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Tracking the Reforms in Aid Delivery, Management and Accountability



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Division for Public Administration and Development Management

**TRACKING THE REFORMS IN AID DELIVERY,
MANAGEMENT AND ACCOUNTABILITY**



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Table of Contents

	Page
Preface	i
Summary of Proceedings and Recommendations	1
Overview	
Viewing foreign aid within the framework of Stated commitments and emerging challenges	
Innovations in Aid Delivery	8
Decentralized modalities in aid delivery: Case study of Spain and Cuba	
Technical cooperation through peer partnership: New Japanese approach to aid delivery	12
Changing patterns of aid: from concessional to Commercial, the case of Sri Lanka	31
Direct aid delivery: reaching the hardcore poor: UN/CBO case study in Myanmar	59
Aid Management and Accountability	84
Aid management and accountability, the World Bank perspective	
Monitoring and evaluation for cost-effectiveness in Development management	
Aid management: partner-developing country perspective: The case of India	
Post-conflict country perspective: the case of Rwanda	
New partnerships in development assistance	
Annex I: Agenda of the Meeting	161
Annex II: List of Participants	164

Preface

The Division for Public Administration and Development Management (DPADM) of the UN Department of Economic and Social Affairs (DESA) held an Ad Hoc Expert Group Meeting on the topic “Tracking the Reforms in Aid Delivery, Management and Accountability” in Mexico City on 6-7 November 2003. The Meeting was held on the occasion of the Fifth Global Forum on Re-inventing Government organized by the Government of Mexico, with the support of the United Nations. The Meeting was one of the events of the Global Forum, which focused on “Innovation and Quality in the Government of the 21st Century.” The Forum was held in Mexico City from 3-7 November 2003.

Overview of the theme of the Expert Group Meeting:

In the context of globalization and liberalization, economic resurgence of some developing countries and the transitional economies and the fact that while their need for aid have become quite diverse, aid resources at the same time are becoming increasingly scarce. Further greater attention to transparency and accountability has also warranted better aid design and delivery to impact on the poor more positively. These changes necessitate new approaches and innovations to aid delivery, to aid management and to aid accountability. These initiatives are important for facilitating the integration of these economies in the global economy, triggering increased resource flow and helping to bring about balanced socio-economic development.

The Monterrey Consensus adopted by the International Conference on Financing for Development held at Monterrey, Mexico in March 2002 has observed that mobilizing and increasing the effective use of financial resources and achieving the national and international economic conditions are needed to fulfill internationally agreed development goals. These goals include those contained in the Millennium Declaration to eliminate poverty, to improve social conditions, to raise living standards, and to protect the environment.

Development assistance or aid plays an essential role as a complement to other sources of financing for development. This is particularly true in those countries with the least capacity to attract foreign investment, neither the capacity to acquire and service adequate debt financing nor the capacity to expand their tax base or to increase tax compliance and collection. A significant number of developing countries and countries with economies in transition and in particular, the least developing countries rely heavily on Official Development Assistance (ODA) for development financing. However, ODA has dwindled in the budgets of many donor countries during the past several years though it continues to be important for these aid-dependent recipients. The United Nations 0.7 % target for ODA flows from donor countries have not been achieved neither has the flows been close to this target. The Millennium Declaration has again emphasized the importance of ODA in helping countries reach adequate levels of domestic resource mobilization over an appropriate time horizon while human capital, production and export capacities are still being enhanced.

With this much stronger commitment by the international community to more focused and sustainable economic and social development as exemplified by the Millennium Development Goals, bilateral and multilateral donors as well as the partner countries have been introducing new approaches and modalities for aid sourcing and delivery, aid management and accountability. These innovations are critical for improving the environment for sectoral prioritization and for focused aid, paving the way for robust growth and for more equitable distribution of aid utilization. More importantly, in a fiscal environment of limited resources and government struggles for programme prioritization, new sources of aid and more efficient utilization of aid will greatly contribute to better and sustained economic and social development.

The Ad Hoc Expert Group Meeting was held with a view to contributing to the debate, exchange of experiences and initiatives that will further enhance the quantity and quality of development assistance.

