

**DOES THE COUNTRY-LED APPROACH
DELIVER RESULTS?**

A synthesis of emerging evidence

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Executive summary

This paper is a desk review of evidence on the effectiveness of the Country-Led Approach (CLA) in improving the delivery of international development assistance. It synthesises a broad range of literature on contemporary aid practices, with a focus on five countries where implementation of the CLA agenda is relatively advanced: Uganda, Tanzania, Mozambique, Ghana and Ethiopia.

1. What is the Country-Led Approach?

CLA is short-hand for a fundamental reorientation in the delivery of development assistance, which began in the mid-1990s. It is not a single initiative or instrument, so much as a set of principles or convictions about how aid delivery needs to change. CLA can best be understood as a reaction against two aspects of past aid practice that came under sustained criticism from the 1990s onwards: the use of projects to bypass government systems; and the use of *ex ante* conditionality to extract policy commitments. Based on ample evidence of past failures, CLA is the recognition that:

- i) aid is effective only if it supports a country's own development goals and policies; and
- ii) aid must be delivered in ways that use and strengthen a country's own institutions, systems and capacities.

CLA places the state, its effectiveness and its responsiveness to the needs of society at the heart of the development agenda. Development is something that must be done by a country, not to it. By locating agency firmly in the partner country itself, it places donors in a supportive rather than a directive role.

Clearly, not all countries are equally committed to development and poverty reduction. Donors use a number of approaches to try to reinforce country commitment to poverty reduction, using dialogue and influence to encourage partner countries to adopt pro-poor policies and reforms, and tying their assistance to benchmarks based on partner country undertakings. Fundamental to the CLA agenda is the proposition that national policy agendas will be more pro-poor in nature if there is broad ownership across society of the poverty reduction agenda, and if the poor themselves have opportunities to participate in and influence the policy process. CLA is therefore not just about accepting the priorities of the government of the day, but about influencing the way in which those priorities are established.

CLA principles are now broadly accepted at the international level, and reflected in the 2005 Paris Declaration on Aid Effectiveness. However, their operational implications are still being worked out, and many aspects of the CLA agenda remain aspirational. The paper identifies three broad domains of change which are underway:

- i) the progressive alignment of external assistance with country policies and systems;
- ii) increasing willingness and capacity of country partners to develop and implement credible development strategies;
- iii) the maturing of the aid relationship into a structured, rule-governed partnership.

Changing multiple institutions, on both the donor and partner country sides, is a slow process, which is happening at different speeds in different countries. Because CLA depends in large part on the capacity and willingness of partner countries, it is not something that can be achieved unilaterally by donors. It requires a major investment of time and effort by both donors and partner countries. DFID has often found itself looked upon by peer organisations to lead these efforts at country level. These efforts represent an upfront investment in improving the effectiveness and efficiency of future assistance.

With most development practice still falling short of CLA principles, it is premature to attribute poverty reduction results to the new aid paradigm. However, progress on aligning assistance and strengthening development partnerships is an important achievement in its own right, which is not captured in outcome indicators such as the Millennium Development Goals. These processes of change need to be reflected in the way we think about results. Otherwise, the considerable efforts underway to promote the CLA agenda are likely to be systematically undervalued.

2. Changing behaviour

The paper identifies a series of changes underway in the focus countries, which are helping to advance country leadership of the development process.

- Donors are progressively aligning their assistance with country-led development strategies, moving from nominal alignment to early PRSPs through to real alignment under GBS arrangements and joint assistance strategies.
- Donors are using conditionality to reinforce commitments made by countries in their own development strategies, rather than to extract new policy commitments. Performance Assessment Frameworks are being developed to translate country plans into time-bound commitments, supported by joint review processes.
- Donors are becoming more willing to deliver their assistance through country systems, where these offer an acceptable level of fiduciary risk. Systems alignment is being driven by the move towards programmatic assistance and budget support. These ‘upstream’ instruments support and strengthen country planning and budget systems, generating positive incentives for reform. However, most aid is still delivered in the form of projects, and not all programmatic aid is equally supportive of country leadership.
- Early PRSPs, which were narrow exercises done in response to external conditionality, are being replaced by new generation strategies which are better integrated with country planning mechanisms.
- There is a new focus on strengthening the systems required to turn the PRSP into an operational strategy, especially MTEFs and linkages between the PRSP and the budget. However, there needs to be more country leadership of capacity building efforts, and a more strategic approach to the provision of technical assistance.
- Several years of efforts to improve harmonisation and alignment have led to a substantial maturing of the development partnership, based on clear principles, mutual commitments and transparent review processes.

These practices are not yet general in nature, but they demonstrate the potential of the CLA agenda.

3. Assessing results

The paper looks at a number of areas to assess the impact of these developments.

New rules of the game for external assistance: Through the Paris Declaration and its predecessors, the provision of development assistance is gradually becoming a rule-governed activity, with standards of behaviour set out in generalised form at the international level and translated into specific commitments at country level. There are as yet no established practices for how the new development partnerships should be structured, but certain patterns have started to emerge in the focus countries. They include:

- i) **a statement of principles:** an action plan, memorandum of understanding or joint assistance strategy, setting out the standards of conduct expected from both donors and government;
- ii) **an actions matrix:** a detailed matrix of time-bound undertakings, against which both donors and government agree to be assessed;
- iii) **a monitoring mechanism:** an agreed procedure for monitoring government and donor behaviour, separately or collectively, undertaken jointly by government and donors, or by independent monitors, or both;
- iv) **a structure for dialogue:** an institutional forum or committee structure, through which donors, government and other stakeholders establish principles, agree specific actions and discuss monitoring results.

Under this quasi-contractual model, mutual accountability creates positive incentives for behavioural change, leading to a maturing of the aid relationship.

Flow of funds effects: Together with other donors, DFID has been increasing its use of 'upstream' aid instruments, notably sector-wide approaches (SWAs) and budget support. Programme aid still represents only a small proportion of international assistance. However, in countries where a significant share of assistance has moved upstream, important flow-of-funds effects are already visible. Aid is becoming more predictable and less volatile, with donors timing their commitments and disbursements to the national budget calendar. There is evidence that the share of budgetary expenditure going to PRSP priority areas is increasing. Most importantly, providing countries with more discretionary, on-budget funding is helping to strengthen policy making and planning at the centre of government, making the budget into a more effective tool for development planning.

Stronger country systems: The PRSP initiative is encouraging a more structured approach to building core government systems. While much technical assistance remains piecemeal and poorly coordinated, donors and partner countries are looking more systematically at the core government processes required to implement a PRSP: stronger central policy and planning capacity; activity-oriented budgeting and Medium-Term Expenditure Frameworks; improved public financial management; and systems for monitoring and evaluation. As a result, there is evidence for substantial improvements in the performance of national systems in some countries, although across the board the record is uneven. The budget process and functioning MTEFs have emerged as critical

to effective country leadership. Unless a country strategy is linked effectively to resource allocation, it is little more than a statement of good intentions. However, this linkage requires considerable time to develop.

Improved pro-poor policies and services: We would not necessarily expect to see a boost in the technical quality of government policies in the short term, as a result of CLA. CLA principles suggest that donors should leave partner countries more space to set their own policies and priorities. If this results in a more basic set of policies, but with greater country ownership and more attuned to country circumstances, then that should be rated as progress. Evidence suggests that PRSPs are becoming more country-owned, as they become integrated with existing planning mechanisms. However, there are still concerns about the content of many PRSPs, which have often focused on spending plans with limited analysis of policy choices. There has been significant expansion in the scope of service delivery, particularly in health and education, with programme aid in particular giving governments more scope to fund the recurrent service-delivery costs required for scaling up. However, expansion has often come at the expense of quality and equality of access.

Improved participation of and accountability to poor people: Participation requirements in the PRSP initiative have been valuable up to a point. Countries have gone to some effort to conduct consultations around PRSP formulation, which has helped national NGOs obtain a seat at the policy table. However, this participation has usually been *ad hoc* and poorly institutionalised, falling away after the completion of the document. There is not much evidence that this kind of 'projectised' participation has influenced the mainstream policy process. There is a growing consensus that the focus should be on strengthening participation in core political systems, building up formal accountability institutions including parliament, and strengthening stakeholder capacity to contribute to policy making.

4. Policy implications

The paper makes a number of recommendations for DFID on strengthening country leadership.

Rethinking results: DFID should ensure that its methods of evaluating its own performance reflect the important work underway under the CLA agenda. DFID has made major investments in promoting CLA, both through promotion of the Paris Declaration principles and through painstaking efforts to negotiate and implement new agreements and structures at country level. This work is an upfront investment in improving the effectiveness and efficiency of future assistance, and in creating the preconditions for sustainable progress towards the MDGs. These efforts should be recognised in DFID's corporate commitments, including the Public Service Agreement and Directors' Delivery Plans. These documents should acknowledge that such investments will take time to show returns, but are integral to DFID's strategy for achieving the MDGs. DFID also needs to communicate the CLA agenda better across Whitehall, to manage expectations and ensure that its achievements in this area are recognised.

Strengthening mutual accountability: Building effective relationships with country partners, based on clear rules of the game and robust mutual accountability mechanisms, is essential to improving the performance of development assistance. A key part of the

CLA agenda is articulating the rules, structures and processes through which new forms of development partnership are emerging. DFID's efforts in developing these new rules are fundamental to its global influencing agenda, and need to continue. At the international level, there is a need for continuing articulation of the Paris Declaration principles, improved monitoring systems, and mechanisms such as donor 'league tables' that facilitate comparison of donor performance. At the country level, DFID should continue to lead efforts to negotiate country-specific commitments and frameworks, and create mechanisms for mutual accountability. The innovations emerging at country level should be captured and shared in the form of lessons learned and guidance.

Aid instruments: The CLA agenda should not be equated with particular aid instruments. Rather, it should be a standard against which to measure the performance of all aid instruments. Nonetheless, the shift towards programmatic aid and GBS has proved a spur to CLA by strengthening central government policy processes, and should continue wherever conditions permit. Evidence suggests that most Vertical Funds are not supportive of the CLA agenda. They tend to be supply-driven, with priorities and policies determined externally, and use project-style delivery mechanisms. Capacity building emerges as a deficit in the CLA agenda at present, with technical assistance the least coordinated, strategic and country-led of all aid instruments. DFID should be encouraging partner countries to be more systematic in identifying their own needs and linking technical assistance to policy and service-delivery commitments.

Scaling up: The scaling-up agenda is potentially a challenge to CLA. Pressures to increase the volume of assistance rapidly might force aid administrators to revert to parallel, off-budget delivery mechanisms, and short-cut the slower route of building country capacity. It may also mean that aid administrators simply have less time to spend on institutional issues and relationship-building. Scaling up aid is key to achieving poverty reduction, but it should occur at a rate consistent with partner countries' capacity to make effective use of the assistance, according to their own development goals and strategies.

Mainstreaming participation: Countries vary greatly in their willingness and capacity to lead the development process. The CLA agenda is more difficult to implement when commitment to poverty reduction is weak or intermittent. Donors need to use their influence to broaden ownership of the development agenda, by supporting different groups in society to articulate their needs, influence policy and hold government to account. Consultation requirements around PRSP formulation have been useful up to a point, but the priority should now be to mainstream participation into the general policy process. We need a better understanding of the tools of influence at the disposal of donors, and how they can be deployed consistently with CLA.

Fostering country leadership: Despite its origins in donor conditionality, the PRSP has emerged as the key instrument for fostering country leadership. Donors should increasingly think of the PRSP initiative not in terms of documents, but as a set of integrated policy and planning mechanisms. The PRSP initiative is about taking a systematic approach to building the systems and capacities that countries need in order to prepare and implement a credible development programme, and provide effective leadership over external assistance. These systems and capacities need to be introduced at a pace suited to each country, based on what already exists. In shifting the focus to the underlying planning mechanism, it may be appropriate to lighten the documentation and process requirements, to free up country resources to focus on implementation.

List of acronyms

AfDB	African Development Bank
APR	Annual Progress Report
CAP	Country Assistance Programme
CDF	Comprehensive Development Framework
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
CLA	Country-Led Approach
CPAR	Country Procurement Assessment Report
CSO	civil society organisation
DAC	Development Assistance Committee
DFID	Department for International Development
DPT	diphtheria, pertussis and tetanus
ESW	Economic and sector work
EU	European Union
GBS	General Budget Support
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
HIV-AIDS	Human Immunodeficiency Virus-Acquired Immunity Deficiency Syndrome
IDA	International Development Association
IEO	Independent Evaluation Office (IMF)
IFI	International Financial Institution
ILO	International Labor Organization
IMF	International Monetary Fund
JAS	Joint Assistance Strategy
JAST	Joint Assistance Strategy Tanzania
LICs	Low-Income Countries
M&E	monitoring and evaluation
MDAs	ministries, departments and agencies
MDG	Millennium Development Goals
MoU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
NGO	non-government organisation
OECD	Organization for Economic Cooperation and Development
OED	World Bank Operations Evaluation Department
PAF	Performance Assessment Framework
PER	Public Expenditure Review
PFM	public financial management
PIU	Project Implementation Unit
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSCAP	Public Sector Capacity Building Program (Ethiopia)
PSIA	Poverty and Social Impact Analysis
SIDA	Swedish International Development Agency
SWAp	Sector-Wide Approach
TA	technical assistance
TAS	Tanzania Assistance Strategy
UJAS	Uganda Joint Assistance Strategy
UN	United Nations
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WHO	World Health Organization

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I. INTRODUCTION

1. This synthesis paper is a desk review of evidence on the effectiveness of the Country-Led Approach (CLA) to the delivery of international development assistance. CLA is short-hand for a major paradigm shift in international development practice, which dates back to the launch of the World Bank's Comprehensive Development Framework and the Poverty Reduction Strategy Paper initiative. It calls for a new form of development partnership, based on the alignment of development assistance with country-owned development strategies and government systems.

2. While there is a collective commitment to CLA principles under the 2005 Paris Declaration on Aid Effectiveness, it is a new agenda whose operational implications are still being worked out. It involves changing entrenched patterns of behaviour on the part of both donors and partner countries, and transforming the relationship between them. Country leadership is not just a way of delivering aid, but a goal in its own right which will take considerable effort to achieve.

3. For the time being, most aid practice still falls well short of CLA principles. One would therefore not expect to find widespread poverty-reduction results attributable to CLA at this stage.

4. Nonetheless, there are some very important developments in the CLA agenda occurring at country level. The general principles set out in the Paris Declaration are being translated into specific agreements and structures, setting out the expected behaviour of donors and partner countries. PRSPs are becoming integrated into country planning systems. Donor conditionality is taking the form of benchmarks on PRSP implementation, elaborated through detailed Performance Assessment Frameworks. Donors are developing new aid instruments and techniques to facilitate alignment. Though these practices are still far from universal, they demonstrate the potential of the CLA agenda to transform the way in which development assistance is delivered. They represent important intermediate results in their own right.

5. This paper is a desk review of experience to date in implementing the CLA agenda. To capture the most relevant practices, it focuses on five countries where there has been significant progress in implementing the CLA agenda, along one or more of its various dimensions: Ethiopia, Ghana, Mozambique, Tanzania and Uganda. Illustrations from other countries are also used. The paper does not cover the specific challenges of implementing the CLA agenda in fragile states.

6. The synthesis report begins with a discussion of the core principles of CLA, and what changes they call for in the delivery of development assistance (Chapter 2). Chapter 3 provides an overview of the results achieved to date under the CLA agenda, looking at six different objectives:

- the emergence of new rules of the game in aid delivery;
- moving assistance up-stream;
- stronger country systems;
- improved pro-poor policies and service delivery;
- improved participation of and accountability to poor people;
- poverty reduction.

Chapters 4, 5 and 6 then look in more detail at the processes of change underway across the three main domains of the CLA agenda:

- alignment of development assistance with country strategies and systems;
- the development of effective country leadership of the development agenda; and
- the emergence of new rules and standards to structure development partnerships.

Chapter 7 sets out some broad policy implications for DFID in moving the CLA agenda forward.

II. WHAT IS THE COUNTRY-LED APPROACH?

1. Changing the assistance paradigm

7. The Country-Led Approach (CLA) is short-hand for a fundamental reorientation in the delivery of development assistance, which began in the mid-1990s. It is not a single initiative or instrument, so much as a set of principles or convictions about how the aid business needs to change. This new aid paradigm is now broadly accepted at the international level, notably by the 90 countries and 26 multilateral organisations that signed up to the 2005 Paris Declaration on Aid Effectiveness. However, its operational implications are still being worked out.

8. CLA can best be understood as a reaction against two aspects of past aid practice that came under sustained criticism in the 1990s: the use of projects to bypass government systems; and the use of *ex ante* conditionality to extract policy commitments.

9. Aid projects operating separately from or as islands within a country's administration are the traditional way of delivering development assistance in a weak institutional environment. By creating their own Project Implementation Units (PIUs), donors are able to bypass weak government systems and capacity constraints, creating an acceptable fiduciary environment for their assistance. However, capacity built up within PIUs has usually proved impossible to transfer back into government. The short-term efficiency gains of bypassing government systems has come at the cost of a missed opportunity to build up the institutions and capacity required to replicate the results over the longer term. As a result, donors have become more willing to direct their assistance through country systems, accepting higher fiduciary risk and decreased control over implementation as a necessary trade-off in pursuit of longer term institution-building goals. Through the Paris Declaration, donors are now committed to phasing out PIUs and using government systems as far as possible to deliver their assistance

10. The use of *ex ante* conditionality to secure policy reforms, most commonly associated with structural adjustment programmes promoted by the International Financial Institutions (IFIs), came under increasing criticism during the 1990s. Where policy initiatives were developed by foreigners and signed off on by government in order to access finance, they were rarely implemented effectively or sustained over time. Policy conditionality created a profoundly dysfunctional aid relationship, casting partner governments in the role of 'reluctant reformers', always promising more than they were willing or able to deliver. It interfered with domestic policy processes and accountability, creating incentives for governments to shift the blame for hard policy choices to the IFIs, rather than defending them before their own electorates. It proved to be quite the wrong tool for bringing about the complex institutional reforms required for poverty reduction. Donors came to accept the weight of evidence that genuine country ownership was a necessary condition for development results.

11. CLA is therefore at heart a recognition of these two imperatives:

- i) that aid is effective only if it supports a country's own development goals and policies;
- ii) that aid must be delivered in ways that use and strengthen a country's own institutions, systems and capacities.

12. These principles place the state, its effectiveness and its responsiveness to the needs of society at the very heart of the development agenda. Development is something that must be done by a country, not to it. By locating agency firmly in the partner country itself, it changes the role of donors in the development process, from a directive to a supportive role. According to one DFID document,

“Country led approaches are about empowering partner countries to define their own approach to tackling poverty.”¹

13. Donors began incorporating these principles into their practice in the second half of the 1990s. The World Bank created a Partnership Group in 1998 to develop the concept of aid as a partnership between donors and recipients. This led to the Comprehensive Development Framework (CDF), hailed as a fundamental change in the way the Bank interacts with its clients. It was built on four principles.

1. Assistance should be delivered within a **long-term, holistic development framework**;
2. **Results-orientation**: development performance should be evaluated according to measurable outcomes, not inputs;
3. **Ownership**: development goals should be owned by the partner country, and shaped through citizen participation;
4. **Country-led partnership**: partner countries should lead aid management and coordination, within a partnership based on transparency, mutual trust and accountability.

14. Mainstreamed in 2001, the CDF became subsumed into the Poverty Reduction Strategy Paper (PRSP) initiative. PRSPs were initially as part of the Highly Indebted Poor Country (HIPC) initiative, in order to satisfy donors that the funds released through debt relief were being spent on poverty reduction. The origin of the PRSP in donor conditionality has at times been in tension with the principle of country leadership. Nonetheless, PRSPs have become the main instrument through which partner countries can assert their leadership of the development partnership. Around 60 countries have now completed or are preparing a PRSP, and most bilateral donors are committed to aligning their assistance to the strategy. One World Bank report concluded:

“A PRSP is not a perfect incarnation of the CDF principles, but it is a good start, it is worth it, and it does, up to a point, work.”²

15. DFID has made a strong corporate commitment to CLA. It has often led on efforts to improve harmonisation and alignment at the country level, and has helped to develop innovative mechanisms – performance assessment frameworks; joint assistance strategies; review processes – to promote openness and mutual accountability. At the international level, it was one of the sponsors of the 2005 Paris Declaration on Aid Effectiveness, which was based firmly on CLA principles. Like other donors, however, DFID is still working through the implications of CLA for its own corporate rules,

¹ DFID, “DFID Action Plan - moving forward with country-led approaches to poverty reduction”, Paper for the Development Committee, 22 February 2005.

