the process of designing overall national debt and new financing strategies⁶. While the initial draft of assessment criteria of donor policies and procedures was prepared by Debt Relief International, the version currently in use has evolved after extensive discussions, comments and drafting inputs from HIPC officials involved in aid issue nationally.

The methodology is used by HIPC officials during national debt and new financing strategy workshops, conducted by the HIPC CBP. There is no interview process involved, instead it is the national officials, such as Ministry of Finance desk officers who monitor and liaise with donors and creditors, who apply the methodology nationally to assess the quality of their donors and creditors. Usually there are about 10-12 desk officers who work closely with all the donors, doing this analysis

⁶ While the methodology was initially developed for HIPC governments under the HIPC CBP programme, it is just as applicable to and can be used by all African countries. It can also be applied to non-aid external finance flows.

during the national debt and new financing strategy workshop. The results of the analysis of their donors are then validated by senior Government officials and policymakers.

To date the methodology has been used by 15 HIPC countries during CBP-funded national debt and new financing strategy workshops. These countries are Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Uganda and Zambia.

Debt Relief International, March 3, 2005

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