This publication presents the main findings of the Meeting and most importantly the recommendations made by the Ad Hoc Group of Experts for consideration by the United Nations Secretariat, particularly by the Division for Public Administration and Development Management, and by its legislative bodies, such as the Committee of Experts on Public Administration and the Economic and Social Council in the area of aid delivery, management and accountability.

Summary of proceedings and recommendations

Pursuant to the attainment of the Millennium Development Goals, particularly for resource mobilization and poverty eradication, and within the general theme of the Global Forum on Innovations and Quality in Government in the 21st Century, the Meeting focused on new innovations in the sourcing of aid, in the effective delivery of aid, as well as in aid co-ordination, aid management and aid accountability. These innovations and improvements in delivery, management and accountability are designed to increase both the quantity and the quality of aid resources as well as its utilization. The participating experts addressed the importance of aid flows within the context of the strategic needs of a country's over-all economic growth, particularly for social development.

The first presentation outlined the much stronger commitment by the international community to more focused and sustainable economic and social development. In response to these challenges, bilateral and multilateral donors as well as the partner countries have been introducing new approaches and modalities for aid sourcing and delivery, aid management and accountability. Innovations in aid delivery and management have been critical for improving the environment for sectoral prioritization and for focused aid, paving the way for robust and sustained growth and for more equitable distribution of aid resources.

The current international debates on focusing aid suggest three key areas for action: first, they recommend enhanced selectivity: focusing on the poorest and most vulnerable while at the same time rewarding best-performing countries, i.e., countries committed to achieving development progress; second, they propose better issue prioritization: focusing aid on the MDGs, and in some instances on PRSPs including on related support initiatives, such as building capacity for improved aid monitoring, management and accountability; and third, they suggest more careful operational strategizing, i.e., targeting the hardcore poor, so as to select the policy approaches best suited for poverty reduction and attainment of national economic and social goals.

It has therefore become more imperative to deliver aid that is direct, timely and effective for pro-poor initiatives. Meeting these challenges must be premised on the following tenets for aid effectiveness:

- Ownership of aid management by the recipient target group at the local level
- Participation of the recipient target group at the local level in the aid process including setting of goals, budget and planning, monitoring and evaluation and expenditure
- Empowerment for the recipient target group including training, institution-building and access to mechanisms and institutions for aid implementation

The key element in all these is partnership. Whereas the traditional reference to this partnership is between donor and recipient countries, we now most refer to bilaterals and partner countries. Partnerships are now between central governments and local governments, between local governments of donor countries and local governments of partner countries. Partnerships also

take place with non-state actors, notably non-governmental organizations, civil society and the private sector.

Aid Delivery

In Module II, the Meeting focused on the sharing information and experiences in these partnerships in aid delivery and in new modalities and approaches and types of aid resources. In the first presentation, the case study of the partnership between the Andalusian region in Spain and the Government of Cuba was presented. This was a case of a decentralized cooperation in development assistance introduced and implanted within the framework of an existing programme by another entity, in this case, the United Nations Development Programme (UNDP) under its Human Development Programme at the Local Level (PHDL). It was an interesting case of the evolution of development assistance that eventually led to an alignment of the donor's programme of assistance with that of the partner country's priorities in anti-poverty and human development programme.

The Japanese Government has made a political commitment to apply ODA to the know-how held by local authorities with regard to such issues as local government, city administration and public services. Corollary to this objective, the Government through this innovative partnership develop programmes that directly target local citizens in developing countries and improve the quality of international cooperation projects. This partnership is primarily in the sectors of environment, healthcare and agriculture. A case study was presented dealing with the medical cooperation between the Niigata Prefecture in Japan and Heilongjiang Province in China. A key element of this aid delivery mechanism is the reciprocity of discernible benefits accruing to both local communities. Key elements of this partnership are approval of local citizens of both communities on the funding and implementing mechanisms of the project; mutual benefit; generation of added value; in the field of social development; and local participation at all levels of implementation.