² World Bank, “Toward country-led development: a multi-partner evaluation of the Comprehensive Development Framework - Synthesis Report”, CDF Evaluation Management Group, 2003, p. xiii.

practices and behaviours. A 2005 DFID Action Plan on CLA acknowledges that many aspects of the CLA vision are still aspirational.³

2. Working towards country leadership

16. So what is really changing as a result of CLA? In this paper, we identify three main domains of change which jointly constitute the new CLA paradigm.

1. The alignment of international assistance with country plans and systems

- Donors are beginning to programme their assistance according to the goals, priorities and strategies articulated by partner countries.
- Donors are using conditionality to reinforce commitments under partner countries' own development plans, rather than leverage new commitments.
- Donors are adopting new aid instruments, including sector-wide approaches and budget support, which use and strengthen country systems and leadership.
- Donors are making a concerted effort to support the strengthening of country systems in order to facilitate alignment.

2. Building effective country leadership of the development agenda

- Partner countries are preparing comprehensive development strategies, covering both national resources and external assistance.
- Partner countries are changing the way in which development policy is made, to broaden ownership and make development initiatives more responsive and accountable to poor people.
- Partner countries are developing the systems required to make their development strategies operational, including improved policy making and budgeting processes, Medium-Term Expenditure Frameworks and results-oriented monitoring systems.

3. The emergence of new rules of the game for international assistance

- The aid community is articulating new goals and standards at the international level which reflect CLA principles.
- These commitments are being translated into detailed undertakings at country level, with mutual commitments by partner countries and donors.
- New mechanisms are being developed to support mutual accountability, including monitoring mechanisms and peer review processes.

17. Change is underway across all three domains, affecting the delivery of international development assistance in profound ways. However, changing multiple institutions on both the donor and partner country sides is necessarily a slow process, and is happening at different speeds in different countries. Because CLA depends in large part on the capacity and willingness of partner countries, it is not something that can be achieved unilaterally by donors. Country leadership is a goal, as well as a means, of effective development assistance.

³ DFID, "DFID Action Plan - moving forward with country-led approaches to poverty reduction", Paper for the Development Committee, 22 February 2005.

18. Clearly, not all countries are equally committed to development and poverty reduction. Through political economy analysis such as DFID's Drivers of Change work, we have a clearer understanding of how certain types of political system may inhibit the institutional changes and reallocation of resources required for sustained development. Countries may also have national development agendas that are not focused on achieving poverty reduction. Donors use a number of approaches to try to reinforce country commitment to poverty reduction, including using dialogue and influence to encourage partner countries to adopt pro-poor policies and reforms, and tying their assistance to benchmarks based on partner country undertakings to sustain commitments over time. Fundamental to the CLA agenda is the proposition that national policy agendas will be more pro-poor in nature if there is broad ownership across society of the poverty reduction agenda, and if the poor themselves have opportunities to participate in and influence the policy process. CLA is therefore not just about accepting the priorities of the government of the day, but about changing the way in which those priorities are established.

19. There are obvious dangers, given the power imbalance between donors and aid-dependent countries, that in attempting to influence partner countries, donors will revert to a directive relationship. However, donors' first commitment is to tackling global poverty, and they have never understood CLA as requiring them to support government agendas that are not pro-poor. External influence is therefore a necessary part of the CLA agenda.⁴ The challenge is to find ways to exercise influence that do not undermine country leadership or substitute for domestic accountability processes.

3. Rethinking development results

20. If country leadership is both a precondition for sustainable development and a difficult challenge in its own right, then this must be reflected in the way we think about results.

21. DFID and its donor partners are committed to a focus on results – that is, measuring their performance by its impact on poverty. The Millennium Development Goals (MDGs) have emerged as a key tool by which progress on poverty reduction can be measured and compared internationally. However, results-orientation does not mean focusing on outcome indicators to the exclusion of intermediate processes of change. It means focusing on the entire causal chain required to achieve poverty reduction. If country leadership is indeed a precondition for sustainable poverty reduction, then the complex processes of change required in order to build effective country leadership must factor in the way we assess results.

22. An exclusive focus on impact indicators poses a threat to the CLA agenda. CLA entails trade-offs between short-term efficiency in aid delivery, and longer-term capacity-building goals. For example, in dismantling PIUs and using government systems for procurement and financial management, donors are accepting the risk that their aid may not be used as effectively and efficiently in the short term, in order to focus on the larger goal of strengthening country systems. It may indeed be quite some time before country strategies and systems develop into effective instruments of poverty reduction. If these incremental processes of change are not captured in corporate commitments and

⁴ See DFID, "Partnerships for poverty reduction: rethinking conditionality - A UK policy paper", March 2005, p. 11,

performance indicators, then the considerable efforts underway to promote the CLA agenda will be systematically undervalued. As one DFID paper puts it,

“Donors have unrealistically high expectations about how quickly a PRS or national strategy can turn around progress on the MDGs. This is often driven by political pressures and the need to demonstrate results and progress to tax payers. As a result donors tend to focus on short term wins, their own political priorities and the impact of specific donor interventions. This can conflict with an approach which puts developing countries in the driving seat with donors supporting, rather than directing the development process.”⁵

23. Indeed, there is a danger that pressure to scale up aid and accelerate progress towards the MDGs will force a reversion to pre-CLA methods. Already, we see a proliferation of vertical, global funds, which deliver assistance in a standardised manner outside of country programmes and systems. These funds represent a competing aid-delivery paradigm to CLA.

24. In this paper, progress on promoting effective country leadership of development assistance is presented as an important result in its own right. Among the key changes discussed in the following chapter are:

- improved alignment of assistance with country-led development strategies;
- the use of conditionality to reinforce commitments made by countries in their own development strategies;
- the articulation of these commitments in the form of time-bound Performance Assessment Frameworks, which strengthen monitoring and accountability;
- the shift of assistance up-stream, which strengthens central government policy and budgeting processes and generates positive incentives for reform;
- a broader approach to the PRSP, which focuses less on the document itself and more on promoting an integrated set of planning and budgeting processes required for effective country leadership of the development process;
- the articulation of new rules of the game for development assistance, and the emergence of more structured forms of development partnership based on mutual accountability.

25. It is difficult to show at this early stage that these changes have yet had an impact on the rate of progress towards the MDGs. However, there are processes underway which, if they continue to mature, will significantly increase the prospects of achieving sustainable poverty reduction over the longer term.

⁵ DFID, “DFID Action Plan - moving forward with country-led approaches to poverty reduction”, Paper for the Development Committee”, 22 February 2005, p. 5.

Paris Declaration on Harmonisation and Alignment Indicators on Progress
OWNERSHIP
<p>1. Partners have operational development strategies No of countries with national development strategies (including PRSs) with clear strategic priorities linked to medium-term expenditure frameworks and reflected in annual budgets</p>
ALIGNMENT
<p>2. Reliable country systems Number of partner countries with procurement and public financial management systems that adhere to broadly accepted good practices or have a reform program in place to achieve these</p> <p>3. Aid flows aligned with national priorities Percent of aid flows to the government sector that is reported in partner countries' national budgets</p> <p>4. Strengthen capacity by coordinated support Percent of donor capacity-development support provided through coordinated programs consistent with partner countries' national development strategies</p> <p>5. Use of country systems Percent of donors and of aid flows that use partner country procurement and/or public financial management systems in partner countries, which adhere to broadly accepted good practices or have a reform program in place</p> <p>6. Strengthen capacity by avoiding parallel implementation structures Number of parallel project implementation units per country</p> <p>7. Aid is more predictable Percent of aid disbursements released according to agreed schedules in multi-year frameworks</p> <p>8. Aid is untied Percent of bilateral aid that is untied.</p>
HARMONISATION
<p>9. Use of common arrangements or procedures Percent of aid provided as program-based approaches</p> <p>10. Encourage shared analysis Percent of field missions and/or country analytic work, including diagnostic reviews, conducted jointly.</p>
MANAGING FOR RESULTS
<p>11. Results-oriented frameworks Number of countries with transparent, monitorable performance assessment frameworks to assess progress against national development strategies and sector programs</p>
MUTUAL ACCOUNTABILITY
<p>12. Mutual accountability Number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness, including those in this (Paris) Declaration</p>

III. EMERGING EVIDENCE ON RESULTS

26. CLA is not a single initiative or instrument, that can be implemented by donors and then evaluated for its effectiveness. It is a complex process of change spanning multiple actors, which has reached different stages of implementation in different countries. Comparing CLA to its counter-factual ('donor-led approaches') is largely impossible, both because of the complexity of the processes involved, and because shortcomings at this stage are more likely to result from a lack of adherence to CLA principles, than to flaws in the approach itself.

27. So what confidence do we have that CLA is the right agenda? This chapter provides an overview of evidence available at present in the literature about the change processes underway towards CLA, and their impact at country level. The focus is on five countries – Ethiopia, Ghana, Mozambique, Tanzania and Uganda – where implementation of the CLA agenda has reached a level where one might expect to see some results emerging.

28. The literature suggests that there are some very important processes of change underway under the CLA agenda, but they remain uneven. In most cases, the evidence shows that country leadership is some way off being realised, both on the donor and country partner sides.

29. This chapter provides a high-level overview of the results achieved to date under the CLA agenda, across six areas:

- new rules of the game;
- moving assistance up-stream;
- stronger country systems;
- improved pro-poor policies and service delivery;
- improved participation of and accountability to poor people;
- poverty reduction.

The evidence surveyed in this chapter is further elaborated in the following three chapters, which explore the main change domains in more detail.

1. New rules of the game

30. This is the least tangible, but potentially the most important of the changes underway under the CLA banner. Through twin processes at the international and country levels, a new set of rules to structure the aid relationship is emerging.

31. In the past, development assistance was largely unilateral in nature. Donors could provide their assistance on whatever terms they wished, leaving recipient countries to take or leave it. Aid-dependent countries had little alternative but to take it. They were in no position to demand that donors be consistent, transparent or reasonable in their behaviour. Though donors may have set down standards for themselves, they were free to disregard or change them at their own convenience.

32. This is beginning to change. The provision of international assistance is gradually becoming a rule-governed activity, with standards of behaviour articulated in generalised form at the international level for donors, multilateral organisations and recipient countries to sign up to. These standards are designed to promote donor conduct that is

consistent with the best interests of the recipient country, as understood by CLA principles. Under the Paris Declaration, donors pledge to provide predictable aid flows, to be transparent in their use of conditions, and to minimise transaction costs through harmonisation of processes and the untying of aid. They commit to respecting and facilitating country leadership, to aligning their aid with country systems, to dismantling parallel aid delivery structures and to using country systems wherever possible.

33. There are also standards for recipient countries, who commit to developing and implementing credible development policies and strategies, introducing consultative processes for policy making, taking on leadership of aid coordination, and strengthening the systems required for long-term development.

34. As with many standards in the international sphere, there are no sanctions for non-compliance, at least on the donor side. However, full transparency – for instance, the publication of ‘league tables’ on donor performance – generates helpful peer pressures. ‘Soft norms’ of this kind do not guarantee compliance, but they create a set of legitimate expectations about what constitutes good aid practice, and can have a powerful influence on behaviour over time.

35. In some instances, these general principles are being further articulated into specific commitments at country level. For example, there are now Joint Assistance Strategies in Uganda and Tanzania that set out the principles on which the development partnership is based, and include the goal of aligning assistance with government priorities and systems. A draft Addis Declaration in Ethiopia, modelled on the Paris Declaration, articulates specific commitments on harmonisation and alignment. A number of countries (Mozambique; Ghana) have developed Performance Assessment Frameworks, which articulate the goals and policy commitments set out in the PRSP into a set of monitorable actions, linked to the disbursement of international assistance. These country-level commitments are being reinforced by review mechanisms designed to assess compliance on both sides.

36. These new mechanisms have emerged through a process of experimentation at field level in recent years. DFID has been highly instrumental in their development. They have not yet become general practice, but they demonstrate what becomes possible as the aid relationship matures within a CLA framework. Under this quasi-contractual model, mutual accountability creates positive incentives for behavioural change. While it does not eliminate power imbalances or guarantee compliance, it creates a set of norms that are essential to creating a more mature development partnership.

2. Moving assistance up-stream

37. Together with other donors, DFID has been increasing its use of ‘upstream’ aid instruments, notably sector-wide approaches (SWAs) and budget support.⁶ Of 60 partner countries monitored on the DAC website, 26 report SWAs in place or under development.⁷ There are 14 donors offering budget support in Africa.⁸ Although most

⁶ Warrener, Debbie, “Synthesis Paper: current thinking in the UK on General Budget Support”, December 2004.

⁷ DAC, “Harmonisation, alignment, results: report on progress, challenges & opportunities”, February 2005, p. 24.

⁸ SPA, “Survey of budget support 2005”, December 2005.

aid is still delivered in the form of projects, in countries where a significant share of assistance has moved upstream, important flow-of-funds effects are already visible.

38. First, aid is becoming more predictable and less volatile. In a growing number of countries (see the examples in paragraph 104), donors are making efforts to time their commitments and disbursements to the national budget calendar, allowing aid to be reflected in the budget. Multiyear funding commitments are becoming more common. Donors are improving their disbursement performance. The Strategic Partnership for Africa survey of budget support for 2005 found that 87.4% of commitments were disbursed in-year (with non-disbursement relating mainly to non-performance by partner countries). DFID is among the donors that have improved their disbursement performance significantly in recent years.

39. Second, placing more aid on-budget is helping to turn the budget into a more effective tool for development planning. This is one of the most interesting findings from the Joint Review of Budget Support, even if the results are more potential than actual at this stage.⁹ Budget support increases the level of government discretion over budget allocation. The scope for linking the PRSP to the budget becomes greater. Sectoral ministries, which in the past negotiated directly with donors for resources, now have an incentive to participate actively in the budget process. While this change is often resisted by individual ministries, it is a step forward in creating a credible, country-led planning mechanism. In Mozambique, for example, the Joint Evaluation of General Budget Support noted a moderately positive effect in building cross-government planning capacity, an improved budget process and a stronger role for the centre of government in setting strategy.¹⁰ As the sectors become more dependent on the budget for their resources, there is greater scope for a results-oriented budget process. In both Uganda and Tanzania, rules have been introduced requiring the sectors to justify their resource bids by reference to evidence on programme performance, creating for the first time a real incentive to monitor results and strengthen performance (see examples under para. 156).

GBS and the budget process in Mozambique

“GBS should provide a strong incentive to the government, and [the Ministry of Planning and Finance] in particular, to ‘take command’ of budget policy, allocating resources in a more rational, policy-driven manner than in the past. However, two major constraints limit the extent to which this is really likely to happen: first, the government’s weak capacity to improve budget management; and, second, the fact that GBS still accounts for only about two fifths of aid to Mozambique...”

Tony Hodes & Roberto Tibbana, “Political economy of the budget in Mozambique”, December 2004, pp. 9 & 13

The Government of Uganda’s preference for GBS

“Providing aid in the form of budget support enhances ownership of the budget and enables a more internally coherent budget to be formulated, in which scarce budgetary resources are allocated to the government’s own strategic spending priorities and the relative costs and benefits of competing expenditure demands. Projects lead to a fragmentation of the budget, with decisions about donor project

⁹ Tench, Kate, “Interim findings from the joint evaluation of general budget support”, Evaluation Department Brief, December 2005.

¹⁰ Batley, Richard, Liv Bjornestad & Amelia Cumbi, “Joint evaluation of General Budget Support 1994-2004: Mozambique Country Report”, September 2005.

expenditure divorced from national budget process and taken without proper consideration of the relative merits of all competing expenditure demands.”

Government of Uganda, Poverty Eradication Action Plan No. 3, 2004, p. 211

40. Third, there is evidence that the share of budgetary expenditure going to PRSP priority areas is increasing in many countries, partly as a result of HIPC and partly of the shift to programme aid. The 2005 IMF/World Bank PRSP Review found increases in pro-poor expenditure averaging 2 percentage points of GDP between 1999 and 2004, for the 27 countries that have reached HIPC Decision Point.¹¹ A detailed study of five PRSP countries (Bolivia, Burkina Faso, Cambodia, Tanzania and Vietnam)¹² found a significant increase in funding in absolute terms for PRS priority sectors, particularly for education, rural development and transport. The study also found that PRSP priority areas received greater protection from in-year budget cuts. The pattern for relative shifts in expenditure was less clear, often varying year on year. Most of the increases were in capital investments, which is not an encouraging finding as the most pressing needs tend to be in non-wage recurrent expenditure.

41. In the five focus countries, pro-poor expenditure has increased substantially in recent years in absolute terms, but not always in relative terms. The largest increases have been in health and education, and to a lesser extent road transport. According to a study by DFID's Africa Policy Department, both domestic and external funding for health and education have increased, which is a positive finding.¹³ However, certain priority areas, such as agriculture and rural development, have not seen the same increases. There is limited evidence of greater poverty efficiency of expenditure, particularly in its geographical distribution.

Increases in pro-poor expenditure

In **Mozambique**, the allocation to PRSP priority sectors was already high (around 65%) and increasing, before the shift to GBS. Since GBS, allocations to priority sectors have grown in proportion to the budget as a whole. The GBS Joint Evaluation concludes that GBS has enabled a very high level of social sector expenditure established during the reconstruction period in the 1990s to be sustained after 2000. However, the incremental budget system favours geographical areas with large existing allocations, which tends to be inverse to poverty rates. Thus, the poverty efficiency of spending is not high.¹⁴

In **Tanzania**, the government doubled *per capita* expenditure on PRS priority sectors from 1999 to 2003, and disbursements have been protected against in-year cuts (especially for road maintenance and education). However, social sector expenditure has not increased in relative terms. The pattern of government spending indicates a tacit priority to economic services over the social sectors, which is not reflected in the PRSP.

¹¹ IMF & WB, “2005 review of the Poverty Reduction Strategy Approach: Balancing Accountabilities and Scaling Up Results”, August 2005.

¹² Alonso, Rosa, Lindsay Judge & Jeni Klugman, “PRSPs & budgets: a synthesis of five case studies”, January 2005.

¹³ DFID Africa Policy Department, “Review of health and education progress in selected African countries: synthesis report”, April 2005.

¹⁴ Batley, Richard, Liv Bjornestad & Amelia Cumbi, “Joint evaluation of General Budget Support 1994-2004: Mozambique Country Report”, September 2005.

In **Ethiopia**, the Government has increased its expenditure on poverty reduction from 43% of total expenditure in 2001/02 to 67% in 2005/6. The defence budget has been capped in cash terms, and is declining as a share of the total. Most of the increase is capital expenditure, particularly road building and rural electrification, and food security. In the social sectors, the funds are mainly channelled through districts where they are consumed by salaries, leaving few resources to improve the quality of services.

In **Ghana**, pro-poor spending has increased from 4.8 percent of GDP in 2002 to 7.7 percent in 2004. Budget allocations to the social sectors have increased steadily to 38.67% of the budget. On the other hand, allocation to economic services declined by almost 50%, falling from 18.02% in 2002 to 9.06% in 2003. As this includes expenditure on agriculture, this decline may have had significant negative implications for the poverty reduction programme.¹⁵

Uganda uses a virtual Poverty Action Fund (PAF) to protect budget allocations to priority sectors. The PAF has increased to 37% of the budget, up from 18% in 1998. The greater share of these funds have been channelled into basic services through local government. However, areas outside the PAF which might nonetheless be important to poverty reduction, such as the justice sector, have experienced large budget cuts.

3. Stronger country systems

42. Creating effective government systems is at the heart of the CLA agenda, and central to the pledges made under the Paris Declaration. The PRSP initiative has led to a more strategic focus on building core government systems. While Technical Assistance has traditionally been (and in many cases still is) piecemeal and poorly coordinated across donors, donors and partner countries are looking more systematically at the core government processes required to implement a PRSP: stronger central policy and planning capacity; activity-oriented budgeting and Medium-Term Expenditure Frameworks; improved public financial management; systems for monitoring and evaluation. As the PRSP process matures, attention is shifting from the quality of the document itself, to the systems required to make it operational. Programmatic support at the sectoral level is also helping to build planning, budgeting and strategic management capacity in certain areas, particularly the social sectors.

43. As a result, there is certainly evidence for improvements in the performance of government systems in particular countries. However, across the board, the record is uneven. As a rule, progress has been more impressive in countries where systems were already solid, or where government was committed to strengthening them. Where country systems were weak at the beginning of the PRSP process and government leadership of reform was lacking, it is harder to find evidence of improvements.

“The [PRSP] Initiative has added the most value in countries where government leadership and aid management processes were already strong. It has had less effect in countries with weak public sector capacity or with donor-dominated aid relationships.”

World Bank OED, “The Poverty Reduction Strategy initiative: an independent evaluation of the World Bank’s support through 2003”, 2004, p. xiii

¹⁵ Ernest Aryeetey & David Peretz, “Monitoring donor and IFI support behind country-owned poverty reduction strategies in Ghana”, Report for the Commonwealth Secretariat, June 2005, p. 19.

44. The need to strengthen the budget and introduce functioning MTEFs has emerged as critical to the PRSP initiative. Unless a PRSP is linked effectively to resource allocation, it is little more than a statement of good intentions. This linkage requires multiple reforms, which need to be sequenced over many years. One study found that the following improvements to budget/PFM systems were common:

- greater availability and coverage of expenditure data, and improved transparency;
- better integration of external assistance with the national budget (although few countries are able to track all external assistance, often due to poor information flows from donors);
- more attention to linking expenditure with poverty reduction results, although PRS monitoring systems remain weak and rarely produce information at the right point in the budgetary cycle;
- greater use of sectoral working groups, which improve inter-ministerial coordination and provide a forum for civil society participation.¹⁶

45. On the other hand, the study found little improvement in:

- internal and external audit;
- budget classification (most countries are still unable to attribute expenditure to PRS priorities at budget execution stage, beyond broad, sector-level headings);
- information on budget execution from sub-national governments;
- bringing off-budget expenditure onto the budget;
- legislative oversight;
- providing regular releases under cash budgeting systems.

46. Despite these reservations, the study is quite up-beat about the contribution of the PRSP initiative to what is acknowledged to be a very difficult area.

“Overall, our findings are highly encouraging as the PRSP process in a short period of time has succeeded in difficult areas where traditional public sector reform initiatives had failed. In particular, we find evidence that it has increased the transparency, openness and pro-poor character of budgeting processes.”

Alonso, Rosa, Lindsay Judge & Jeni Klugman, “PRSPs & budgets: a synthesis of five case studies”, January 2005, p. 34

47. In the focus countries, the record on PFM reforms is mixed. While there has been good progress in Tanzania, the experience in Ghana, where reforms have often stalled for want of effective country leadership, is more typical. There are still concerns that TA is poorly coordinated among donors and largely supply driven. Few countries have developed a national plan to identify the reforms and capacity-building needed to implement their PRSP.

| Significant PFM improvements in Tanzania

¹⁶ Alonso, Rosa, Lindsay Judge & Jeni Klugman, “PRSPs & budgets: a synthesis of five case studies”, January 2005.

In Tanzania, PFM was very weak up to 1996. However, there have been significant improvements to PFM systems during the PRSP period. An impressive financial management information system has been implemented, together with general upgrading of financial control, accounting and reporting. The Accountant General's office has been strengthened. There have been "huge increases" in the capacity of the ministry of finance, including a strong Policy Analysis Department. There have been broad improvements in budget execution, although in-year revisions are still common. Strong backing from the President has been a key ingredient in these achievements.¹⁷

Slow progress in Ghana

In Ghana, by contrast, progress has been much more limited. An independent review reported that expenditures in health and education deviated markedly from the budget, due in large part to leakages in the PFM systems. This is despite several attempts to overhaul the system with assistance from donors.¹⁸

48. PRSP monitoring systems have been slow to develop,¹⁹ and the World Bank has noted that 'results orientation' is the most difficult of the CDF principles to implement. Countries have gone to some lengths to establish indicators and set targets for PRSP monitoring. Some have institutional structures in place to coordinate data collection and information flows. However, few are systematically using monitoring information to improve policies and programme performance, or to strengthen external accountability (see paras. 151-156 below).

49. Across the board, it is clear that PRSP countries face significant problems with the structure and performance of their public administrations. Human resource constraints remain severe, and are extremely difficult to address given constraints on wage expenditure. Capacity problems in sub-national government, often responsible for the bulk of pro-poor service delivery, are particularly acute. There are a few encouraging examples (notably Ethiopia) where partner countries have adopted a national strategic plan for building capacity in their administrations. For the most part, however, country leadership of capacity building remains a real deficit. In the absence of effective country leadership of reform, external TA tends to be fragmented and lacking strategic direction. Extending the CLA agenda into public-sector reform remains a key objective.

Capacity constraints in Ghana

"Centrally and in the MDA's, government lacks in-house capacity for policy analysis and monitoring. This is a paradox since Ghana is one of the few African countries endowed with a number of research institutions, think tanks, local consultancy agencies, and policy-oriented NGOs. Yet, no effort is made by government to utilize existing knowledge and capacity outside of government. The problem has been low pay and poor condition of service in the civil service that had forced many competent professionals to leave the service in droves. Retaining and motivating skilled staff has been a problem across the public service. Stopgap measures often

¹⁷ Alonso, Rosa & Robert Utz, "Fiscal aspects of PRSP implementation in Tanzania", December 2003.

¹⁸ Cheru, Fantu, "The PRSP process in Ghana", 2nd Meeting of the African Learning Group on PRSPs, Brussels, November 2002, p. 13.

¹⁹ Bedi, Tara, Aline Coudouel, Marcus Cox, Markus Goldstein & Nigel Thornton, *Beyond the Numbers: Understanding the Institutions for Monitoring Poverty Reduction Strategies* (World Bank, Washington, D.C.), forthcoming 2006.

funded by donors, such as recruiting consultants at salaries ten times more than the salary of a regular civil servant, had done nothing but to deepen the situation of low morale in the civil service.”

Fantu Cheru, “The PRSP Process in Ghana”, Paper for the African Learning Group on PRSPs, Economic Commission for Africa, Brussels, November 2002, p. 19

4. Improved pro-poor policies and service delivery

50. We would not necessarily expect to see a boost in the technical quality of government policies in the short term, as a result of CLA. CLA principles suggest that donors should leave partner countries more space to determine their own policies and priorities, while encouraging broader participation in the policy process. If this results in a more basic set of policies, but which have greater country ownership and are more attuned to country circumstances, then that should be rated as progress.

51. The PRSP initiative has not always been fully consistent with this principle, with donor support to strategy development at times becoming directive in nature. Nonetheless, the initiative represents an important step forward in the articulation of pro-poor policy, encouraging countries to articulate their own development goals and approaches. PRSP countries have collected new information on the nature and causes of poverty, enabling them to target pro-poor measures more effectively. Much of the effort has gone into developing spending programmes, particularly in the social sectors, rather than improving policy frameworks. Policies for promoting pro-poor growth have been relatively neglected (see chapter V, section 1).

“Most stakeholders agree that the Initiative has improved the poverty focus of dialogue during formulation of national strategies. The need for PRSPs to be based on a sound poverty diagnosis has highlighted the poor data on the main characteristics of poverty in many countries and, in some cases, has already resulted in marked improvements in data quality. The PRS process has played an important role in emphasizing multidimensional income and non-income poverty indicators. The process of gathering sector programs under one strategic umbrella has helped policymakers better appreciate the links between sector strategies and poverty reduction, and sector expenditure plans are being challenged to meet poverty reduction criteria.”

World Bank OED, “The Poverty Reduction Strategy initiative: an independent evaluation of the World Bank’s support through 2003”, 2004, p. xv

52. The World Bank PRSP evaluation pointed out important limitations on the quality of PRSP policies. It assessed the integration of the social and productive sectors as weak. In general, sources of growth are not analysed, and their implications for policy are not explored. Countries are unable to assess the poverty implications of their macroeconomic policy choices. There is a strong bias towards the social sectors, driven in part by donor preferences. However, even within the social sectors, there is limited attention to distributional and equity issues.²⁰

²⁰ World Bank OED, “The Poverty Reduction Strategy initiative: an independent evaluation of the World Bank’s support through 2003”, 2004, p. xv.

53. A World Health Organization assessment of health policy in PRSPs found that the analytical side was rather poor.²¹ While health is now universally recognised as an essential component of poverty reduction, there is little in-depth analysis of health-poverty links, and little empirical data. Most PRSPs outline gaps in health coverage, and provide overviews of key health issues (e.g., child and maternal health; communicable diseases; malnourishment). However, there is insufficient analysis as to why existing health services often fail to reach the poor. Most PRSPs are genuinely pro-poor in their selection of issues (e.g., disease control, reproductive health, immunization, water and sanitation), but not necessarily in their targeting of expenditure and service delivery (geographical, or between social groups). Alternative policy options are rarely discussed, and there is limited examination of past successes and failures. PRSPs often indicate where cross-sectoral approaches would be useful (e.g., between education and health), but rarely pursue the linkage (except for HIV-AIDS). In absolute terms, health spending is increasing in PRSP countries, but as a share of GDP the increases are small. There is limited evidence that health as a whole is receiving the attention that would be needed to meet the MDGs.

Health policy in PRSPs

“Over time, a more detailed analysis of poverty–health links may be emerging in PRSPs, but – with some notable exceptions – this remains far short of comprehensive. In the main, PRSPs do not systematically identify those health issues which are the biggest contributors to poverty or the greatest brake on economic growth, and then set out to tackle them. Nor do they look systematically at the health situation of the poor – beyond noting that they tend to have the worst health outcomes and are unable to afford health care fees.”

WHO, *“Poverty Reduction Strategy Papers: their significance for health – second synthesis report”*, 2004, p. 18

54. The Joint Evaluation of GBS indicates that the main impact of budget support on poverty has been an expansion in the scale of service-delivery, particularly in health and education.²² Increased on-budget resources have enabled government to fund recurrent service-delivery costs, which most other aid instruments do not allow. However, in some cases expansion in the scale of services has come at the expense of quality and equality of access. Improving the quality and targeting of services will require more profound institutional changes.

55. A DFID review found evidence of general improvements in health services in sub-Saharan Africa, but with limited impact on outcomes.²³ While capacity has increased, evidence of increased utilisation of services is equivocal. User fees (other than in Uganda) remain a substantial barrier to access by the poor, while contributing an insignificant share of sector resources. All African countries face a major human resource crisis, being unable to recruit, train, deploy or retain the staff they need. Public health services are suffering from competition from the non-government sector. Health care professionals usually refuse to deploy to the poorest areas, and are emigrating in large numbers. These problems are difficult to address without increasing salaries.

²¹ WHO, *“Poverty Reduction Strategy Papers: their significance for health – second synthesis report”*, 2004, p. 18

²² Tench, Kate, *“Interim findings from the Joint Evaluation of Budget Support”*, December 2005.

²³ DFID Africa Policy Department, *“Review of health and education progress in selected African countries: synthesis report”*, April 2005.

However, as salaries already absorb up to 90% of health budgets, this cannot be done without major trade-offs.

Selected health outputs and outcomes²⁴

Mozambique: There has been a rapid expansion in health services in the post-war period against a very low base. There has been continuous improvement in rates of child vaccination. Infant mortality declined from 147 to 124/1,000, and maternal mortality has halved in a decade. The number of consultations conducted by medical practitioners increased by 14.3% over the past year.

Ethiopia: There has been significant improvement in nutrition, with the stunted index declining from 65.7% (1996) to 46.9% (2004). The number of births attended by a health professional has doubled, although it remains low at 9.5%. Vaccination rates increased substantially, and the level of access to safe water increased from 19% to 36% of the population. However, key outcomes such as infant mortality show little change.

Tanzania: There has been a significant increase in outpatient attendance, and improved immunisation rates as a result of vertical programmes (90% DPT3 coverage). However, there are concerns that increases in the scale of services have not been matched by increases in quality or efficiency. The human resource crisis remains acute in the medical system remains acute.

56. In education, many PRSP countries have achieved major increases in primary school enrolment, mainly through the abolition of tuition fees, and many are on-track to achieve the 100% net enrolment MDG. However, the expansion of enrolment has come at the expense of quality. Class sizes across the board are above the benchmark of 40, and in some cases way above (Uganda 94; Malawi 108). There are widespread shortages of teachers, classrooms and teaching materials. As a result, most countries are making slow progress on primary completion rates (Uganda 22%, Ethiopia 37%, Ghana and Malawi 78%). Gender parity has improved significantly at primary level, although in some cases is falling behind in secondary education.²⁵

Selected education outputs and outcomes²⁶

Ethiopia: Primary enrolment has doubled, from 37% (1995/6) to 74% (2004/5). However, high repetition rates indicate quality problems, and there is a severe shortage of qualified teachers. The Gender Parity Index (GPI) for primary enrolment has improved substantially, from 75% (1996) to 95% (2004).

Mozambique: The number of schools and students has expanded at 9-11% per annum since 1999. Primary school enrolment reached 75% in 2005 (the PRSP target), compared to 50% in 2000. Quality remains a major concern. The training of teachers has not kept pace with the expansion of the system, so class sizes have risen and repetition and drop-out rates are high. However, there has been a 12.7% annual increase in the number of teacher trainees. Participation of girls in primary education is only slightly behind, but the gap has been widening in secondary education.

²⁴ Compiled from country Annual Progress Reports and DFID Africa Policy Department, "Review of health and education progress in selected African countries: synthesis report", April 2005.

²⁵ DFID Africa Policy Department, "Review of health and education progress in selected African countries: synthesis report", April 2005.

²⁶ Compiled from country Annual Progress Reports and DFID Africa Policy Department, "Review of health and education progress in selected African countries: synthesis report", April 2005.

Tanzania: Two thousand new primary schools were opened between 2000-4, compared to only 500 in the previous 5 years. Primary school enrolment has risen from 4.2m to 7m. However, there are vast disparities in enrolment rates across regions, and the gaps do not appear to be closing. Poor retention shows no sign of improving, and repetition rates are high. Pass rates in the Primary School Leaving Exam are only 21%, on top of low cohort survival, and only 12% go on to secondary schooling. Unemployment rates among secondary graduates are high, suggesting that the secondary curriculum needs urgent revision to be relevant to the labour market.

57. Equity issues in the social sectors remain a widespread concern, and have not received much attention in PRSPs or sectoral strategies.

Regional inequalities in Mozambique

In Mozambique, regional inequalities in health and education expenditure are pronounced. Incremental budgeting systems reinforce this development gap. The ratio of *per capita* expenditure between the most and least favoured areas is 5:1. In recent years, there has been a slight reduction in geographical imbalances, but they remain very high.²⁷

Equity issues in education services in Ghana

In Ghana, from 2003 to 2004 the share of education expenditure going to primary education fell from 40% to 35%, whilst that going to tertiary education increased from 14% to 22%. Recent reports have shown that the poorest 45% of the population have no access to higher education and derive no benefit from it, whilst the richest 1.5% of the population benefit from 55% of the public expenditure on tertiary education.²⁸

58. Looking beyond health and education, there is scattered evidence for improvements in road transport and safe water access. There is little evidence of improvements in other areas, with agricultural services particularly disappointing given their importance for poverty reduction.

Service delivery in Tanzania

“Improvements have been recorded in the delivery of social services and public support services although performance has been more pronounced only in some areas such as primary education and road network. Overall, however, the current levels of delivery of services require further improvements in terms of supply and quality.”

Government of Tanzania, Second PRSP, p. 2.

“Put simply, it is very hard to deliver effective, pro-poor public services... Given the financial and human resource constraints of Tanzania, it is scarcely surprising that it has proven difficult to deliver good pro-poor services.”

ODI & Daima Associates, “Joint Evaluation of Budget Support: Tanzania 1995-2004”, April 2005, p. 151

²⁷ Batley, Richard, Liv Bjornestad & Amelia Cumbi, “Joint evaluation of General Budget Support 1994-2004: Mozambique Country Report”, September 2005.

²⁸ DFID Africa Policy Department, “Review of health and education progress in selected African countries: synthesis report”, April 2005.

5. Improved participation of and accountability to poor people

59. It is difficult to find evidence of sustained and meaningful improvements in the participation of and accountability to poor people in PRSP countries. In most countries, the poor neither expect nor receive much from the state. Disempowerment is one of the defining elements of poverty. Poverty persists in large part because the poor are disempowered, and the demand for effective pro-poor development within the political process is weak. Donors exercise only indirect influence, through dialogue and example, and through strategic investments in building capacity across a range of actors within the political system.

“Vulnerable, marginalized, and disempowered populations generally have less voice, fewer assets, weaker networks, and suffer more from the effects of non-income poverty than the average poor person. This form of powerlessness results in a failure to include poor people systematically in the generation of information and adjustment of policies and actions which affect them. This, in turn, prevents policymakers’ accountability to citizens through the ‘long route’ of accountability.”

IMF & WB, “2005 review of the Poverty Reduction Strategy Approach: Balancing Accountabilities and Scaling Up Results”, August 2005, p. 51

60. Process conditionality around the PRSP has led to a dramatic increase in the involvement of national NGOs in strategy formulation. Most observers agree that this form of participation has helped to open up the policy process, encouraging government to recognise the value of broader inputs into the policy process. Where governments commit to developing PRS monitoring systems, they make at least an on-principle commitment to greater openness in government, potentially initiating a process of cultural change.

61. However, participation in PRSP formulation has usually been *ad hoc* and poorly institutionalised, with a series of events and activities lasting several weeks or months, but falling away after the completion of the document. There is not much evidence that this kind of ‘projectised’ participation has influenced the mainstream policy process. It has provided an opportunity for the poor to express their preferences, but there is no sign that governments that disregard the interests of the poor are facing a higher political cost as a result.²⁹ While NGOs serve important functions in the development process, they are rarely successful in holding governments to account.

62. There is a growing consensus that the focus should be on strengthening accountability and participation in core political systems and processes. This is a long-term undertaking. Donors need the skills to understand domestic political dynamics and select strategic interventions. The challenges are very different across countries. In a country like Bolivia, where civil society is highly mobilised and confrontational, the challenge is to find representative structures that channel popular protest in constructive directions, without threatening the constitutional process. By contrast, in former-Soviet Central Asia, civil society has been decimated and needs to be painstakingly reconstructed.

²⁹ Piron, Laure-Helene, “Politics and the PRSP approach: synthesis paper”, ODI Working Paper 237, March 2004, p. 30.

Participation and accountability in Mozambique

Mozambique has a limited tradition of citizen or civil society participation in the policy process – linked by some commentators to the history of a command economy, colonial inheritance and civil war. The small community of civil society organisations is not representative of the poor. Neither of the two main political parties has any real capacity for policy development, and political competition is not issue-based. The policy dialogue is conducted almost exclusively between government and donors, with some limited involvement from elite, urban NGOs. NGOs are gradually building their capacity to participate in the policy process.

According to one analysis, the role of civil society is determined by structural features of society, and is unlikely to change over the short term.

“The development of civil society organizations has been held back by deep-rooted structural constraints, including the predominantly peasant nature of the rural population, which is atomized and unorganized, the small size of the formal economy (and thus the weakness of both the trade unions and private sector bodies) and the low levels of education and literacy, which limit access to information and ideas, particularly through the print media.”

Tony Hodges & Roberto Tibana, “Political economy of the budget in Mozambique”, December 2004, pp. 10

63. Formal accountability institutions – parliaments, political parties, public auditors, other public-sector watchdogs, the media – have so far played a limited role in the PRSP process. Parliaments in particular have not proved effective either at representing the poor or holding the executive to account. They have played a marginal role in PRSP formulation and monitoring, and on the rare occasions when they intervene in the budget process, it is not in order to increase pro-poor allocations. There has been more success in building up independent watchdog agencies, such as Auditor-Generals.