The third presentation was a case study of Sri Lanka on managing the delivery of non-concessional aid in a post-conflict situation. The emerging trends in the aid scenario and the current status of the aid delivery system in Sri Lanka raise several areas of serious concern regarding its overall relevance, efficiency and effectiveness. Externally, Sri Lanka has moved from a largely concessional funding status to one of semi-concessional funding and commercial borrowings and the ensuing imperative of effective debt management. Internally, there has been a change in the policy of moving from a predominantly public sector-led to a largely private sector-driven development scenario and the need to engage increasingly with the needs of the private sector. At the same time, aid must also support poverty reduction while increasing production capacity. More and more, there has also been a devolution of development responsibilities to the regions.

The current arrangement to take aid for post conflict development in conflict affected areas out of the delivery mainstream of ministries constitutes a significant measure in the case of Sri Lanka. The final institutional form and shape of the aid program for post conflict

development in the conflict affected areas would naturally have to await the outcome of the peace negotiations and the interim arrangements for governance in the north and east.

However what is perhaps more important from the point of view of the aid delivery system would be the nature, scope and modalities of integration of aid in a holistic agenda on post-conflict development, without spatial separation of aid for the “north and east” and the “south”. The conceptualization of the nature, scope and content of “post-conflict development” on the part of donors and the government would be interesting and pertinent. The question posed was “Would a comprehensive approach to “work on conflict” be spatially segmented?”

The presentation on Myanmar depicted a unique pattern of official development assistance extended by UNDP in Myanmar. Constricted by its Executive Board decisions of working only at the grassroots level, UNDP has since 1994 through its Human Development Initiative in Myanmar innovated development assistance programming and implementation modalities to assist the hardcore poor at the grassroots level with minimum processing of aid delivery through the government administrative structures at either the central or local level. The central agencies provide only the facilitation support. However, the HDI programme and each of its constituent projects have received endorsement of the government sometimes through lengthy dialogue because of the underlying implementation arrangements of the projects. The paper analysed the innovations promoted by UNDP in programming and delivering aid to address the poverty situation in Myanmar.

This innovation in aid delivery has however raised several concerns, namely: capacity at the local level; cost of managing the programme; accountability issue; and the role of government. It was argued that the lack of national government role in aid delivery and management is both risky and unsustainable. Though the contribution of UNDP is recognized, it is also propositioned that aid in the case of Myanmar would be more effective if the current framework of aid delivery is changed to involve the national government.

The discussions in this module focused on new and emerging sources of development assistance. The experts looked at the increasing role of the non-government entities and the private sector in aid flows including that of commercial aid. In terms of aid effectiveness, sourcing local governments in donor countries that target local governments in recipient countries was discussed. These discussions highlighted approaches to aid effectiveness, especially with the methodology of people-to-people aid delivery. In this respect, the emerging models that deliver aid directly to the community/grass-root organizations with the government playing only a facilitating role was highlighted particularly with the local governments or the CBOs assuming the management, co-ordination and ownership of aid revenues.

Aid management and accountability

Donor countries and institutions attach high importance to partner countries’ effective and efficient financial management of resources. Corollary to their commitment to reform their requirements and processes for preparing, delivering and monitoring development assistance is the expectation that partner countries will undertake the necessary changes in their public

financial management systems and processes. This new trend of partnership in development assistance will be implemented in a framework of mutual accountability among all stakeholders.

The Meeting in this regard provided a forum for exchange of perspectives in the implementation of this new strategy from the bilateral and multilateral donors' viewpoint and from the partner countries' side. Peculiarities and specific problems in aid management and accountability faced by post-conflict countries and highly aid-dependent countries was addressed in this discussion.

The presentation of the World Bank explored recent developments in three key pillars of the World Bank's current operational framework that aim to enhance its aid management and accountability—the focus on the Millennium Development Goals (MDGs), harmonization of aid delivery around improved country priorities, systems and processes, and disclosure of information and engagement with civil society. The presenter provided a historical perspective on aid and its role that sets the stage for the identification of the key issues of management and accountability. The World Bank has taken a broad range of measures to strengthen the management of the lending and other development assistance it provides, and the accountability for results.