Parliamentary capacity

In **Uganda**, parliamentary involvement in the PRSP process has been relatively high. Parliament has submitted comments on draft APRs and on early drafts of the PRSP. It participates in the budget process and the formulation of development policy through a Finance, Planning and Economic Development Committee. PAF reviews are regularly reported to parliament. Parliament approves a number of key appointments to development policy posts, and approves individual foreign loans. Importantly, parliament has its own research department, with 16 researchers, which assists parliamentarians to formulate positions on policy matters.

In **Tanzania**, despite some donor assistance to the parliament, the Public Accounts Committee remains weak, and fails to take action even when misconduct is reported by the Accountant General.

Ghana

“Out of 200 parliamentarians, only the Majority and Minority leaders and the two deputy speakers have an office in Parliament, only 10 parliamentarians have assistants, committees do not have a pre-allocated budget for operations and their meetings take place in the lobby or hallway. Many parliamentarians do not have an understanding of budget issues and parliamentarians do not receive any training at the beginning of their mandate.”

Azeem et al., “Evaluation of DFID Country Programmes – Country Study: Ghana”, draft, November 2005

6. Poverty reduction

64. All assessments of the PRSP approach and GBS stress that it is premature to be looking for impact on poverty reduction. This is even more the case for CLA, which is a more amorphous ‘input’, with no clear start date, and where the level of implementation in any given country is difficult to assess.

65. Clearly, there are success stories to be told at the country level. Some countries have made important progress over the past decade in reducing poverty in one or more of its dimensions. Progress does appear to be stronger in countries that demonstrate genuine commitment to the poverty-reduction agenda, and that have made a sustained effort to improve their systems for planning and resource allocation.

66. Yet for every country that shows active leadership of the development process, there are many others where country commitment is weak or intermittent, where poverty reduction has low political salience, and where reforms have stalled in the face of resistance from vested interests. These are the hard cases for CLA, where progress is harder to demonstrate. Donors can exploit opportunities for building country leadership as and when they arise. However, the pace of change is not usually under their control.

67. The five focus countries considered here have all seen important progress towards country leadership of the development agenda.

68. Mozambique stands out as an important success story, after bouncing back from a catastrophic conflict. Since the peace settlement in 1992, Mozambique has enjoyed almost uninterrupted growth of 8% per annum. This has reduced the level of absolute poverty from 69% (1996/7) to 54% (2002/3), well ahead of the PRSP targets. Poverty reduction has been faster in rural areas, reducing rural/urban inequalities (although they remain high). The restoration and extension of health and education services has had a significant impact on reducing non-income poverty, although given the low starting point, indicators on health and literacy remain poor. The willingness of donors to support country leadership in Mozambique has helped to attract private investment. Donors have held up country-led development in Mozambique as a success story, sending an important signal to investors. There have been improvements in some institutions, but others – notably the judicial system and financial sectors – have lagged behind. Human rights are recognised in the law, but not fully protected by the justice system. There is little mention of gender issues in the PRSP, and despite the preparation of a draft National Gender Policy, no evidence of improvements in gender equality. On the whole, however, Mozambique’s achievements are extremely impressive. As Mozambique is a country where the aid partnership has matured considerably in line with CLA principles, it seems reasonable to attribute the success in significant part to CLA.

69. Uganda and Tanzania have both been celebrated over the past decade as leaders in CLA, and have made significant progress in a range of institutional reforms. Policy making and planning capacity at the centre of government has increased dramatically. Impact on the poorest people, however, is slow to emerge. Tanzania has managed 6% growth over the past three years, with a stable macroeconomic environment. However, the growth has been mainly in mining and tourism, and has not been pro-poor. Income poverty did not decline outside the capital, and the rural population (87%) has seen little benefit. While there have been significant improvements in the coverage of key services,

in the absence of economic growth in rural areas their contribution to overall poverty reduction remains limited.

70. In Uganda, growth has averaged 6% per annum over the past 15 years, but high population growth has limited its poverty reduction effect, and the country still lags at 147 of 175 on the UNDP Human Development Index. The percentage of the population living below the national poverty line fell from 56% to 34% during the 1990s, but rose again to 38% in 2003. In recent times, growth has slowed, income poverty has deteriorated and inequality has risen, for reasons that are not fully understood. There are major regional variations, with poverty still very high in the conflict-affected north. The abolition of user fees in both health and education resulted in a large boost in service uptake, which has continued to increase subsequently. Other living standards measures, including access to roads and telephones, have also increased, particularly for the poorest two quintiles of the population. HIV-AIDS prevalence has been reduced from 20% in the 1990s to around 7%, which is a major achievement. While there is an active civil society and free press, rights of political participation remain restricted, and there have been clear evidence in recent times that the political system is coming under increasing stress.

71. Uganda and Tanzania are both success stories for CLA. They demonstrate the level of institutional change that is possible through a productive aid partnership, even from a very low base. But they also demonstrate just how difficult it is to tackle poverty effectively in an African context.

72. The picture in Ethiopia is more equivocal, in large part because of the persistence of famine and conflict. Large, government-led programmes to expand the reach of primary health and education services have been sustained over the past 15 years, achieving major improvements in health and education outcomes. Ethiopia is also one of the few countries to demonstrate strong leadership of capacity-building efforts, recognising its institutional problems and developing a national programme for addressing them. However, economic growth performance has been poor in recent years, mainly due to declining agricultural productivity in the face of drought, over-population and soil degradation. Thirty percent of the country is chronically food insecure, and highly vulnerable to natural and man-made disasters. Eighty percent of the population lives on less than \$2 per day. Forty-five percent of rural households are below the poverty line and extremely vulnerable. Ethiopia lies at the bottom of the list for most Human Development Indicators. Civil and political rights are routinely infringed. The judiciary is not independent and detention without trial is common. Over the past year, political protest has been met with violence by security forces. In Ethiopia's patriarchal society, gender inequality is deeply entrenched. However, some positive measures have been taken, including law reform to improve the position of widows.

73. Ethiopia demonstrates the limits of the country-led approach. Although relations with donors have often been fraught, government ownership of the development agenda has not been in question – even if it competes with other priorities, such as security. In the absence of civil and political rights, however, broader country ownership is obviously limited. In recent months, political violence has caused a suspension of budget support. In this environment, donors can offer their support only to those elements of the government's agenda they consider credible.

74. On the whole, these results are consistent with our expectations and hypotheses about CLA. There is no reason to expect a short-term acceleration of progress on poverty reduction. It will take many years of effort to develop and strengthen the government systems required for effective country leadership of poverty reduction. The challenges of generating pro-poor growth and reaching the poorest with social services are vast. There is good reason for confidence, however, is that in countries where the aid relationship is maturing under CLA principles, the prospects of achieving sustainable poverty reduction over the longer term are increasing.

IV. ALIGNING ASSISTANCE WITH COUNTRY-LED DEVELOPMENT

75. Through the Paris Declaration, donors pledge to align their assistance with partner countries' priorities, systems and procedures. They agree to the creation of common monitoring procedures and targets, to reinforce accountability at the international level, and to encourage the emergence of specific commitments at the country level.

76. Alignment is about changing *collective behaviour*. Although some donors, including DFID, have been advocating the importance of alignment for some time, most donors have not gone far beyond an in-principle commitment. The OECD Development Assistance Committee (DAC) has recently launched an initiative to establish baselines against the 12 qualitative and quantitative indicators agreed at Paris (see p. 7 above).

77. It is therefore early in the day to be making an assessment of alignment. While DFID has made an important contribution to developing good practices, one would not expect to see much impact until good practice becomes general practice.

78. Nonetheless, there are clearly important processes of change underway, and interesting lessons have been learnt at country level. This chapter discusses some of the most important changes.

1. Alignment with country-led strategies

Assistance strategies

79. Whatever their limitations as operational strategies, PRSPs are providing a very useful framework around which donors can align their assistance. Even when a PRSP does not go much beyond a broad 'visioning' exercise, it represents a formal statement of a government's development objectives, on which donors can base their policy dialogue and assistance. Donors have made a common commitment to align their assistance to national development strategies, which in itself invests the PRSP with significance and represents a major step forward in the aid relationship.

80. So far, alignment has not required much substantive change in assistance programmes. Where PRSPs are broad and poorly prioritised, alignment has been largely a formal step. Donors have found it easy to relate their existing activities to one PRSP goal or another. Thus, the World Bank has found that, while its Country Assistance Strategies are now formally aligned with PRSPs, this has not required any significant change in Bank programmes.³⁰ Assistance programmes are path dependent, and necessarily take some time to change. It is not altogether surprising to find limited real change in response to first-generation PRSPs.

81. A more telling indicator is whether donors have been prepared to redirect funding into priority areas which the government indicates are under-funded. There is so far no evidence of this occurring.³¹ Overcrowding of popular areas, particularly health and education, is still common. The DAC concludes that, while donors endorse national development strategies, they do not always use this framework to guide their

³⁰ World Bank OED, "The Poverty Reduction Strategy initiative: an independent evaluation of the World Bank's support through 2003", 2004.

³¹ Alonso, Rosa, Lindsay Judge & Jeni Klugman, "PRSPs & budgets: a synthesis of five case studies", January 2005.

allocations.³² This lack of flexibility is a concern. Given that governments are often required to provide counterpart funding, donor preferences may drag government resources away from the areas where they are most needed.

82. It appears that a process of real, rather than nominal, alignment with a country's own development strategy requires a more structured relationship between the government and donors. Tanzania, Uganda and Zambia are each in the process of developing a Joint Assistance Strategy (JAS), to act as a common, multi-annual financial framework for supporting the PRSP. In each case, the JAS sets out donor and government expectations on aid modalities and alignment. In Tanzania and Uganda, the process is being driven by government and builds upon several years of efforts to improve harmonisation and alignment. In the case of Zambia, it is primarily a donor initiative. These JASs are still under development, requiring a major investment of time and resources from both government and donors. It is hoped that this investment will reduce transaction costs in the future. Many donors are yet to resolve whether they are in a position to make the binding commitments anticipated in the JASs (see paras. 162-9 below).³³

83. The level of alignment of IFI lending programmes to country PRSPs is a key variable. The World Bank evaluates itself as a leader on the harmonisation and alignment process.³⁴ All Country Assistance Strategies for IDA countries are required to be based on PRSPs, and to take into account other donor programmes. There are now 23 countries with Poverty Reduction Support Credits (PRSCs) aligned to a PRSP, many of which involve common funding arrangements or joint conditionality with other donors. In 2002, the Bank changed its rules to allow participation in pooled funds, and since then has joined 26 SWAps. It has also made a corporate commitment to increasing its use of joint analytical work. Commitment from the IMF is more equivocal. The 2005 PRSP Review found some evidence of a gradual alignment between PRGF programmes and PRSPs, and a little more flexibility in programme design to protect pro-poor spending and adjust targets to higher aid flows. There has been some willingness to allow more space for government-led policy initiatives. However, according to the IMF's own assessment:

“Content alignment is often complicated by the perceived tension between the need for realistic macroeconomic frameworks that maintain overall stability, and more ambitious frameworks for reducing poverty; and by the general absence of clear links between the PRSP and annual budgets.”

IMF & WB, “2005 review of the Poverty Reduction Strategy Approach: Balancing Accountabilities and Scaling Up Results”, August 2005

84. The degree of alignment of vertical funds, particularly in health and education, with national strategies is a matter of some concern. Conceptually and practically, global vertical programmes belong to a different aid paradigm than CLA, being designed as a standardised delivery mechanisms for action in a single sector, across multiple country environments. While some vertical programmes are on-budget, the priorities are determined externally and the implementation arrangements follow a project modality,

³² DAC, “Harmonisation, alignment, results: report on progress, challenges & opportunities”, February 2005, p. 23.

³³ COWI, “Joint Assistance Strategies in Tanzania, Zambia and Uganda”, October 2005.

³⁴ IMF & WB, “2005 review of the Poverty Reduction Strategy Approach: Balancing Accountabilities and Scaling Up Results”, August 2005.

with unique disbursement arrangements (sometimes in parallel to existing SWAps). A DFID assessment of progress in health and education in Africa concluded:

“Vertical Programmes, including global initiatives, may be having a positive impact on outputs, but their long-term sustainability is questionable in terms of the volume of resources provided and the pattern of expenditure supported. Additionally, the essentially project-type implementation arrangements are often not well integrated with national processes and may undermine the good work done in promoting harmonisation and alignment in these countries...

“When vertical programmes such as the global funds have ended, the items that they are currently funding, such as anti-retroviral drugs or insecticide treated bed nets, will still be needed. The resources will have to be found in government budgets. The reports from Uganda and Tanzania voice concern that the impact of such funds on the total resource envelope does not reflect the governments’ own priorities – in terms of allocations to and within the health sector. This concern is likely to be applicable to a number of other countries as well.”

DFID Africa Policy Department, “Review of health and education progress in selected African countries: synthesis report”, April 2005

85. There are some signs that thinking on vertical funds is beginning to change. The Millennium Project Task Force on Child and Maternal Health, for example, emphasised that achievement of the health MDGs required a strong focus on systemic issues, with more localised programming, broader participation and country leadership.³⁵ Lesson learning from HIV-AIDS programmes also shows that country leadership is essential to an effective country response. Whether vertical funds can be made compatible with CLA principles is an issue that needs to be further explored.

86. In sum, the significance of the PRSP initiative as a framework for aligning assistance around country-led strategies is broadly recognised, and the strong public commitments by the donor community to this goal is an important step in its own right. However, an in-principle commitment is not sufficient. There may need to be a more formalised process, along the lines of the joint programming initiatives in Tanzania and Uganda. This needs to build on a track record of individual harmonisation and alignment efforts, and a high level of trust between government and donors. It will require considerable efforts on both sides to achieve.

“In the most positive cases, the PRS process bolstered an already robust government role in aid coordination and increased participation in, and greater coordination of, budget support instruments and attempts to streamline performance monitoring... Where the government-donor dialogue was previously weak or donors continued to drive the agenda, PRSPs by themselves have not noticeably promoted donor coordination or increased government management of external assistance.”

World Bank OED, “The Poverty Reduction Strategy initiative: an independent evaluation of the World Bank’s support through 2003”, 2004, p. xv-xvi

“The up-front cost for both donors and partner countries of achieving harmonisation, alignment, and managing for results is high. Donors and partners

³⁵ Lynn Freedman et al., “Millennium Project Task Force 4 Child Health and Maternal Health Interim Report”, February 2004.

need to allocate staff and financing in the short term in order to reap the benefits in the medium term of increased aid effectiveness and, subsequently, reduced costs.”

DAC, “Harmonisation, alignment, results: report on progress, challenges & opportunities”, February 2005, p. 10

Conditionality

87. Alignment of conditionality with a country’s own strategic framework is fundamental to CLA. Under the Paris Declaration, donors commit to drawing their conditions wherever possible from the country’s own development strategy. Conditions now primarily take the form of benchmarks used for annual assessment of progress on agreed actions. On principle, conditionality of this form does not influence government priorities, but simply reinforces existing commitments and helps to sustain progress on implementation. It is sometimes said to strengthen the hand of reformers within government against vested interests in the *status quo*.

DFID conditionality policy

“We believe that it is inappropriate and has proven to be ineffective for donors to impose policies on developing countries... Conditionality which attempts to ‘buy’ reform from an unwilling partner has rarely worked.” [6]

DFID, “Partnerships for poverty reduction: rethinking conditionality – A UK policy paper”, March 2005

World Bank conditionality policy

“Rather than imposing a burden, conditionality in development policy lending should help measure progress... When the Bank does not see sufficient evidence of ownership, it normally chooses not to engage in development policy lending rather than attempt to substitute conditionality for ownership... Conditionality should actively contribute to broad ownership of the programs, policies, and institutional actions undertaken by the government.”

World Bank, “Review of World Bank conditionality”, September 2005

88. In practice, however, while most PRSPs contain some form of policy matrix, they are usually not specific enough to meet donors’ accountability requirements. Donors need to see evidence of concrete steps on an annual basis towards the implementation of the PRSP, in order to demonstrate that their funds are contributing to poverty reduction.

89. A practice has therefore emerged – particularly in budget support countries, where external assistance is aligned to the PRSP as a whole – of negotiating additional Performance Assessment Frameworks (PAFs), usually containing a mixture of specific commitments and general progress indicators. Policy actions in PAFs are usually not strict conditions; rather, there is an assessment on progress as a whole, on which donors base their disbursement decisions. However, they may also include ‘prior actions’ negotiated by the World Bank under a PRSC.

90. PAFs have proved to be the most effective instrument for harmonising conditionality across donors. However, they have not always helped to simplify it. If donors adopt a lowest common denominator approach, including all the demands of individual donors in the PAF, it results in an unhelpful proliferation of conditions, and the goal of reducing transaction costs is not achieved. In Ethiopia, lengthy negotiations

over a PAF resulted in more than a thousand indicators, reflecting an aggregate of individual donor demands. Efforts are underway to reduce this down to a workable length. In Tanzania, the trend is towards incorporating separate sectoral reviews into the PAF timetable, to avoid overpopulating the PAF with indicators.

“Lack of specificity [in PRSPs] has also created the need for a host of ‘derivative products’—such as performance assessment frameworks (PAFs)—which seek to make the PRS operational and around which donors can align. While in good examples, derivative products are carefully drawn from the PRS, in other cases the link is more tenuous.”

IMF & WB, “2005 review of the Poverty Reduction Strategy Approach: Balancing Accountabilities and Scaling Up Results”, August 2005, p. 62

“Many government stakeholders talked positively about the role of dialogue and conditionality, which *inter alia* helped exert managerial pressure on different government agencies to maintain the momentum of reforms, and protected those reforms from opponents.”

Lister, Steven et al., “Joint evaluation of General Budget Support 1994-2004: Uganda Country Report”, September 2005, pp. 26-7

91. Although PAF conditions are usually said to be drawn from the PRSP (or to ‘operationalise’ it), the level of correspondence varies in practice. In effect, donors are adding a logframe-type analysis onto the PRSP. This approach is not without risks for country leadership. Where the PRSP itself is poorly operationalised, it is possible that the real policy decisions will be taken in the PAF process, under strong donor influence, rather than through the country’s own policy mechanisms. Some have seen the PAF as a backdoor mechanism for donors to manipulate PRSP priorities, or as interfering with domestic processes of accountability. In a number of countries, periodic assessments against and revisions of PAFs have become a key event in the annual policy calendar, much more important than annual progress reports on the PRSP.

92. However, there is no direct evidence to suggest that the use of PAFs is displacing domestic accountability mechanisms. One report argues that regular reporting against a PAF should enhance a government’s accountability to parliament and the public, by providing them with information on government performance against its commitments in a timely and readily useable form.³⁶

93. Under the Cotonou Agreement, the European Union is required to include outcome indicators in its budget support agreements, which also apply to other donors in joint GBS arrangements. It typically provides for two types of disbursement:

- fixed tranches: these are all or nothing disbursements, with trigger conditionality taken from the PRGF framework and the IMF macroeconomic assessment (plus, in some cases, additional fiduciary requirements);
- variable tranches: disbursements where the amount is determined by outcome indicators, with the selection of indicators and the weighting agreed with government.

³⁶ Lawson, Andrew, Richard Gerster & David Hoole, “Learning from experience with performance assessment frameworks for general budget support”, November 2005.

94. There are no fixed rules on the balance between the two types of disbursement. Rather, the EU attempts to balance performance incentives against the need for predictable aid flows. According to the EU, the use of outcome indicators (rather than agreed policy actions) gives the country greater choice in the mix of policies and measures it takes towards achieving the MDGs, and therefore advances country leadership. However, it has caused some concern among partner governments that they may lose support as a result of factors beyond their control.

Aid instruments

95. The CLA agenda is being supported by the shift towards more ‘upstream’, programmatic forms of assistance, most notably sector-wide approaches (SWAs) and budget support. SWAs are mechanisms for coordinating donor support at sectoral level within a government-led framework, and can incorporate different modalities from different donors. Of 60 partner countries monitored on the DAC website, 26 report SWAs in place or under preparation.³⁷ They have helped to build up planning and budgeting systems and capacity at the sectoral level, and have proved an important vehicle for establishing country leadership in the social sectors.

96. Budget support may be earmarked for specific sectors, or support the implementation of government development strategy as a whole. General budget support (GBS) represents by definition the high-water mark for alignment with government policies and systems.