Since the High-Level Forum on Harmonization, held in Rome in February 2002, political momentum for harmonization has been sustained, and more country partners and bilateral and multilateral agencies are actively involved in the effort. Bilateral and multilateral agencies are now collaborating on key harmonization themes to promote and facilitate implementation. The World Bank remains committed to the international harmonization agenda. At the request of some of its donor partners, it is assuming specific additional responsibilities at the global level in support of in-country implementation, and it is involved in harmonization efforts in a broad spectrum of countries. In operationalizing the harmonization agenda, the World Bank faces three principal challenges: (a) focusing on further internal reforms; (b) increasing the awareness of staff and managers of harmonization opportunities, and motivating and equipping them to respond, and (c) generating early results.

In the presentation on Monitoring and Evaluation for Cost-Effectiveness in Development Management, evidence was presented that in recent decades foreign aid has not had the desired impacts on economic growth or on other conditions in recipient countries. Summaries of evaluations of donor funded programs and projects, however, indicate that they have on average been quite successful. This inconsistency suggests that there is significant positive bias (on average) in evaluations, and other evidence supports this conclusion. Evaluations serve two purposes: they support learning from experience and they provide a basis for accountability. Since positive bias undermines both of these purposes, it is plausible that better evaluation would, over time, enhance the impacts and the cost-effectiveness of development assistance.

The presenter proposed a new approach to evaluation called “Monitoring and Evaluation for Cost-Effectiveness.” It involves an approach to the conduct of evaluations in which evaluators (a) reconstruct how the ideas in the project plan unfolded, (b) estimate the project's likely impacts, and (c) make a judgment of the project's likely cost-effectiveness. It also addresses the problem of positive bias as well as certain technical challenges. It involves the

establishment of an evaluation association that would protect the independence and promote the quality and consistency of program and project evaluations.

The presentation on Rwanda examined the role foreign aid can play in Rwanda's future, but at the same time, the role of aid in the build up to the genocide cannot be ignored. The presenter gave an overview of the Rwandan conflict and the history of aid in Rwanda. The core of the paper then looked at current aid levels now and the challenges and opportunities of foreign aid in the future. The Government of Rwanda has mentioned strong concerns about current aid arrangements including:

- A tendency of donors to be excessively prescriptive
- The 'crowding-in' of aid to sectors and regions that are in fashion (e.g. governance in Rwanda's case)
- A lack of clarity within the donor community about their accountability requirements
- A lack of coherence in policies and practices between, and among donors
- Donor-government policies and practices restricting trade access for exporters in low-income countries
- IMF hegemony in setting macro programmes
- An ineffective and inappropriate supply of technical assistance, and/or insufficient attention given to capacity building
- A preference of most donors to set up separate procedures rather than to work jointly
- The unpredictability of assistance, in particular disbursements by donors
- An excessive number of conditions accompanying aid programmes
- The tendency to fill gaps and write more detailed 'action plans' for government with insufficient attention to capacity building
- Donors' preference for discrete project support
- Long delays in disbursements and implementation due to the rigidity of donor procedures
- Non-transparency of donors and their inability to share information more actively.

Overall there were four main areas where changes were deemed necessary for aid to be most effective. The first is sustainability. Donors need to sponsor nationally developed programmes and specifically endeavour to target and improve on aspects that ensure sustainability. The second area concerns the policy environment. It is up to the recipient country to do all that it can to create their own development space. Aid should not be used to buy or force policies rather recipient governments should look at their own unique conditions and be innovative and courageous in creating and implementing local-specific policies. Thirdly, the existing aid structure which uses non-governmental organisations and in-country offices to liaise with the recipient government can create not only unnecessary bureaucracy but also result in the personal opinions and decisions of individuals on the ground contradicting larger policy level decisions. A suggestion would be to move away from a heavy in-country presence by donors and agencies to a system whereby governments deal directly with their donor government counterparts. Lastly, there is the need for increased coordination of aid. There are powerful base

conditions for a successful aid coordination process in Rwanda. The mechanism of clusters, complemented by existing initiatives already institutionalized within the country, provides an adequate constellation of actors and mechanisms to build on the mandate for aid coordination..