97. While programme aid is an important vehicle for advancing the CLA agenda, it is important not to conflate country leadership with specific aid instruments, for two reasons. The first is that the level of country leadership over programme assistance can vary considerably. For example, there were 34 different budget support programmes in Uganda in 2003/4, accounting for half of all aid flows. Of these, 25 were sector specific, many of them quite small. They varied significantly in design, with different time horizons, conditions and disbursement procedures. While Uganda is better equipped than most partner countries to manage different aid modalities, this proliferation of instruments does not facilitate government leadership of resource allocation.

Budget ceilings in Uganda

In Uganda, the government sets sectoral resource ceilings which include both government resources and earmarked or project funds from donors. Any increase in donor contributions results in a reduction in budgetary allocation. This removes the incentives for line ministries to deal with donors outside the central planning and budgetary mechanisms. It is probably feasible only where government resources are boosted through GBS.

98. Similarly, SWAs vary in design from large projects with parallel financial management systems and limited policy input from government, to well-integrated programmes which differ little in practice from GBS. It is difficult to find cross-country evidence on the extent or quality of alignment of programme aid. While there are plenty of good practices available, they have not necessarily become general practices.

³⁷ DAC, “Harmonisation, alignment, results: report on progress, challenges & opportunities”, February 2005, p. 24.

An agriculture SWAp in Mozambique

“PROAGRI is not a real SWAp – it is rather a basket arrangement, in which some donors insist on earmarking within this fund and some also support individual projects falling outside it. Whereas donors and Ministry staff agree that significant improvements have occurred with respect to financial management and accountability, they also agree that this has been the only substantial positive impact of PROAGRI... This is mainly due to fragmented donor interventions and the continuing strength of established individual niches and of the interests (and rentseeking) that such fragmentation often creates... PROAGRI has lowered some transactions costs, e.g. by persuading donors to use a common financial reporting system, but there have been major problems with the unpredictability of promised inflows (only partly the fault of deficiencies on the ministry’s side). Harmonisation, e.g. in the form of joint missions, has been weak.”

Killick, Tony, Carlos Castel-Branco & Richard Gerster, “Perfect Partners? The performance of Programme Aid Partners in Mozambique”, 2004, pp. 47-8

99. The second reason not to equate CLA with specific instruments is that, even in countries with well-developed budget support arrangements, the majority of assistance is still off-budget, and is likely to remain so in most cases for the foreseeable future. According to the 2005 SPA Survey, the 14 donors who offer GBS in Africa provide an average of only 18 percent of their assistance in the form of GBS.³⁸ While a few donors, such as DFID, are committed to a large-scale shift towards GBS, most GBS donors are hedging their bets by simply adding a GBS component onto their existing portfolios. As a result, the net gains to country leadership are modest.

100. It therefore remains important to examine how non-programmatic aid (particularly TA) can be delivered under government leadership. Projects are not inherently contradictory to CLA – they may reflect country priorities, and utilise elements of country systems. However, a scattered portfolio of projects is very difficult to align systematically with government priorities, without overwhelming government’s aid management capacity. Donors still have a long way to go to improve their performance and meet their Paris commitments. Commentators have pointed out numerous institutional incentives which may work against alignment, including inflexible institutional rules, demands for visibility, domestic political pressures and the disbursement imperative.

Aid fragmentation in Mozambique

“Still a large proportion of total assistance coming into the country is made up of a multitude of uncoordinated, often donor-driven, development and technical assistance projects, which do not add up to a coherent whole, do not necessarily promote the GoM’s priorities and of which the GoM has highly incomplete knowledge. Because of the continuing large scale of project assistance, line ministries tend to orientate themselves more to the attraction of project finance than to attempts from the centre to achieve a coherent overall strategy.”

Killick, Tony, Carlos Castel-Branco & Richard Gerster, “Perfect Partners? The performance of Programme Aid Partners in Mozambique”, 2004, p. 46

Aid fragmentation in Nicaragua

³⁸ SPA, “Survey of budget support 2005”, December 2005.

Nicaragua received \$600m in assistance from 40 donors in 2003. Eighty percent of this was in the form of projects, overseen by a thousand project implementation units (PIUs).³⁹

2. Alignment with country systems

101. The Paris Declaration commitments on alignment with country systems include:

- creating common systems for performance measurement and accountability;
- linking joint diagnostic reviews and assessment frameworks to country strategies and reform processes;
- using national systems for financial management and accounting, project management, procurement, reporting and M&E to the greatest extent possible;
- supporting efforts to mobilise more domestic resources;
- providing funds in a predictable and reliable manner;
- untying aid to low-income countries.

102. Baselines and targets on Paris commitments are in the process of being established, and there is not yet any systematic information on the extent of alignment in practice. It is clear, however, that many donors are holding back from using government systems for aid delivery, both because of inflexible internal rules and due of concerns about the effectiveness of government systems and the level of fiduciary risk.

103. Systems alignment is being pursued through the development of country-level actions plans on harmonisation and alignment, following the Rome High-Level Forum on Harmonisation in February 2003. According to a 2004 DAC Survey, 9 out of 14 countries surveyed had completed action plans, and the remainder were in the process of doing so.⁴⁰ Some appear to be largely donor driven, with limited leadership from government. Experience suggests that it takes a sustained effort from both government and donors over a number of years to make real progress against those plans. The twin goals of harmonisation (among donors) and alignment (between donors and government) are closely intertwined, and must be pursued in tandem.

Harmonisation and alignment in Ethiopia

In Ethiopia, the government and donors agreed on a Harmonisation Action Plan in December 2004. Five bilateral donors (Belgium, Ireland, The Netherlands, Sweden and the United Kingdom) have decided to move toward full harmonisation with pooling of funds, using common procedures for commitments, disbursements, M&E, information sharing, procurement and financial management. In doing so, they will rely to the greatest extent possible on country laws, regulations and procedures. However, a World Bank evaluation found:

“While progress had been made in pulling together a harmonization framework covering donor project procedures, procurement and fiduciary management standards, there was still limited progress by donors in moving the framework forward. At the time of the evaluation mission there was some frustration emerging over the harmonization agenda as donors confronted the practical (and political)

³⁹ DAC, “Harmonisation, alignment, results: report on progress, challenges & opportunities”, February 2005, p. 30.

⁴⁰ OECD DAC, “Survey on harmonisation and alignment”, June 2004, p. 10.

difficulties of signing up to procedural changes at country level and in donor capitals.”

World Bank OED, “Review of the poverty reduction strategy (PRS) process: Ethiopia case study”, July 2004

104. According to a DAC survey, only 30% of aid uses government systems for procurement, disbursement, reporting, M&E and audit.⁴¹ In many cases, donors are holding back through legitimate concerns about fiduciary risk. However, as the DAC has pointed out, by insisting on independent procedures, there is a risk that donors may be undermining partner country efforts to building transparent and accountable systems. Under CLA principles, donors may need to tolerate a higher level of risk in the short term, where they are convinced that genuine reform efforts are underway.

105. DFID’s approach to managing fiduciary risk does not depend upon minimum standards.⁴² Rather, it requires country offices to balance fiduciary risk against the potential development benefits of greater alignment. The key factor is whether the country shows a genuine commitment (demonstrated by a track record) to strengthening its systems. This means that GBS and other forms of programme support can be used as a tool to strengthen country systems, even where the institutional environment is initially weak. Even so, this strategy is taking some time to show results. The GBS Joint Evaluation found that there had been improvements in PFM in countries that had received GBS for more than 5 years, but no noticeable effect on corruption.⁴³

Strengthening PFM in Ghana

In Ghana, DFID provides 50% of its support through GBS, and a further 25% through SWAs. In total, 59% of all external assistance used government PFM systems. Fiduciary risk was initially assessed as high. Government has made good progress in reforms to the upstream parts of the budget cycle, including establishing a strong legal basis for the budget and PFM systems, improving the coverage of the budget, incorporating PRSP targets and in financial reporting. There is still considerable work to do in other aspects of PFM, including improving the effectiveness of expenditure controls, cash management and financial accounting. However, the evidence suggests that the willingness of external partners to use country systems has provided an important spur to their development.

106. A key innovation in recent years has been the alignment of the timetable for aid commitments and disbursements with the national budget calendar, primarily in connection with budget support arrangements. This increases the scope for partner countries to reflect aid accurately on their budgets. It should increase the allocative efficiency of the budget, by allowing countries to balance resources across sectors and match recurrent funding to investment programmes.

Uganda

⁴¹ *Ibid.*, p. 19.

⁴² Driscoll, Ruth, Karin Christianson & David Booth, “Progress reviews and performance assessment in poverty-reduction strategies and budget support: a survey of current thinking and practice”, May 2005.

⁴³ Tench, Kate, “Interim findings from the Joint Evaluation of Budget Support”, December 2005, p. 5.

Uganda has a highly specified annual budget calendar, which intersects with donor processes at a number of points. The timetable for commitments, reviews and disbursements under the budget support arrangement and the World Bank's PRSC is designed to synchronise with the budget calendar. However, disbursements are not always made on schedule, and not all donors are able to provide medium-term funding commitments in support of the MTEF.

Mozambique

In Mozambique, the GBS calendar is well aligned with the annual budget cycle. Progress against the Performance Assessment Framework (PAF) is reviewed twice a year. The first (April/May) review focuses on achievements from the previous year. The second (Sep/Oct) focuses on mid-year implementation and the draft budget for the following year. Donors use the April/May review to announce indicative financial support for the following year, based on performance in the previous year. Commitments are firmed up in Sep/Oct, once the final budget for the following year is presented. The World Bank is in the process of aligning the PRSC cycle with the GBS process.

3. Building country capacity

Joint analytical work

107. In the past, the reform agenda in many PRSP countries was set primarily through analytical work carried out by donors, in particular the World Bank. Confronted with hundreds of pages of highly technical analysis, few PRSP countries had the capacity to question the findings and come to alternative policy conclusions. Critics have argued that the Bank no longer needs to use policy conditionality. It is winning arguments upstream, through its near-monopoly on development analysis.⁴⁴

108. The Bank has indeed increased the volume of its Economic and Sector Work (ESW) since the PRSP initiative. However, it has also recognised that externally driven analysis can crowd out domestic policy making, and does not necessarily generate strong country ownership for reforms. It is increasingly turning to the use of joint diagnostic work, both with governments and other donor partners. Though this may on occasion involve compromises in the quality (or at least the level of technical detail), joint analytical work is a very important tool for getting countries to recognise deficiencies and lead the reform agenda.

“The World Bank and its sister agency, the International Monetary Fund (IMF), often give the impression that there is consensus on the development agenda, and that only details remain to be worked out. The Bank is pursuing this logic through studies in its client countries on a wide range of policy issues. These studies may be more influential than many outsiders realise and partly explain why the Poverty Reduction Strategy (PRS) process has not ushered in real debates about macroeconomic policies.”

Wilks, Alex & Fabien Lefrancois, “Blinding with science or encouraging debate? How World Bank analysis determines PRSP policies”, 2002

“Efforts by external stakeholders to fill analytic gaps can at times outpace ownership of that analysis or capacity for it to be absorbed.”

⁴⁴ Wilks, Alex & Fabien Lefrancois, “Blinding with science or encouraging debate? How World Bank analysis determines PRSP policies”, 2002.

IMF & WB, "2005 review of the Poverty Reduction Strategy Approach: Balancing Accountabilities and Scaling Up Results", August 2005, p. 63

109. The focus countries show ample evidence of increased use of joint diagnostic work, whether with government, other donors or both.

Joint analytical work⁴⁵

Ethiopia: The Bank, EC, DFID, SIDA, Ireland, and Norway completed a Country Financial Accountability Assessment (CFAA) in June 2003. A Country Procurement Assessment Report (CPAR) was completed in 2002, and a (DFID, GTZ, Ireland, UNFPA, WB and WHO) was completed in 2004.

Ghana: In 2002, AfDB, DFID, ILO, OECD and the Bank jointly prepared a CPAR. CIDA, DFID and the World Bank completed an update of the CFAA.

Mozambique: The Bank, Norway and SIDA completed a CFAA in December 2001, and a Public Expenditure Review (PER) was conducted by the Government in partnership with the Bank, SIDA, Norway, Denmark, Switzerland, DFID, the Netherlands, the EC and the IMF. A CPAR was completed in May 2002 and a Legal and Judicial Assessment was finalized in 2004, both conducted by the Government in partnership with external partners.

Tanzania: In the 2001 PER/MTEF cycle, 9 donors financed a total of 16 studies. The annual PER exercise routinely involves multiple external partners.

Uganda: In 2003, the Bank prepared a PER in cooperation with the Government. In 2004, the Bank completed a Country Integrated Fiduciary Assessment in partnership with the Government and other external partners. A gender assessment was conducted by the Bank in partnership with the Government, with cooperation from the Netherlands, DANIDA and DFID.

Joint analysis is not just between donors and government. Poverty and Social Impact Analysis (PSIA) is used to assess the impact of proposed policy measures on the well-being of the poor. They have proved particularly effective at capturing the influence of institutions (e.g., agricultural marketing boards, water utilities) on poor communities. Originally designed by the World Bank in response to criticisms that it was not sensitive to the distributional effects of its lending, PSIA has become more participatory in nature, involving national civil society in research and analysis, and providing a voice for the poor through qualitative surveys. The technical demands of PSIA has made it a difficult instrument for countries to use. There could be value in developing lighter methods of participatory policy analysis, that could be more readily taken up by partner countries.

Coherent capacity building

110. Effective country leadership of the poverty reduction process will require a concerted push to develop national systems and capacity, with technical assistance programmes closely linked to government reform initiatives and the needs of PRSP implementation. So far, there is little evidence that capacity building assistance has become more strategic in orientation, or that countries are taking effective leadership in developing their own capacity. Ethiopia and Tanzania are the only examples from the

⁴⁵ Examples taken from World Bank, "Enabling country capacity to achieve results: 2005 CFD Progress Report – Vol. II: Country Profiles", July 2005.

focus countries with a coherent, national capacity-building strategy, although there are plans to develop strategies in Ghana, Mozambique and Uganda.

“The role of donors is to *facilitate* rather than direct the process of turning broad goals and strategies into an actionable plan to strengthen capacity development. Thus, donors need to recognise that they have little ability to create incentives for capacity development where they do not already exist. Striking the balance between respecting partners’ capacity-development efforts and creating additional incentives is both difficult and essential to achieving genuine impact.”

OECD/DAC, “*Survey on harmonisation and alignment*”, June 2004, p. 14

111. PRSPs are typically weak on governance issues, and rarely analyse constraints on public-sector capacity and its implications for PRSP implementation. Decentralisation of service delivery in many countries has magnified the need for capacity building assistance, while substantially complicating its delivery. In the absence of government leadership on capacity building, TA programmes are typically fragmented and projectised. Most TA is still initiated by donors, even though the record of supply-driven TA has been consistently disappointing.

112. Good practice suggests that effective TA should respond to government policy initiatives, with the needs identified by government. There are positive examples of this occurring in the social sectors within SWAs, where TA is used to support government service-delivery targets. GBS also generates useful incentives for improvements in central government systems, in particular the budget and planning mechanisms.⁴⁶ TA is a key element of GBS arrangements, although for the time being it is also the least coordinated and targeted.⁴⁷ In Ethiopia, donors have established a pooled funding mechanism under government control to provide TA.

Ethiopia’s Public Sector Capacity Building Programme

In Ethiopia, the Government recognised that donor capacity-building efforts were fragmented and financed in an *ad hoc* manner. The Government was reportedly concerned about the transparency of donor projects and the bias toward off-site training activities. In 2001, the Government created a Ministry of Capacity Building to guide the preparation of a consolidated, 5-year federal programme called the Public Sector Capacity Building Program (PSCAP), under which Ethiopia would scale up its capacity-building and institutional transformation efforts in six priority areas: civil service and PFM; district authorities; urban management; tax systems; the justice sector; and information technology. Launched in May 2003, the programme involves the pooling of donor resources under a SWAp-type arrangement, and alignment of non-pooled funding with the Government’s planning, budgeting and M&E systems. Rules are established governing access, allocation and execution, including the distribution of resources between federal and regional levels, and a simple formula for the allocation of drawing rights to PSCAP resources among regions, with performance-based disbursements. There is to be regular, bottom-up regional (and eventually district and municipal) planning of capacity-building activities within the assigned medium-term and annual resource envelopes.

⁴⁶ Koeberle, Stefan & Zoran Stavreski, “Budget support: concept and issues”, Paper for the Practitioners’ Forum on Budget Support, Cape Town, May 2005.

⁴⁷ Lister, Scott et al., “Evaluation of General Budget Support: Inception Report”, June 2005.

CIDA, DFID, EU, IDA, Ireland and SIDA have agreed to support the government's \$400 million programme through the SWAp, while GTZ, Italy and USAID are supporting the programme but without pooling. There are also plans for a multi-donor fund to support the government's efforts to develop capacity in the private sector and civil society.⁴⁸

Capacity building in Ghana

There is no common capacity-building strategy in Ghana. Most TA is provided at sectoral level. Only 14% of TA is provided through coordinated programmes linked to policy development. According to one Ghanaian observer, Ghana's track record in implementing public-sector reform has been abysmal.⁴⁹

According to the DFID CAP Evaluation: "the governance theme is one where there is no national consensus, policies have been slow to emerge and yet institutional development is a need in every sector. Support has been extensive, opportunistic and piecemeal. All are relevant, few carry the policy framework to bring lasting benefits."

The problem was acknowledged at the November 2005 Consultative Group, which noted the high level of fragmentation of support under the PRSP Governance Pillar, and called for the establishment of a multi-donor framework to coordinate partner support to the decentralisation process.

⁴⁸ DAC, "Harmonisation, alignment, results: report on progress, challenges & opportunities", February 2005, p. 35.

⁴⁹ Fantu Cheru, "The PRSP Process in Ghana", Paper for the African Learning Group on PRSPs, Economic Commission for Africa, Brussels, November 2002.

V. COUNTRY LEADERSHIP OF POVERTY REDUCTION

113. CLA aspires to country leadership both of individual aid programmes and at the level of overall development strategy. The twin processes of building up planning and management capacity in individual sectors, and creating an institutional framework for policy making and resource allocation at national level, are fundamental to effective country leadership of development assistance.

114. It is at the national level that the most ambitious initiative has been undertaken towards country leadership. Since the PRSP process was launched in 1999, around 60 developing countries have completed or are preparing comprehensive PRSPs. For some countries, the PRSP was their first attempt at an integrated strategy for tackling poverty across its different dimensions. Other countries had their own planning traditions, but were rarely capable of integrating planning with resource allocation in a systematic way, or of including stakeholders in a participatory planning process.

115. PRSPs originated with the HIPC initiative, in order to provide some assurance that resources made available through debt relief would be used for poverty reduction. They soon became part of the conditionality for concessional lending from the IFIs. With its origins firmly in IFI conditionality, the PRSP initiative was at the outset a rather imperfect articulation of CLA principles. Early PRSPs were prepared according to externally imposed deadlines and submitted for approval by the IFI Boards, and their content may have reflected external demands more than country preferences. Commentators on first-round PRSPs in many countries found them to be narrow and fairly uniform in content, as well as rather contrived in process.

116. As the PRSP initiative enters its second round, donors have become more realistic in their expectations. There is better understanding of the complex institutional changes required to produce a realistic strategy and to mobilise the resources to implement it. With HIPC deadlines no longer driving the pace, donors have come to recognise that the focus should not be the document itself, but the creation of effective systems for planning and implementing a national approach to development. There is now a growing willingness to give countries more space to adapt the form and content of their PRSP to their own capacities and circumstances. The IFIs now comment on PRSPs through a Joint Staff Advisory Note, rather than approving them in Washington, in recognition that these are national policy documents.

117. While expectations about the pace of change have become more realistic, there are also signs that the PRSP process is beginning to generate greater ownership. This chapter looks at the extent to which countries have succeeded in establishing credible development strategies, across three dimensions:

1. Have countries been able to develop credible strategies for poverty reduction?
2. Is there genuine country ownership of PRSPs?
3. Have national strategies become effective operational programmes?