Finally, a presentation was made on the specific role that the United Nations plays in fostering new partnerships in development assistance. Partnerships for development are not new. What has emerged in the past few years at the United Nations is a focus on building *innovative* partnerships to achieve peace and broad development goals. Two key trends have driven this enhanced partnership agenda: the increasingly complex and interconnected nature of today's global challenges, and the growing influence and engagement of non-State actors. With numerous successful innovative partnerships underway, the United Nations is now working to scale up promising approaches and to learn from acquired experience. The United Nations Fund for International Partnerships (UNFIP) plays a lead role in forging new partnerships in development assistance. Building partnerships for development with the private sector and civil society, UNFIP mobilizes intellectual capital, technology, expertise, delivery systems and other resources, in addition to funding, in order to advance global causes.

Recommendations

At the conclusion of the Meeting, the Ad Hoc Group of Experts drew up a list of recommendations for actions in the area of aid delivery, management and accountability by the United Nations Secretariat, in particular by the Division for Public Administration and Development Management and by its legislative bodies, such as the Committee of Experts in Public Administration and the Economic and Social Council. The following recommendations were adopted by consensus:

Over-all recommendation: That the United Nations should strengthen the aid delivery and management capacity of partner governments not only at the national level but more importantly at the level of local governments and of civil society, in particular:

- 1. to bring to the attention of the Member States of the United Nations in their intergovernmental dialogue the new and emerging challenges and opportunities of aid delivery and management which target pro-poor initiatives and other development efforts*
- 2. to contribute to the process of information sharing on best practices and innovations in aid quality, aid management and in customer-demanded aid delivery*
- 3. to provide training to national officials, upon their request, for enhanced capacity to source, to deliver and to manage aid*
- 4. to provide, in collaboration with other capacity-building partners and at the request of national governments, ad hoc advisory services in institution-building and policy formulation for effective aid delivery and aid management*
- 5. to explore ways and means to improve the quality of aid monitoring and evaluation for more aid effectiveness*
- 6. to assist national governments to develop capacities in the sharing of information on aid projects widely with their citizens for better accountability and participation*

7. *to advocate for flexible aid arrangements for post conflict countries and to develop an information sharing facility for best practices in the contribution of aid to the reconstruction, reconciliation and reform in post-conflict countries, and*
8. *as part of the broader UN effort, to explore ways and means to harmonize their policies, procedures and practices with development partners around partner country priorities and systems, consistent with the Rome Declaration on Harmonization.*

INNOVATIONS IN AID DELIVERY

I. MECHANISM OF FACILITATION OF THE DECENTRALIZED COOPERATION: THE CUBAN EXPERIENCE: PREVENTING POVERTY THROUGH SUSTAINABLE DEVELOPMENT AT THE COMMUNITY LEVEL

PROGRAMME: Human Development Programme at the Local Level (PDHL)

In January 1999, UNDP-Cuba, in collaboration with UNOPS and an initial contribution from the Italian Government, launched a programme for local human development (PDHL/Cuba). Active in over 40 percent of the country, it has supported hundreds of small-scale projects, from organizing waste management at in some villages to providing potable water in others, and has provided job training to thousands of Cubans.

The Programme

The PDHL programme reflects the efforts the Government of Cuba is making to implement the Millennium 2000 and other UN goals through co-operative initiatives between local Cuban, European and Latin-American governments. The efforts follow four main lines of action:

- Technical and administrative decentralization.
- Coverage, quality and sustainability of social and infrastructure services.
- Local economic development.
- Gender focus.

For development partners interested in strengthening these in Cuba, the PDHL programme provides a programmatic framework through which specific initiatives can be formulated, managed operationally, monitored and financed.

Approach

The strengthening and promotion of local mechanisms and capacities for management and integrated programming, already well formulated by Cuba's national authorities, in themselves provide a platform for local development. The local planning process supported by PDHL establishes links to specific programmes. These include.

- Integration of vulnerable groups into the dynamics of local and economic development.
- Support for initiatives integrating social, economic and environmental components.
- Gender empowerment in local programming.
- Local human development plans linked to the community's territorial planning.
- Co-ordination of different international initiatives to achieve expected impact in the areas of interest to PDHL.

Levels of Action

PDHL is currently operational at the following levels:

Local level: It is here that the needs of the population and the potential of the region are expressed in the PDHL programme. Local projects under the programme are designed to respond to local needs and demands and, at the same time, to be sustainable. The operational structure of the local projects is formulated by work groups appointed by municipal and provincial governments. The groups represent a broad range of stakeholders, including those from the health, education, agriculture, welfare, environment and physical planning sectors and from Cuban NGOs and institutions.

National Level: The PDHL is linked to national policies and the Copenhagen Pledges through a National Coordination Committee composed of representatives from the Cuban Ministry for Foreign Investment and Economic Collaboration (MINVEC), UNDP-UNOPS and other participating national and international organizations.

International Level: The PDHL promotes affiliation with networks in other countries committed to the goals of the Copenhagen Summit. Positive results achieved by Cuba in the area of development are disseminated, and the exchange of innovative experiences in this and areas of interest to Cuba is facilitated.

Where the Programme Operates

PDHL/Cuba was designed to serve geographically and socio-economically diverse regions of the country. Initially, the programme operated in the provinces of Pinar del Rio (western Cuba), Granma (southeastern Cuba) and in Old Havana (urban area). In 2001, the programme was expanded to include four provinces in eastern Cuba, the country's most economically depressed area. They are: Guantánamo, Santiago de Cuba, Holguín and Las Tunas. Together, these areas make up 44 percent of Cuba's territory.

The Decentralized Co-operation Model

The PDHL has been designed to function in partnership with similar programmes in Europe and Latin America. A decentralized co-operation mechanism has been established to mobilize those social and economic actors in Europe and Latin America interested in formulating and implementing co-operation with their counterparts in the municipalities and provinces of Cuba.

This model promotes lasting relationships between organized local communities in Cuba and other countries and provides an opportunity to exchange innovative solutions and to create "common interest networks". Such common interests include the sustainability of services,

environmental protection, measures for the social and economic integration of women and other vulnerable groups, and job creation.

PDHL Results

Today, after three years, the PDHL programme has been active in six provinces and portions of Havana, Cuba's largest city. Practical results during this period include:

- The completion of 368 local projects in 16 municipalities. These were formulated and executed on the basis of needs identified at the provincial and municipal levels. They have directly benefited more than 600,000 persons, and indirectly, more than 2,340,000.
- Training initiatives that have led to the potential economic empowerment of 11,450 persons. More than 4,000 jobs have been created, of which 2,448 were filled by women.

Benefits reflecting extraordinary institutional co-operation in implementing the PDHL programme include:

- Co-ordinated programmatic action by UN agencies (UNDP, UNOPS, UNIFEM, HABITAT, UNICEF, WFP), the 14 participating national and international NGOs, the 123 participating European local governments and the more than 240 participating associations and entities within Cuba (universities, municipal services, study centers, chambers of commerce, solidarity associations). The remarkable success of this UNDP programme in Cuba must in large measure be attributed to this web of partnerships.
- The creation and consolidation of a local, multi-sector operational structure based on the Provincial and Municipal Working Groups (GTP and GTM). This structure has facilitated the establishment of integrated processes of local development and has also supported international co-operation in strengthening these processes. Thirty-three local Working Groups employ more than 50 full-time local professionals and intermittently employ or consult with another 350 professionals.
- Building the capacities of the working groups to identify needs and to formulate and manage projects while, at the same time, focusing on gender issues.

In terms of process, the most significant results of the PDHL programme the have been:

- Strengthening at the local level of active, integrated participation by communities. This has been reflected in growing quantitative and qualitative participation as well as in the continuing development of management capacities.