1. Countries develop credible strategies for poverty reduction

118. First-round PRSPs were often poorly reviewed, with common criticisms being that they were unrealistic, narrow in scope, based on poor analysis, and favoured lengthy lists of desired actions over tough decisions on priorities. Many NGO observers saw them as

reflecting standard IFI policy prescriptions, rather than national preferences. While donors usually took care not to be too prescriptive, they often exercised a powerful, indirect influence on content by way of support to the process, particularly where external consultants were involved in the drafting.

119. On the other hand, it was also recognised that first-round PRSPs were an important first step in a lengthy learning process. Second-round PRSPs show some signs of becoming more diverse in content – a positive sign that countries are becoming more confident in adapting the tool to their own needs.

120. There is an extensive literature on PRSPs, mostly focused on first-generation strategies. Some of the main issues raised are as follows.

121. **Poverty knowledge:** One of the most important achievements of first-round PRSPs was to increase knowledge of poverty at country level. The PRSP initiative has been supported through major investments in household survey programmes. It has mainstreamed the use of participatory poverty analysis and other investigative tools, which have validated the perceptions of the poor in defining poverty. By involving a range of stakeholders, including CSOs, in investigating poverty, it has helped to trigger public debate on its multidimensional nature and causes. It has also raised awareness of government policies and services and their impact on the poor. Where knowledge on development issues was once the preserve of a few elite sites within government and development agencies, a more pluralistic model of poverty knowledge is beginning to emerge.

122. On the other hand, the growing information base on poverty has not always been matched by adequate analysis, and it is often difficult to identify the influence of new knowledge on the design of PRSP actions. Countries need greater capacity to work with the knowledge they have obtained. The use of PSIA is helping to generate better understanding of the distributional impacts of development policies, and improve the design of these policies. Efforts to develop capacity in countries for better policy analysis are also underway.

123. **Realism:** A PRSP that lists everything that needs to be done to tackle poverty is not a strategic plan, unless it also makes hard choices about priorities and sequencing. Experience suggests that it is only once countries begin programming against a hard budget constraints that the difficult choices are faced. Few countries reached that stage in their first PRSP, and most are still some distance away in their second. PRSPs contain macroeconomic scenarios and revenue forecasts, but these are often unrealistic, and differ from the scenarios prepared for other purposes, including PRGF programmes. According to one study, first-round PRSPs on average estimated growth rates 25 to 30% higher than in the previous decade.⁵⁰ Where PRSPs are not linked to the annual budget or a functioning MTEF, proposed actions are not usually costed effectively, and on aggregate would far exceed available resources. There is often a lack of cost-benefit analysis to guide choices between competing policy and programme options. Few PRSPs (or Annual Progress Reports) analyse the successes and failures of past programmes, to guide future programming choices.

⁵⁰ Hermele, Kenneth, “The Poverty Reduction Strategies: A survey of the literature”, June 2005.

“While all PRSPs contain a policy matrix outlining elements of an action plan in various areas, these are frequently little more than wish lists resulting from the aggregation – without prioritization or costing – of the preferences expressed by various stakeholder groups in the participatory process (e.g. in Albania and Cambodia). Clearly, with practically no knowledge of the respective poverty impacts of various measures and only imprecise estimates of their costs, it is difficult to achieve a meaningful prioritization of the action plan.”

IMF IEO, “Report on the evaluation of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF)”, July 2004

124. Countries may be receiving contradictory messages from donors on the need for realism, on the one hand, and scaling up to meet the MDGs on the other. The World Bank emphasises the importance of working from a realistic macroeconomic perspective and resource envelope (called “constrained financing” in UN documents), to ensure that PRSPs are effective programming instruments. The UN and other donors promote MDG-based PRSPs which derive a notional resource envelope from an assessment of the total inputs required to achieve the MDGs (called “aspirational financing” in Bank documents), implicitly making the PRSP a fundraising tool in the broader campaign on scaling-up aid flows. In some cases (such as Ethiopia), countries have tried to reconcile the two approaches by incorporating alternative funding scenarios into the PRSP, but there are fears that this may generate uncertainty and weaken strategic focus.⁵¹

“Surrendering the link to a realistic assessment of what a country can achieve today, based on its own capacities and available domestic and foreign resources, would undermine the credibility of the PRS, both as a framework for coordinating donor support, and as an instrument to enhance accountability. On the other hand, the PRS approach also needs to accommodate ambitious goals and targets consistent with a long-term vision of development and poverty reduction.”

IMF & WB, “2005 review of the Poverty Reduction Strategy Approach: Balancing Accountabilities and Scaling Up Results”, August 2005

“The latest results suggest that Ethiopia will require US\$122 billion to meet the 2015 MDG deadline, including US\$33.4 billion for rural development and food security, and US\$13.1 billion for health. This translates to about US\$125 per capita per year. Assuming that the Government can mobilize domestic resources for half, nearly US\$62 per capita per year in aid would still be needed. In 2003, aid to Ethiopia was just US\$21.50 per capita per year. At present, the Government and donors have agreed on a cost estimate of US\$50 billion for 10 years or US \$75 per capita per year, with the Government expected to mobilize US\$35.”

UNDP, Linking the National Poverty Reduction Strategy to the MDGs: a case study of Ethiopia, 2005, p. 16

125. This reflects uncertainty apparent in many countries as to exactly what role the PRSP plays within the national planning process. Is it a broad statement of development aspirations, to be operationalised through sectoral plans and the national budget, or is it to be the instrument through which priorities are set and resources programmed? While

⁵¹ ODI, “Linking policies and budgets: implementing Medium Term Expenditure Frameworks in a PRSP context”, ODI Briefing Paper, June 2005, p. 22.

this should be left to each country to determine, few PRSPs are clear on this key question.⁵²

126. Scope: Many PRSPs are primarily expenditure plans for the social sectors, rather than plans for generating growth. Though the importance of growth to poverty reduction is widely recognised, there is limited analysis of policy choices to promote growth. There is concern that PRSPs may have been unduly influenced by the preferences of donors, who like to support ‘quick wins’ in health and education where outcomes are easier to demonstrate. It may also be that governments have seen the PRSP as a fund-raising tool and therefore focused on new spending initiatives, rather than policy issues. There is a strong consensus that PRSPs need to become broader in their approach to poverty reduction. They should not proceed from *a priori* assumptions about which kinds of public action are pro-poor, but should be based on country-specific analysis of the determinants of pro-poor growth.

“Most PRSPs deal primarily with the composition of public expenditure and give inadequate treatment to growth and other poverty-reducing actions...

Authorities in some countries have incorporated features in the strategy document that they thought the BWIs would prefer, especially an emphasis on expenditures in the social sectors.”

World Bank OED, “The Poverty Reduction Strategy initiative: an independent evaluation of the World Bank’s support through 2003”, 2004

127. Internalised conditionality: There is a common critique, particularly from civil society, that PRSPs reflect the standard policy prescriptions of the IFIs, and differ little from the structural adjustment programmes of the past. Macroeconomic frameworks are often agreed with the IMF outside the PRSP process, and provide for tight fiscal policies and conservative approaches to inflation which reduce the scope for pro-poor spending.⁵³ On issues where one might expect to find a difference of view between countries and the IFIs, the IFI position usually prevails. For example, one review of trade policy in 17 PRSPs found that there was a deviation from conditionality in previous structural adjustment lending in only two or three cases.⁵⁴ For its part, the IMF emphasises that its advice is tailored to country circumstances, and seeks to help low-income countries manage the trade-offs involved in meeting their spending needs.⁵⁵ One IMF evaluation found that the level uniformity between PRSPs was not so high as to suggest that countries were reproducing a standard IFI agenda.⁵⁶

128. Most donors seem to have made a genuine effort not to be prescriptive on policy choices. However, given the nature of the power relationship between donors and aid-dependent countries, the dangers of internalised conditionality are obviously real. According to one Tanzanian source, the PRSP represents “a Tanzanian view of what

⁵² See for example Alta Folscher, “The design, process and achievements of Zambia’s Poverty Reduction Strategy Paper”, Report for DFID, June 2004, pp. 33-4

⁵³ Streater, Tom (Eurodad), “PRGF Matrix User Guide & Analysis”, March 2004.

⁵⁴ Hermele, Kenneth, “The Poverty Reduction Strategies: A survey of the literature”, June 2005.

⁵⁵ IMF, “Review of PRGF program design - overview”, August 2005, p. 10.

⁵⁶ IMF IEO, “Report on the evaluation of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF)”, July 2004.

Development Partners believe ought to be the national priorities.”⁵⁷ A more telling reason, however, may be that PRSP countries lack the policy-making capacity to challenge the standard policy prescriptions offered to them by donors. This is why it is important that countries increasingly engage with analysis such as PSIA, and over time take control of the process.

2. Country ownership of poverty reduction is strengthened

129. If they are to provide a framework for CLA, it is essential that PRSPs reflect genuine policy choices, and not *pro forma* compliance with donor requirements. Though ubiquitous in development literature, ‘country ownership’ is a difficult quality to define or measure. It must include the support of the political leaders and officials responsible for policy at the centre of government. It should also extend across the executive (line ministries, regional and local governments), and beyond government to the political structures and civil society.

The executive

130. While linking the PRSP initiative to HIPC and concessional finance ensured its rapid adoption across the developing world, it inevitably entailed some compromises on country ownership. Many countries initiated their first PRSP as a stand-alone exercise in parallel to existing planning processes. Early PRSPs bore an uncertain relationship to other plans and strategies. Though there were usually consultations across government, the drafting was undertaken by a dedicated PRSP unit in central government which prepared the document in isolation from other planning processes, including the budget. Knowledge of the strategy was often limited to those directly involved in its preparation. It is now recognised that embedding the PRSP in existing planning processes is a key objective in building government ownership.

Integrating planning mechanisms in Vietnam

In Vietnam, the World Bank initially declined to accept the existing 5-year planning cycle as suitable for a PRSP, on the basis that it was not sufficiently comprehensive or participatory. The Bank was criticised for failing to recognise that Vietnam had its own processes for generating consensus among stakeholders. Now, plans to use the next 5-year plan as a single programming document have been welcomed as a sign of increasing ownership.

Cross-government ownership in Mozambique

“Despite being based on existing plans, however, it is striking how little ownership or even knowledge there is of PARPA [PRSP-1] outside of [the Ministry of Finance] and how static the document has been. There was little dissemination of the PARPA within the Government or more widely. It was seen by many within GoM as a necessary step to satisfy donor demands, and so the PARPA has tended to sit somewhat uncomfortably beside Mozambique’s extensive range of more established planning, budgeting and monitoring instruments and related documents (the 5-year Programme for Government, sector strategic plans, the annual Economic and Social Plan (PES) and the state budget (OE)). The PARPA was not updated to keep up with changes in the sectoral strategic plans from which it was largely derived.”

DFID, “Opportunities and Challenges in the PRS II Agenda: DFID’s Experience In Mozambique”, undated

⁵⁷ ODI & Daima Associates, “Joint Evaluation of Budget Support: Tanzania 1995-2004”, April 2005, p. 72.

131. Another unintended consequence of external conditionality was to focus attention on the document itself, rather than the underlying planning mechanism. PRSPs were assessed by the IFIs through Joint Staff Assessments, and formally approved by the IFI Boards in Washington (a practice which is now discontinued). In addition, conditions on PRGFs and PRSCs require a Progress Report to be prepared on an annual basis (APRs). Production of these documents can be very taxing on limited country capacity. It may force policy makers to focus on documentation, to the detriment of implementation.

132. There is now a recognition that the focus of the PRSP initiative should be on the development of a credible, country-led planning *mechanism*, rather than on the plans themselves. Applying stringent quality standards to the document creates incentives for countries to bypass their regular planning process, often using external consultants to produce a technically superior product. This is counterproductive if it compromises ownership across the administration. Some have suggested that documentary and process requirements should be better tailored to country traditions and capacity, and that a full reiteration of the PRSP process every three years (not a formal requirement) may be too onerous.⁵⁸ Some countries are already moving to 4 or 5-year PRSPs in their second round.

“There is inherent tension in a Bank/IMF–driven initiative involving conditionality that is also meant to foster a country-driven process... Countries have focused more on completing documents, which give them access to resources, than on improving domestic processes.”

World Bank OED, “The Poverty Reduction Strategy initiative: an independent evaluation of the World Bank’s support through 2003”, 2004

Documentary requirements in Uganda

“We have seen that the [PRSP] revision process and the drafting of Poverty Status Reports stretch limited GoU capacity to the limit over long periods of time. The attention given by donors to the quality of the ‘products’ of the [PRSP] process – the [PRSP] document itself, the PSRs – has led to a ‘paper culture’, where more attention is given to the documents than to the underlying process. This has led to less attention and resources for addressing the emerging implementation challenges.”

Canagarajah & van Diesen, “Uganda’s experience with the Poverty Reduction Strategy approach: an overview of lessons learned”, February 2006, p. 14.

133. Many LICs have highly fragmented administrations, making it difficult to build cross-government ownership. There have been tensions between ministries of finance and planning, where the two are separated, particularly where responsibility for the recurrent and investment budgets is divided between the two. As PRSPs begin to develop a stronger role in resource allocation, incentives for sectoral ministries to take ownership of the PRSP initiative are not always clear. Ministries often prefer to deal directly with donors in accessing resources. As the PRSP becomes integrated with the national budget, it has the effect of shifting authority and control over resources to the ministry of finance and the centre of government. Ministries with well-established sectoral support arrangements may therefore prefer that PRSPs remain at the level of general vision, rather than become operational plans.

⁵⁸ Canagarajah, Sudharshan & Arthur van Diesen, “Uganda’s experience with the Poverty Reduction Strategy approach: an overview of lessons learned”, February 2006.

“Within government, commitment to the strategy is strongest among those closest to its preparation (typically the finance or planning ministries) and those who perceive the greatest benefit from the process—for example, through increased resource allocations. Commitment fades in sector ministries, especially ministries with low PRSP priority, and regional/local administrations.”

World Bank OED, “The Poverty Reduction Strategy initiative: an independent evaluation of the World Bank’s support through 2003”, 2004

134. The issues affecting country ownership are specific to each country, making it difficult to generalise. However, there are grounds for optimism that the rather artificial process which characterised many first-round PRSPs is becoming integrated with existing planning mechanisms and systems, resulting in strategies which more accurately reflect country priorities. Nonetheless, ownership remains much more apparent at the centre of government than in line ministries or sub-national government.

The political system

135. There is no clear evidence that PRSPs have increased the political salience of poverty reduction in low-income countries. The interplay between national politics – an unruly and uncontrollable variable – and long-term poverty reduction is one of the most difficult challenges for CLA.

136. PRSPs are clearly most effective in countries like Uganda or Vietnam where the regimes have a strong poverty reduction agenda of their own. Yet analysis such as DFID’s Drivers of Change work has demonstrated that political processes in many countries may work systematically against sustained poverty reduction, for a whole range of different reasons. In neo-patrimonial systems, the way that political power is obtained and exercised blurs the boundary between public and private interests, trapping countries in a cycle of chronic misallocation of resources. In democratic systems in Latin America, power oscillates between political forces representing different class interests, with the result that the electoral cycle itself contributes to policy instability. The countries that have been most successful in pursuing a long-term development agenda (such as the Asian Tigers) are characterised by strong and rather unaccountable bureaucracies, and close ties between political and economic elites – characteristics which may be conducive to country leadership, but not necessarily to the forms of democratic governance promoted by international donors.⁵⁹

137. In most countries, the poor are not mobilised as a political force (disempowerment being one of the defining elements of poverty). The experience of the PRSP initiative shows that politicians in low-income countries are rarely interested in taking up the cause of poverty reduction. The literature on PRSPs notes that parliaments and opposition parties have not been closely involved in the process. The IMF found that, of 29 PRSPs completed up to July 2003, only 13 were sent to Parliament (although not necessarily debated), and only three were reviewed by a parliamentary committee. Yet on the rare occasions where parliaments do intervene in development policy, it is rarely to advance the interests of the poor. One study concludes that, when parliaments insist on changes

⁵⁹ See Kohli, Atul, *State-Directed Development: Political Power and Industrialization in the Global Periphery* (CUP, 2004).

to budgets, it is usually in order to increase the allocation to non-priority sectors.⁶⁰ In short, development policy is usually not an arena in which opposition politicians seek to build a political constituency, and most seem happy to leave it to bureaucrats.

The politics of poverty reduction in Uganda

In Uganda, strong political backing for the PRSP in the late 1990s and early 2000s has been linked to the need of the ‘non-party’ Movement system for an alternative source of legitimacy, in the absence of formal democratic process. Measures like universal free primary education and the abolition of cost sharing in primary health care in the first two PRSPs were very popular politically. As democratisation has moved forward, however, poverty reduction appears to be losing its political salience, in the face of new pressures in the political governance and security arenas. Fiscal constraints are also making it more difficult for the government to undertake popular measures. As a result, the involvement of senior political leaders has declined, and the process has become more technocratic in nature. The question is whether the institutions built up in recent years will prove robust enough to survive the pressures that are likely to arise as the government faces more open political competition.

Society

138. The PRSP initiative has sought to build and sustain country leadership by requiring strategies to be developed through a participatory process. In theory, consultation and dialogue should ensure that PRSPs are more responsive to the needs and preferences of the poor. At the same time, greater public understanding of the process and content should generate pressures on government for sustained implementation, and create more accountability over results. Participation is both an end in itself, and a strategy for changing the behaviour of government.

139. Participatory processes are a major departure from the way in which policy is traditionally made in most developing countries. Although civil society participants have pointed out many shortcomings in the process, most have welcomed it as an important advance on past practices. However, it is difficult to determine whether process conditionality has had much impact beyond PRSP formulation.

140. Most PRSP countries have gone to some lengths to consult with civil society during PRSP formulation. There is a tendency for participation to become ‘projectised’ – that is, treated as a once-off exercise lasting several weeks or months. Consultations are normally described in quantitative terms (the number of seminars, participants or regions covered – *e.g.*, 8,000 people consulted in Ethiopia). However, the quantity of participation is an unreliable guide to its quality or its broader significance.

141. The scope and form of participation is determined mainly by policy-making traditions and the level of capacity and organisation within civil society. As the examples below indicate, countries are extremely diverse in the ways in which stakeholders participate in government. Given this diversity, it is striking how standardised the participatory processes around PRSPs have become. There is still much to be learnt about devising effective and appropriate process requirements.

⁶⁰ Alonso, Rosa, Lindsay Judge & Jeni Klugman, “PRSPs & budgets: a synthesis of five case studies”, January 2005.

One size fits all?

Mozambique has strong government ownership of the poverty reduction agenda, but a very limited tradition of citizen or civil society participation in the policy process, linked by commentators to the previous command economy, colonial inheritance and civil war. The government established a Consultation Technical Unit in charge of the participatory process for PRSP-1, which conducted a series of meetings and seminars at sectoral and district level over a two-month period. NGOs, media, youth and student organizations, trade union representatives and religious bodies participated in the consultations. This was an example of 'projectised' participation, which largely disappeared once the strategy was complete. There was no civil society involvement in monitoring or the preparation of Annual Progress Reports. Since then, Mozambique has made significant progress in establishing a joint review mechanism under the Performance Assessment Framework. While there is some civil society participation in working groups within the review process, this externally driven mechanism has become a substitute for weak domestic accountability processes.

In **Kyrgyzstan**, there is only a small community of national NGOs, with limited policy capacity and considerable distrust of government. NGOs were commissioned to carry out research among the poor through a participatory poverty assessment, but their capacity to represent the poor in the PRSP process was limited. One of the values of the process has been to seed to the development of policy capacity within civil society, to help it develop more representative structures, and to create linkages between civil society and government. However, this remains at a very early stage.

In some **South-East Asian** countries (e.g., **Vietnam, Laos**), there are highly developed methods for reaching consensus on new policy initiatives, but they take place within the one-party system and are largely opaque to external observers. The value of adding further process requirements onto these more embedded systems is questionable. Most observers advise keeping an open mind as to what form participation should take.

Participation in **Pakistan** was marred by poor institutional structures and a lack of trust between government, donors and civil society groups. Inputs were unrepresentative across regions and ethnic groups, causing civil society organisations to unite in rejecting the whole participation process. Attempts by donors to mediate between government and civil society were complicated by accusations that donors were seeking to control the content of the PRSP. Since the PRSP was completed, there has been little participation in the implementation and monitoring process, and little public interest in the process as a whole.

In **Bolivia**, civil society became highly mobilised around debt relief campaigns in the 1990s. *Comites de Vigilancia*, made up of locally elected representatives of community-based organisations, were established to oversee the use of HIPC funds, creating a highly structured civil society monitoring mechanism. However, civil society was also extremely fractious, and relations with government conflictual and at times unproductive, with street protests occurring throughout the consultation period. Government attempted to bypass radicalised, national structures by focusing its consultations at the regional level, while the Catholic Church ran a parallel consultation process of its own to try to find consensus. The process was overtaken by subsequent political instability.

142. Organising effective participation is a new skill for many governments, and there is certainly plenty of scope for improving the processes. Among the most common criticisms given in the literature are:

- a bias towards urban and elite NGOs over rural and grass-roots organisations, and the poor themselves;
- lack of participation by the private sector and trade unions;
- artificial deadlines, which did not allow participants time to absorb materials and consult with their constituencies;
- language constraints – both the preparation of documents in English, and the use of technical language inappropriate for communicating with the public;
- poor organisation of participatory sessions;
- the exclusion of macroeconomic policies from consultations, and the tendency to steer away from controversial issues like land reform or trade policy;
- participation during PRSP formulation has often fallen away sharply once the document was completed.

“This is the bias towards elites in these processes: almost everyone involved in PRSP formulation is a middle-class technocrat... The result of this bias is often consensus – but it is rarely a consensus informed by the participation of poor men and women, and as such is unlikely to be pro-poor.”

Oxfam International, “From ‘donorship’ to ownership? Moving towards PRSP Round Two”, Oxfam Briefing Paper, January 2004

“The case for privileging an ad hoc assortment of social actors differs considerably between countries. Such an undertaking is necessarily biased toward interests that have the cohesion and the skills to make use of the process.”

World Bank, “Toward country-led development: a multi-partner evaluation of the Comprehensive Development Framework - Synthesis Report”, 2003, p. 28

143. Where the process began with a draft strategy prepared by experts at the central level which was then taken to the public for consultation, the results have tended to be less successful than when consultations were used to collect inputs for the first draft.⁶¹ Even so, it is difficult to organise effective public input into something as broad as a comprehensive poverty reduction strategy. Concrete proposals on individual issues do sometimes make their way into the strategy. However, it is hard to reach consensus when discussing complex policy issues or determining priorities among a wide range of choices. Consultations generate large numbers of short-term demands on government, but rarely help to resolve the resulting resource-allocation trade-offs. The hard choices on prioritisation default to those responsible for drafting the strategy, leaving many participants in the consultations with the perception that their input has been disregarded.

144. These tensions are probably inevitable, and need to be managed. Effective, democratic planning requires participation to be mapped onto a technically proficient planning process, which is the responsibility of government to provide. Governments (and donors) need to make more effort to explain the process and the roles of different actors, in order to manage expectations.

⁶¹ Folscher, Alter, “The design, process and achievements of Zambia’s Poverty Reduction Strategy Paper”, Report for DFID, June 2004.

145. Explaining the process to the general public, in appropriate form, is also key. Some countries have made innovative efforts to promote public knowledge and debate over development priorities. The appropriate forms of communication are context-specific, but in rural communities often include radio broadcasts, story telling and theatre productions.

Strategic communication in Tanzania

Tanzania produced a booklet – ‘Tanzania Without Poverty’ – which presented key facts about the PRSP to the public, reinforced by cartoons and colourful graphics. It was distributed in 212,000 copies and serialised in newspapers. It is said to have been a very popular publication, passed from hand to hand to reach a large number of people, and proved an invaluable awareness raising tool for local governments and rural-based CSOs. However, it was followed by a range of similar publications that were not so well received.

Reaching the grass roots in Rwanda

In Rwanda, a national tradition of radio soap operas was used to convey key messages on social issues, political debates and poverty-reduction initiatives. The soap operas are effective because they use stories to demonstrate the link between policy issues and the lives of their characters. Rwanda also used an innovative technique for attracting grass-roots participation. Local communities received a grant of US\$1,000 to design, monitor and implement a local development project. The process began with drawing a social map of the community, classifying households into economic categories, and identifying the needs to be addressed by the community project. The community selected two groups of people – one to implement the project, and the other to monitor.⁶² Funds were released once the project had been approved by a district official.

146. There is an emerging consensus that participation should not be limited to ‘projectised’ consultation processes during PRSP formulation, but should be mainstreamed into government systems, in particular the policy process and budget, in ways appropriate to the national context. The Tanzanian Participatory Public Expenditure Review is an important example.

The Tanzanian Participatory Public Expenditure Review

The Tanzanian Participatory Public Expenditure Review (PPER), which began in 1997, is a mechanism to institutionalise civil society and donor participation in the budget. It provides a forum for sharing information on the budget, undertaking joint analytical work on macroeconomic and sectoral issues, and helping mobilise constituencies for poverty reduction. The PPER is conducted by a team involving line ministries, local government, donors and CSOs, under the leadership of the Ministry of Finance. It prepares a report to inform budget preparation. The report is ‘evaluated’ through a World Bank-led process involving CSOs and donors, which also feeds into the budget process. There are sectoral working groups tasked with strengthening the alignment of sectoral budgets with the PRSP.

⁶² Mozammel, Masud & Sina Odugbemi, “With the support of multitudes: using strategic communication to fight poverty through PRSPs”, DFID/World Bank, 2005.

“Tanzania has one of the most open and participatory budgeting processes among PRSP countries, largely due to its yearly participatory public expenditure review (PPER).”

Alonso & Utz, “Fiscal aspects of PRSP implementation in Tanzania”, December 2003

“The PPER is meaningful. If you miss the chance to prepare an input for the PPER, you miss your chance to influence the budget.”

Civil society participant

3. National poverty reduction strategies become effective programmes

Resource allocation

147. It is now recognised that linking the PRSP to resource allocation through the budget or a Medium Term Expenditure Framework (MTEF) is key to turning it into an operational framework. PRSPs do not become real frameworks for action until a link to the budget is established. Planning prepared without the discipline of a hard budget constraint tends to produce long and un-prioritised ‘wish lists’ of projects. Conversely, PRSPs that are just broad statements of intention are very difficult to integrate with the budget. Planning and budgeting are functions that need to develop in parallel.

PRSP implementation in a weak institutional environment

In **Zambia**, progress on implementation of the first PRSP (2002) was judged as disappointing. Limited funds were allocated to the PRSP, and even less was disbursed. The priorities in the strategy were not reflected in actual spending patterns, with budgetary overruns in other areas crowding out PRSP spending. One detailed review concluded that the Zambian government systems during the first PRSP cycle were incapable of supporting systematic implementation, irrespective of political will. The budgetary process provides for incremental funding on an institutional basis, with a 1-year time horizon. The budget is constantly reformulated during the year, and *ad hoc* cash rationing determines actual resource allocation. There is no planning mechanism in place to use the budget as a tool of government policy. The existing cost structure of government leaves little discretionary funding to spend on development programmes. Financial management systems are weak, creating opportunities for rent-seeking and preventing any effective accountability for resource use. There has therefore been no real implementation during the first PRSP cycle, except for the expenditure of HIPC funds through dedicated Poverty Reduction Programmes and some progress on health and education sectoral strategies, attributable more to donor efforts in these areas than to the PRSP framework.

Nonetheless, the PRSP has encouraged the government to adopt a comprehensive reform programme, with the support of donors. Progress had been made on the initial stages of an MTEF, recasting the budget in an activity-based format, establishing new rules requiring budget submissions to relate to the PRSP, identifying PRSP-related activities within the budget and coding them for tracking down the line, creating a modelling and database unit within the MoF, developing a commitment control system and quarterly cash allocation plan, introducing a more strategic approach to debt management, and some improvement in formal accountability by the Auditor-General and parliament.⁶³

⁶³ Folscher, Alta, “The design, process and achievements of Zambia’s Poverty Reduction Strategy Paper”, Report for DFID, June 2004.

The Zambian experience is typical of first-round PRSPs in weak institutional environments. PFM systems are not strong enough to accomplish the shift of resources required for PRSP implementation. Common problems include:

- separation of recurrent and investment budgets;
- large amounts of off-budget external assistance;
- a lack of expenditure classification to facilitate tracking of pro-poor expenditure;
- large variations between approved budgets and outturns;
- irregular release of funds under cash budgeting systems;
- in-year revisions of budget allocations;
- a lack of harmonisation of PRS and budget cycles;
- poorly costed or uncosted items in PRSPs.

148. Where this is the starting position, the main value of the first-round PRSP has been in getting government to recognise the importance of a strategic approach to systems reform.

PRSP and budget linkages

“The priorities for expenditure in the PRSPs have not been translated into priorities in the budget, because the three-way linkage of the PRSP, the budget, and the Medium-Term Expenditure Framework (MTEF) is typically weak or absent.”

World Bank OED, “The Poverty Reduction Strategy initiative: an independent evaluation of the World Bank’s support through 2003”, 2004

“Budgetary processes are weak, and the linkages between the PRSP, medium-term expenditure frameworks, and budgets are generally poor. In particular, public expenditure management (PEM) systems are generally too weak to allow the PRSP to play a central role in implementing expenditure priorities or modifying them on the basis of feedback on actual costs and outcomes.”

IMF IEO, “Report on the evaluation of Poverty Reduction Strategy Papers (PRSPs) and the Poverty Reduction and Growth Facility (PRGF)”, July 2004

“In practice, given the low level of predictability in resource constraints and weaknesses in budget execution capacity and a range of other PEM problems besetting these countries, the prospect of making binding decisions for a three-year horizon of a PRSP is largely illusory.”

Moon, Allister, “PEM capacity and PRSPs in ECA PRSP countries”, 2003

149. MTEFs have emerged as a key tool for translating PRSPs into the budget. According to the OECD Development Assistance Committee (DAC), institutional reforms to develop an MTEF are being implemented in at least 41 countries, including almost all of the PRSP countries.⁶⁴ An MTEF consists of a top-down resource envelope, consistent with macroeconomic policies and external assistance projections, and a bottom up estimate of the medium-term costs of planned programmes and activities, together with an iterative decision-making process that reconciles costs with available resources. It typically begins as a shadow exercise, before it succeeds in establishing binding ceilings on sectoral expenditure. Only a very limited number of PRSP countries

⁶⁴ DAC, “Harmonisation, alignment, results: report on progress, challenges & opportunities”, February 2005, p. 16.

have reached this stage. Even in Tanzania, where budget systems are generally strong, the MTEF still has some way to go in establishing credible resource ceilings.

“The PRSP (and related sector strategies) provide the roadmap for policy priorities while the MTEF provides the discipline within which explicit policy choices and tradeoffs are made. At a minimum, MTEFs provide the link between ambitious poverty reduction targets and the annual budget priorities of government, linking what is desirable with what is affordable and most likely to deliver results.”

ODI, *“Linking policies and budgets: implementing Medium Term Expenditure Frameworks in a PRSP context”*, ODI Briefing Paper, June 2005

PRSP & budget linkages in Ghana

In Ghana, there is not yet a strong link between the PRSP, MTEF and annual budget, although there is a genuine commitment to aligning the processes. The annual budget includes an outline of PRSP targets, and these are mirrored in the MTEF. However, ministries find it difficult to align their MTEF submissions with PRSP priorities because of difficulties in costing and problems with budget classifications. The annual budget often diverges from the MTEF, and budget execution can be quite different again. Reallocations of expenditures between administrative budget lines have contributed to large variances in expenditure composition. Coverage of external assistance in annual estimates for the budget/MTEF is not yet complete. Internal and external audits are irregular, resulting in inefficient oversight and a backlog of audit reports. Nonetheless, despite the range of technical problems, budget outturns do broadly reflect PRSP priorities.

150. Experience shows that budget and PFM reforms take a great deal of time, and expectations for what can be achieved in the short term need to be quite modest. Uganda has made steady progress in developing its budget systems and MTEF, initiated in 1997. The reforms have followed a clear sequence. The first priority was to establish fiscal control and sustainability. The second phase was to orient expenditure towards PRS priorities. Only after that those two steps had been established was there a beginning of reforms to link expenditure with the operational performance of programmes. Sector ministries and other stakeholders now participate in the budget and MTEF process through Sector Working Groups, which prepare Budget Framework Papers on the basis of ceilings set by the Ministry of Finance. A Poverty Eradication Working Group makes recommendations on overall allocation of resources. Overall, it has taken more than ten years to establish a strategic orientation to the budget process. In the meantime, Uganda has used a ‘virtual poverty fund’ to protect pro-poor allocations within the budget.

The Uganda Poverty Action Fund

In Uganda, the link between the PRSP and the budget is accomplished through a virtual Poverty Action Fund (PAF). The PAF was originally designed as a way of demonstrating the impact of HIPC funds on budget allocation. The government guarantees that all budgeted resources will be made available for disbursement to PAF programmes, irrespective of resource shortfalls, and commits itself to higher standards of accountability and transparency over PAF expenditures. Sectors are required to report quarterly on progress in the implementation of PAF programmes, and the reports are discussed in quarterly PAF review meetings involving stakeholders. Some 75% of PAF resources are allocated to local

government, and 5% are set aside for monitoring and evaluation. The PAF eased the transition to general budget support, by allowing donors nominally to earmark contributions to the PAF. However, concerns are growing that the virtual fund may be too rigid in predetermining priority programmes and sectors.

Results orientation

151. The World Bank has commented that results orientation is among the weakest of the PRSP principles at country level.⁶⁵ It requires building the capacity to track the impact of pro-poor policies, and to use the evidence gained to improve policies and programmes through annual reviews and PRSP updates. This represents an ideal of rational, evidence-based policy making which is far from the reality in most PRSP countries.

152. The introduction of PRS monitoring systems has certainly boosted the availability of data on poverty. There have been significant investments in upgrading the statistical systems in many PRSP countries, and most have introduced survey programmes. The use of qualitative monitoring tools, such as participatory poverty assessments and user-satisfaction surveys, has improved. Many countries with weak public-expenditure information systems have introduced public expenditure tracking surveys, which provide an interim source of data on financial inputs and a useful tool for public accountability. National NGOs are increasingly active in these kinds of monitoring activity, whether independently or as part of the national monitoring system. On the whole, sources of information on long-term poverty trends has increased considerably as a result of the PRSP initiative.

153. The routine financial and administrative data needed to track the implementation of PRSP programmes has proved more difficult to collect. PFM systems are often too weak to provide accurate or timely information on the resources being spent on PRSP programmes, or to project the resources required to meet targets. The collection of routine administrative data on service delivery is hampered by capacity constraints, particularly in the local government outlets responsible for the bulk of service delivery.

154. PRSP countries are expected to establish integrated, country-level monitoring systems to enable monitoring of the PRSP as a whole. Many have produced system designs on paper, and assigned overall responsibility for PRS monitoring to a central agency, but few function as integrated systems.⁶⁶ Where donors have invested heavily in building up sectoral information systems, especially in health and education, it is often difficult to integrate these stand-alone arrangement into a unified monitoring system. In other areas (notably agriculture) where donors have been less active, there is often little data available. For example, in Kyrgyzstan information is collected against only 25% of PRSP indicators.

⁶⁵ World Bank OED, "The Poverty Reduction Strategy initiative: an independent evaluation of the World Bank's support through 2003", 2004, p. 16.

⁶⁶ Cox, Marcus & Nigel Thornton, "PRS monitoring systems: an analysis of institutional arrangements – synthesis report", 20 June 2005.

“Governments in most countries are monitoring results as a requirement, and results are not being used to adjust strategies or to enhance accountability for performance.”

World Bank OED, “The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank’s Support Through 2003”, May 2004

“It is hard to monitor plans that do not themselves reflect strategic policy thinking – that is, which do not say how the specified outcomes are going to be achieved with the specified inputs, and how the obvious obstacles are to be overcome.”

David Booth, “Poverty monitoring systems: an analysis of institutional arrangements in Tanzania”, December 2004

155. PRS monitoring results are not being used to inform the policy process. Annual progress reports tend to be broad narratives of government action over the past year, and do not report systematically against PRS indicators. Monitoring results are not used to evaluate successes and failures in PRS programmes. PRS monitoring calendars are often not aligned with the budget or policy process, and monitoring results are not widely distributed across government, to parliament or to the general public. In addition, many monitoring systems focus on poverty outcome indicators, such as the MDGs. The small annual movements in these indicators are difficult to relate to PRSP actions, and in the short term are of limited use for policy making or accountability.

156. Some useful innovations are emerging in Uganda and Tanzania, where steps are being taken to link PRS monitoring to the annual budget process. Line ministries are required to justify their budget submissions by reference to PRSP priorities, using evidence on the effectiveness of existing programmes. Linking monitoring to resource allocation seems to offer the most promising strategy of building up the demand for more effective monitoring in the policy process.

Linking PRS monitoring to the budget

Under **Uganda’s** budget and MTEF processes, line ministries are required to submit Budget Framework Papers to provide a rationale for their medium-term recurrent and capital funding bids. The rules require these submissions to cover not just future programmes, linked to the PRSP framework, but also past achievements of on-going programmes, supported by monitoring data. This linkage has not yet had much influence on MTEF ceilings (under the ‘virtual’ poverty fund, certain sub-sectors are presumed to be priorities regardless of their performance). However, it has provided a noticeable, if uneven, impetus towards more results-oriented policy making within the sectors.⁶⁷

A key element in the Ugandan process is external scrutiny of and dialogue around budget and MTEF submissions. This is performed partly by the Budget Policy and Evaluation Department within the Ministry of Finance, and partly by the Poverty Eradication Working Group, a consultative body involving stakeholders and civil society. This provides a **challenge function** within the budget process – that is, a process of engaging spending agencies in dialogue around their policy choices. Without this challenge function, a purely formal requirement that performance information be included in budget submissions would probably not be meaningful.

⁶⁷ David Booth and Xavier Nsabagasani, “Poverty Monitoring Systems: An Analysis of Institutional Arrangements in Uganda”, ODI Working Paper No. 246, March 2005.

Tanzania has moved from a system of protected priority sectors in the budget to a more flexible set of ‘cluster strategies’ – prioritised, pro-poor policies spanning most sectors. To receive prioritisation in disbursements, pro-poor programmes must be justified by reference to these cluster strategies. One study noted: “For the first time, in effect, sector policy makers have a material incentive to develop outcome-oriented rationales for what they do with their allocations from public resources. For the first time, they are being given reasons to make use of data on results.”⁶⁸

⁶⁸ Booth, David, “Poverty monitoring systems: an analysis of institutional arrangements in Tanzania”, ODI Working Paper 247, March 2005.

VI. NEW RULES OF THE GAME

157. CLA is about a maturing of the relationship between donors and country partners, to create a genuine partnership in the common cause of poverty reduction. This relationship is made intrinsically difficult by the power imbalances inherent in the donor-recipient relationship, and by a common lack of trust among the partners. To overcome these deficits, there need to be clear rules governing the development partnership, setting out the expected behaviour on both sides, together with mechanisms to ensure mutual accountability.

158. The Paris Declaration was major step forward in articulating these rules in general terms at the international level. Donors have signed up to standards of behaviour, and agreed to be judged against them through a public mechanism.

159. The reality of most development assistance is still a long way from the Paris vision. In a limited number of countries, however, donors and governments have been working together to translate these general principles into specific commitments and structures. This has been largely a field-driven development, emerging through negotiation and experiment. It builds on several years of work on harmonisation and alignment at country level, which has improved mutual understanding between donors and government and created a base for taking the relationship to a new level. There are as yet no established practices for how the new relationship should be structured, but certain patterns have started to emerged. They include:

- v) **A statement of principles:** an action plan, memorandum of understanding or joint assistance strategy, setting out the standards of conduct expected from both donors and government, and country preferences regarding aid delivery;
- vi) **An actions matrix:** a detailed matrix of time-bound undertakings, against which both donors and government agree to be assessed;
- vii) **A monitoring mechanism:** an agreed procedure for monitoring government and donor behaviour, separately or collectively, undertaken jointly by government and donors, or by independent monitors, or both;
- viii) **A structure for dialogue:** an institutional forum or committee structure, through which donors, government and other stakeholders elaborate on principles, agree specific actions and discuss monitoring results.