- The creation of specific technical and administrative instruments in the service of local development. Among these are:
 1. The use of geographical information systems in the formulation and management of municipal and provincial development plans;
 2. The creation of management and purchase mechanisms at the municipal level;
 3. Cross-sector programming mechanisms at the municipal and provincial levels;
 4. The creation of small-loan facilities to promote small and medium businesses;
 5. Changes in the variety of and ways in which social services are provided - - community centers and subsidized housing for the elderly, for example, and education for disabled children;
 6. A focus on information measuring quality of life rather than on quantitative data alone.

II. Japan's New Channels of Official Aid and Cooperation: Local Government as an Actor¹

Hitoshi Yoshida and
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Introduction

While the mega-trends of globalisation, urbanisation and decentralisation powerfully reshape life in the 21st century, transactions across national borders have already changed dramatically. One noticeable change is in the nature of international actors. The traditional two-tier system of central governments and international organisations as the main international players is being reshaped as a multi-tiered system that encompasses such players as local governments, businesses and non-governmental organisations (NGOs).³ The role of local governments and NGOs as international actors has expanded rapidly in recent years, as we enter an era when local governments will be exceedingly important in international affairs.

Japan has not escaped this trend, although in some ways Japanese local governments have been slower than their counterparts in Europe and North America to move ahead as international actors. Nevertheless, since the late 1990s we see some Japanese local governments taking on much stronger international profiles. In Japan's highly centralised political system, the central government has been generally unwilling to relinquish authority to local governments, as is true of most central governments worldwide. But with multiple pressures on the centre to incorporate other actors into the nation's international affairs, especially for tasks that the centre is unable or less able to perform, the central government is developing a more positive, pragmatic, pluralistic approach towards national and foreign policies. One area where the centre is beginning to draw more heavily on the contributions of local governments is international

¹ This is a revised and updated version of the paper presented at the global forum ad hoc expert group meeting on tracking the reforms in aid delivery, management and accountability, United Nations Department of Economic and Social Affairs Division for Public Administration and Development Management, Mexico City, 6-7 November 2003. Part of the materials in this paper is drawn from our article 'Japan's Subnational Governments and Their International Cooperation Programs', published in *Asian Profile*, vol. 31, no. 5, October 2003, pp. 376-88.

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³ See Purnendra Jain, 'Emerging Actors in Japan's Foreign Affairs: Subnational Governments and NGOs', in T. Inoguchi and P. Jain (eds), *Japanese Foreign Policy Today*, New York, Palgrave, 2000, pp. 18-39; Purnendra Jain, *Nihon gaiko no atarashii akutaa to shite hiseifu soshiki* (NGOs as new actors in Japan's international relations), Yokohama City University, Toshi Seisaku Series No. 5/2002, pp. 55-65.

cooperation programs, including the nation's huge program of official development assistance (ODA).⁴

Some local governments are 'ready, willing and able' to contribute to international cooperation programs. Many have moved beyond the sister-city relations that hitherto defined local government diplomacy, and are taking up international strategies that they hope will result in development in their region. Yet some local governments have been unable to translate into reality the glamorous international policies that they first formulated. These administrations have cut back or scrapped their international cooperation activities after financial losses and losing the support of local citizens. Policies – how they are planned and conducted – are clearly crucial in this picture.

This paper explores international cooperation on the part of Japanese local governments. We outline the history and current state of international cooperation in which these local governments are involved, and then look in more detail at different sectors of cooperation, including environmental conservation, health care and agricultural programs. To illustrate, we introduce a case study of international cooperation between Japan's Niigata Prefecture and Heilongjiang Province in China, and consider here the potential for new cooperative projects involving the two areas. We then examine what local governments have achieved through international cooperation and what this means for Japan's official international cooperation and aid delivery programs. Finally, we consider the potential for collaboration between regional groups, local governments and the central government to engender more effective and efficient conduct of Japan's international cooperation programs.