160. Structuring the development partnership along these lines does not eliminate power imbalances between donors and government. While government commitments are being linked to disbursements under GBS arrangements, there is no equivalent sanction for non-compliance on the donor side. Some commentators are therefore sceptical that this kind of arrangement can change the basic dynamics between government and donors.

161. It is early to draw conclusions as to whether these arrangements will work. They are unlikely to offer any guarantee against a breakdown in the partnership, particular where donors have concerns about political governance. It is, nonetheless, an extremely important development that donors are for the first time willing to translate CLA principles into concrete commitments, which are set against country commitments to poverty reduction. This may signal the emergence of a new, contractual model for the development partnership.

1. Elaborating country-level frameworks

162. Tanzania has been one of the leaders in this process of experimentation, beginning with the 1999 Tanzania Assistance Strategy (TAS). The TAS set out principles for collaboration between government and donors, including the goal of integrating aid into government systems. It was essentially a voluntary system, based on the elaboration of approved practices. The Ministry of Finance coordinated TAS implementation through a TAS Harmonization Group and a Technical Secretariat, comprised of representatives of sector ministries, the President's and Vice-President's Offices and the Development Partners Group. Compliance with the TAS was monitored by an Independent Monitoring Group, made up of Tanzanian and international experts.

163. Since 2004, government and donors have been developing a Joint Assistance Strategy Tanzania (JAST) to replace the TAS. Currently in concept form, the JAST is an ambitious attempt to develop a joint, multi-annual planning framework among the donors, to meet the financing needs of the PRSP. The draft JAST sets out the government's preferences for aid modalities and other donor behaviour.

- There is a target of 50-70% of assistance to be provided through GBS (currently at 35%). Whether this is for each donor, or across the board, is not clear.
- Basket funds should be used only as a transition to GBS, and are not encouraged.
- Projects are to be used only for piloting innovative forms of assistance and for demonstration purposes.
- All TA is to be demand-driven, untied and procured by government.
- Donors should make 3-year, binding funding commitments.
- All external assistance should appear on the budget.
- All aid should use government procurement systems.

164. The document also addresses the difficult issue of division of labour among donors. Donors are expected to focus on a smaller number of areas, based on their comparative advantage, under a lead agency. While this is also a Paris commitment, it is an area on which there has been little progress to date. There is also an institutional structure for policy dialogue among donors, government and other stakeholders, and a combination of joint and independent monitoring arrangements.

165. The government anticipates that the JAST will be binding upon all its Development Partners. Exactly how this will work remains to be seen. Some donors are not permitted by their own regulations to make binding undertakings of this kind. There may have to be transition periods, and exceptions for less flexible donors.

166. Uganda has taken a similar direction, based on several years of progress in harmonisation and alignment. A document entitled 'Partnership Principles' in 2003 set out mutual commitments between the government and donors. Government committed itself to implementation of the PRSP, improved revenue performance, leadership of donor coordination, improved monitoring, transparency and accountability, anti-corruption efforts, capacity building, the development of effective sectoral programmes and the use of participatory processes. On the donor side, the commitments included the use of joint analytical work and reviews, common indicators, uniform disbursement rules, integration of assistance with sector-wide programmes, delegation of authority to country offices, efforts to reduce parallel programmes and stand-alone projects, and reducing the tying of procurement.

167. The development of a Uganda Joint Assistance Strategy (UJAS) was initiated in 2003 by a group of donors – the World Bank, DFID, Germany, the Netherlands, Norway and Sweden, with the African Development Bank later joining – as an alternative to their bilateral assistance strategies. It is to contain commitments to upstream aid modalities, avoiding parallel activities, aligning assistance with the PRSP, and common assessment frameworks and review mechanisms. An assessment of donor performance under the UJAS will be undertaken in parallel to the annual PRSP review.

168. GBS arrangements have provided a spur to the development of mutual accountability mechanisms. Where a country receives a substantial proportion of its assistance in the form of GBS, its fiscal stance is more exposed to volatility in aid flows. Donors have acknowledged that moving to budget support entails a responsibility to improve the predictability and reliability of their assistance.

“Donors and partner governments have a joint responsibility for providing predictable resources. On the side of donors, this effort usually requires: (a) advance multi-annual commitments; (b) disbursement of funds at the earliest possible stage of the partner country’s budget process and fiscal year; (c) better donor coordination and exchange of information about likely timing and conditions of disbursement and (d) an attempt to limit in-year suspension of committed funds only to exceptional circumstances. Ideally, poor performance in the current fiscal year would lead to a reduction in budget support only during the subsequent fiscal year, which would maintain a sufficient degree of predictability.”

*Koeberle, Stefan & Zoran Stavreski, “Budget support: concept and issues”,
Paper for the Practitioners’ Forum on Budget Support, Cape Town, May 2005*

169. In Mozambique, the first GBS arrangement agreed in 2000 was governed by a memorandum of understanding known as the Joint Agreement. Conditionality was sketched in fairly broad terms, requiring the government to implement its poverty reduction programme under the PRSP and other planning documents. There was to be regular dialogue and an annual Joint Donor Review. However, signatories retained the right to impose additional, bilateral conditionality.

170. In 2002, the shortcomings of this rather loose arrangement became apparent. Two donors insisted on suspending disbursements, in protest at government handling of a failed privatisation of two state-owned banks in the late 1990s – even though the Joint Agreement did not include any conditionality on political governance, and the government had already agreed the handling of these issues with the World Bank. The disruption which resulted led to a request from the government for greater transparency in conditionality.

171. This led to the agreement of a Principles Paper in 2003, followed by a more detailed PAF, with specific commitments on PFM, public-sector reform, legal system reform and anti-corruption measures. In a new MoU in 2005, fifteen donors pledged to align their support with government priorities as set out in the PRSP, to harmonise their procedures to reduce transaction costs, and to support capacity building in the administration. They agreed not to impose conditionality outside the common PAF, to enhance the predictability of their aid, and to align disbursements with the Government’s budget cycle. Once commitments have been made, disbursement should follow as

scheduled unless there is a breach of the agreed underlying principles. For its part, the government made a broad commitment to democracy and the rule of law, and agreed that GBS commitments should be linked to performance against agreed PAF targets in the previous year.

172. The Joint Donor Review has been replaced by a 'Joint Review', which is formally under government leadership, although in practice it remains a donor instrument. Mozambique has also adopted a Program Aid Partners Performance Assessment to monitor donor compliance with the MoU. It is prepared by independent consultants and paid for by the GBS donors, with the results discussed and agreed with the government. The 2004 review points out the difficulty of using a technical instrument like a PAF to create an effective partnership in the face of a highly asymmetrical power relationship.⁶⁹

Innovations in Ghana

At the Consultative Group meeting in November 2005, the Ghanaian government and its partners agreed on three instruments that will make up the Ghana Partnership Strategy:

(i) a Results Matrix, which contains a mixture of output (mainly PFM and other governance reforms) and results (mainly in the social sectors) indicators, based broadly on the PRSP but including some additional donor requirements;

(ii) an Aid Effectiveness and Harmonisation Matrix, which contains a combination of donor and government commitments to align assistance with country systems, and to strengthen those systems; and

(iii) a Support Overview, which summarises all donor disbursements during the last PRSP cycle, and contains indicative overall commitments for the coming 3-year cycle, disaggregated among donors and across sectors.

The Support Overview is thought to be unique to Ghana.

173. Putting these structures in place is an extremely time-consuming undertaking, for government and donors alike. It forms an important part of the workload of DFID country offices. These efforts are an up-front investment in improving the efficiency and effectiveness of future assistance. They need to be assessed accordingly.

2. Political governance

174. One of the challenges for these emerging structures of mutual accountability is how to treat differences of opinion between government and donors on questions of political governance. Some donors (notably the Nordics) want political governance conditions to be incorporated in PAFs. However, issues like human rights and democratisation are difficult to reduce to indicators and targets. Others (e.g., DFID, the European Union) prefer separate processes of long-term dialogue, which are not linked directly to disbursements. DFID's policy on conditionality is set out in a March 2005 document,⁷⁰ which provides that DFID may suspend its assistance following significant violations of human rights or other international commitments. However, this is not an automatic process, and DFID will consider the effects of a suspension of aid on the population. On a number of occasions, DFID has concluded separate, bilateral MoUs

⁶⁹ Killick, Tony, Carlos Castel-Branco & Richard Gerster, "Perfect Partners? The performance of Programme Aid Partners in Mozambique", 2004.

⁷⁰ DFID, "Partnerships for poverty reduction: rethinking conditionality - A UK policy paper", March 2005.

with partner governments on political issues. EU policies and procedures for political dialogue are set out in the Cotonou Agreement. Joint donor positions on these issues are difficult to develop, as donors have different expectations and often interpret political events in different ways.

175. DFID has suspended GBS on political grounds on three occasions: to Rwanda as a result of activities in the Democratic Republic of Congo; to Ethiopia following election-related violence by security forces and the arrest of opposition leaders, and in Uganda, as a result of concerns over the political transition process.

Suspension of GBS arrangements

In **Ethiopia**, donors had excluded issues of political governance from PAF negotiations, as it would have led to disputes with the government, and the donors could not agree among themselves. During 2005, the donors jointly protested against human rights abuses following the general election, including the shooting of demonstrators, detention of protestors without trial, the suppression of private media and the levelling of serious charges (including genocide and treason) against opposition leaders. DFID suspended planned increases of GBS in June, and then in November joined with other donors in suspending all GBS. DFID reportedly did not expect that the use of conditionality in these circumstances would lead to a change of course by the Ethiopian government, but considered that continuing with GBS was unjustifiable in circumstances of rapidly declining governance. The impact on the government is severe, causing a shortfall of \$375m in its annual budget, with consequent effects for PRSP implementation and economic growth.

In **Uganda**, donors have for many years enjoyed a productive relationship with the 'no-party' Movement system of President Museveni, which has pursued an active poverty reduction agenda, on the understanding that a gradual transition to full democracy was underway. GBS donors concluded a Governance Matrix which addresses issues such as transparency and accountability, human rights, democratisation and security. There is a Donor Democracy and Governance Group to monitor the situation and provide a forum for raising concerns with the government.

In recent times, there have been signs that the democratisation process has been manipulated in favour of the current regime. There are also concerns about high-level corruption and the level of defence spending. The GBS donors recently suspended on average 20-30% of their annual GBS disbursements (mostly diverted to other programmes), to register a protest with the government. The economic effect of this measure is minimal, as the government in any case discounts GBS commitments in its budget, and the IMF allows a drawdown of its reserves in the event of a shortfall. However, the action has received a hostile reaction from the government and sections of the Ugandan media, which accused the donors of interfering in Uganda's constitutional processes.

176. These cases demonstrate that donor commitment to the CLA agenda remains subject to compliance with core principles of democracy and human rights by country partners. In countries where democracy has shallow roots, structures for dialogue and accountability are unlikely to be effective where questions of regime survival are at stake. Even where the relationships between donors and government are mature, they are prone to breaking down at the political level.

VII. POLICY IMPLICATIONS

177. Effective country leadership of the development process depends upon changes in institutions and practices at three different levels:

- iv) progressive alignment of external assistance with country policies and systems;
- v) increasing willingness and capacity of country partners to develop and implement credible development strategies;
- vi) the maturing of the aid relationship into a structured, rule-governed partnership.

The broad principles of CLA have been accepted at the international level through the Paris Declaration and its predecessors. But the hard work of changing structures, rules and behaviours must take place primarily at country level.

178. This study indicates that, in the countries that are leading on the implementation of CLA, there are some extremely important developments underway.

- Donors are progressively aligning their assistance with country-led development strategies, moving from nominal alignment to early PRSPs through to real alignment under GBS arrangements and joint assistance strategies.
- Donors are becoming more willing to deliver their assistance through country systems, where these offer an acceptable level of fiduciary risk.
- Donors are using conditionality to reinforce commitments made by countries in their own development strategies, rather than to extract new policy commitments.
- Donors are moving towards programmatic assistance and GBS, which support and strengthen country planning and budget systems and generate positive incentives for reform.
- Early PRSPs, which were narrow exercises done in response to external conditionality, are being replaced by new generation strategies which are better integrated with country planning mechanisms.
- There is a new focus on strengthening the systems required to turn the PRSP into an operational strategy, particularly developing MTEFs and linking the PRSP to the budget.
- Several years of efforts to improve harmonisation and alignment have led to a substantial maturing of the development partnership, based on clear principles, mutual commitments and transparent review processes.

179. These achievements have not yet become general practice. In most countries, implementation of the CLA agenda is still at an early stage. Many PRSPs have not yet become operational frameworks, much donor assistance is still fragmented, and the aid relationship in many cases is still marked by mutual distrust or directive behaviour by donors. Yet the good practices examined in this paper here reveal the potential of the CLA agenda.

180. In places where CLA principles are being actively followed, some early results are emerging:

- Aid is more becoming more predictable and less volatile.
- Placing more assistance on the budget is putting countries' own policy and planning mechanisms at the heart of the development process, increasing

influence and capacity at the centre of government. More resources are flowing towards countries' own development priorities.

- Country systems for planning, resource allocation and public financial management are improving, though considerable time is needed to accomplish complex reforms.
- Government policies are now based on a more accurate picture of poverty and the obstacles to pro-poor growth. Civil society has had more opportunity to input into the policy process.
- Under country-led programmes supported through SWAps, there has been a significant expansion in service provision, especially in health and education. This has enabled some countries to accelerate progress towards achieving MDG targets in these areas.

181. It is not possible to attribute overall impact on poverty reduction to the new aid paradigm. Nor would we expect to be able to do so at this stage. Implementation of CLA principles is still at an early stage, even in the most advanced countries.

182. Yet the processes of change described in this paper are important results in their own right. If the core conviction of CLA is correct – that development must be done by a country, and not to it – then there is no substitute for the painstaking process of building up country policies and systems. They are preconditions for achieving sustainable development.

183. What can be done to strengthen country leadership, and through it to accelerate progress on poverty reduction? A number of points for action emerge from this discussion.

1. Rethinking results

184. DFID needs to update its thinking on development results to reflect CLA principles. Outcome indicators, such as the MDGs, are necessary in order to keep a results focus to the development enterprise. However, the CLA agenda is a recognition that complex changes in policies and institutions, and in the way development assistance is delivered, are necessary in order to achieve sustainable progress on poverty reduction. Progress on accomplishing these process goals will not always have a visible impact on the MDG indicators over the short term. An exclusive focus on outcome indicators, to the exclusion of these intermediate processes of change, could lead to work on the CLA agenda being systematically undervalued. DFID needs to ensure that the considerable efforts underway to achieve country leadership are reflected in the way it evaluates its performance.

185. DFID has made major investments in promoting CLA, both through its work on sponsoring the Paris Declaration and through painstaking efforts at country level to negotiate and implement new agreements and structures. This work is an upfront investment in improving the effectiveness and efficiency of future assistance, and should be recognised in DFID's corporate commitments, including the Public Service Agreement and Directors' Delivery Plans. These documents should acknowledge that such investments will take time to show returns, but are integral to DFID's long-term strategy for achieving poverty reduction.

186. DFID also needs to communicate the CLA agenda better across Whitehall, to manage expectations and ensure that its achievements in this area are recognised. If the CLA agenda is not clearly communicated, then DFID may find it difficult to justify the resources it requires.

2. Strengthening mutual accountability mechanisms

187. An essential part of the CLA agenda is articulating the rules, structures and processes through which new forms of development partnership are emerging, based on mutual accountability. DFID's efforts to develop these new rules of the game are fundamental to its global influencing agenda, and need to continue, both at international and country levels. Within the donor community, DFID is often expected to lead on the promotion of CLA, and should continue to prioritise these efforts.

188. Continuing efforts will be required at two levels:

- i) At the international level, through the continued articulation of the Paris Declaration principles, and the development of systems to monitor donor compliance. Tools which enable ready comparison of donor performance, such as annual 'league tables', would help to strengthen the incentives for change. Continued efforts to articulate the principles and practical implications of the CLA agenda and to demonstrate its benefits would help to broaden support among the donor community for CLA.
- ii) At the country level, through the painstaking process of encouraging and facilitating country leadership of donor alignment, negotiating country-level commitments and creating monitoring frameworks. Given the innovations appearing at country level, it would be useful to capture this experience in the form of lessons learned and guidance that could be shared across DFID and with donor partners.

3. Instruments

189. The CLA agenda should not be equated with particular aid instruments. Rather, it is a standard against which to measure the performance of all aid instruments. Neither budget support nor SWAs are always supportive of country leadership, while well-targeted project aid can be used to support country objectives. In most cases, a strategic combination of aid instruments will be the best way of working towards effective country leadership.

190. On the whole, however, the shift towards programmatic aid and GBS has generated useful momentum for CLA. As the level of GBS increases and countries acquire more discretionary, on-budget resources, the importance of the central policy and budget processes increases dramatically. Incentives for governments to improve their resource management, and for sectors to participate actively in the budget process, become stronger. The shifting of assistance upstream – and encouraging other donors to follow suit – should continue to be part of the CLA agenda.

191. Capacity building emerges as a deficit in the CLA agenda at present. As acknowledged in the Paris Declaration, effective country leadership depends upon major improvements across a range of government systems, in particular central policy-making

and budgeting. Effective TA is an essential part of GBS or SWAp packages. For the time being, however, TA remains the least coordinated, strategic and country-led of all aid instruments, even in countries which are leaders in CLA. Although the value of demand-driven support is widely recognised, most TA is still initiated by donors. TA is most effective when it is linked to reforms and service-delivery targets to which government is fully committed. This can be facilitated through well-designed joint diagnostic exercises. Only a few countries have begun to identify their own capacity needs in a systematic way. Finding ways to deliver more effective TA under country leadership is a key challenge for the future.

192. Vertical Funds are in the main not supportive of the CLA agenda. They tend to be supply-driven, with priorities and policies determined externally, and use project-style delivery mechanisms. Most issues on the development agenda cannot be effectively addressed in this manner. A multi-dimensional social problem, such as responding to HIV-AIDS, calls for changes in institutions and practices that can only be achieved under country leadership. It is an open question whether Vertical Funds can be made consistent with CLA, through alignment with country policies and systems.

193. The scaling-up agenda is potentially a challenge to CLA. Pressures to increase the volume of assistance rapidly might force aid administrators to revert to parallel, off-budget delivery mechanisms, and short-cut the slower route of building country capacity. It may also mean that aid administrators simply have less time to spend on institutional issues and relationship-building. Scaling up aid is key to achieving poverty reduction, but it should occur at a rate consistent with partner countries' capacity to make effective use of the assistance, according to their own development goals and strategies.

4. Fostering country leadership

194. Countries vary greatly in their willingness and capacity to lead the development process. The CLA agenda is obviously easier to pursue in countries where poverty reduction has a high political salience, and where there is already a commitment to strengthening government systems. It is much more difficult where commitment is weak or intermittent. Donors will need to continue to find ways to promote genuine country leadership of the development agenda, consistently with CLA principles.

195. Donors need to support mechanisms which assist different groups in society, in particular the poor themselves, to articulate their needs, influence the making of policy and hold government to account for its actions. Experience to date suggests that there is no standard formula for achieving this. Consultation requirements around PRSP formulation have been useful up to a point, but are only a part of the equation. To be effective, participation must become part of the general policy making and budgeting process. The practice of public scrutiny of government actions, through techniques such as PSIA and participatory monitoring, must become more widespread. Although there are some positive examples of mainstreamed participation, such as the Tanzanian Participatory Public Expenditure Review, donors are still searching for effective ways to influence policy processes.

196. Despite its origins in donor conditionality, PRSPs have become the central instrument for fostering country leadership of the development process. As countries move to their second and subsequent PRSPs, there are signs that country ownership is becoming stronger, at least across the executive, as the process becomes better integrated

with existing planning traditions. We should increasingly think of the PRSP initiative not in terms of documents, but as a set of integrated policy and planning mechanisms. The PRSP initiative is about taking a systematic approach to building the systems and capacities that a country needs in order to prepare and implement a credible development programme, and provide effective leadership over external assistance. These systems and capacities need to be introduced at a pace suited to each country, based on what already exists. In shifting the focus to the underlying planning mechanism, it may be appropriate to lighten the documentation and process requirements around the PRSP itself, to free up country resources to focus on implementation issues.

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