Local Governments' International Cooperation Programs

The Concept of International Cooperation

We need first to note the distinction between two Japanese terms used frequently in discussing Japan's international aid program. These are '*enjo*', the term for aid or assistance, and '*kyoryoku*', which is usually translated as 'cooperation'. '*Enjo*' connotes the unilateral flow of benefit from the donor to the recipient of aid. This is conceptually different from '*kyoryoku*', which incorporates the notion of not only giving, but also receiving; there are mutual benefits for donor and recipient of this aid. Most discussions of Japan's official aid program fail to distinguish between these two terms.

There is also ambiguity around another term used in this context: '*koryu*', usually translated as 'exchange'. If we understand 'international cooperation' to involve delivery of mutual benefit, what distinguishes this term from 'international exchange' which also involves giving, receiving and mutual benefit. Both terms refer to movements of material goods, money, information and people across national borders, with the aim of achieving mutual understanding and social

⁴ Official foreign aid is usually called 'ODA', an acronym for 'Official Development Assistance'. This is the generic term for the international economic cooperation provided by national governments to developing nations. Japanese ODA is given in the form of grants (donations), technical assistance and loans and is primarily sourced from community taxes and postal savings, the national pension and postal savings schemes (national investments and loans). Japan's ODA budget in 2002 was 910.6 billion yen, which was about a quarter of the global ODA budget that year.

development. Japanese local governments conducting international activities under the aid umbrella seek mutual benefit for their efforts. Programs that involve local governments taking in people from aid-recipient countries to train them as experts are labelled ‘international cooperation’. But programs that involve mutual dispatch of experts between aid-recipient and aid-donor countries at the local levels could be classified as ‘exchange’ (*koryu*) or ‘cooperation’ (*kyoryoku*). Thus, the people in charge of a specific project decide on the most appropriate label after considering the overall picture, including the financial value of the program and its aims and format. The focus of this paper is international cooperation, the term now used most often in discussion of Japanese official aid. However, we recognise the conceptual overlap between international cooperation and international exchange, and accept the label given by the person who officially recorded the activity.

The Transition in Japan’s International Cooperation

The post-war history of international cooperation at the subnational level in Japan can be roughly divided into three decade-long stages. The first stage is the period of Japan’s transition from high economic growth to stable growth during the 1970s. Japanese local governments were then trying to cope with the socio-environmental consequences of particularly vigorous economic growth and a number of progressive local government administrations had been elected to office. Local governments’ initial move towards international cooperation was motivated by their need to address local problems experienced within their area, problems that they saw were shared by their counterparts in other countries.

The local governments governing Japanese cities began to host international conferences initially to facilitate the exchange of ideas and policy approaches in specific fields. The ‘World Big City Convention’ held in Tokyo in 1972 set the ball rolling, focusing discussion on participants’ shared concerns, such as environmental pollution, housing problems and transport measures. Other Japanese local governments organised international conferences to more explicitly develop bilateral and multilateral links with overseas counterparts. The Conference of Japan Sea Coastal Cities for Japan–North Korea Friendship and Trade Promotion was held in 1972 with 19 member cities.

In parallel with these developments, we see the institutionalisation of local government networks with the establishment of local government associations (*jichitai kyokai*) inside Japan and some reaching beyond. Some had significant diplomatic import, providing channels for communication and trade that could not be carried out at the national level. The Japan–Soviet Coastal Mayors’ Association (now the Japan–Russia Association of Mayors of Japan Sea Coastal Cities) was established in 1970 with 20 member cities. Its aim was international exchange with local administrations in socialist bloc countries, and it demonstrated how governments below the national level could establish productive international ties even while Cold War animosities ruptured ‘official contacts’ at the national level.

The 1980s saw the expansion and further institutionalisation of ideas from local government associations and international conferences. One clear manifestation of this was the ‘Local Exchange Group Concept’ (*kyokuchi koryuken kozo*), initiated by a group of opinion leaders (*chishikijin*) from a number of local governments, and later incorporated in both local

government policy and national policy concerning local government. This concept melded national and local interests in a policy aimed at establishing geographic blocs such as the Japan Sea Rim, with a view to promoting and revitalising Japanese localities through international exchange at the local government level.⁵ Another significant development during this decade was the proliferation of sister-city programs between Japanese villages, towns, cities and prefectures and their counterparts abroad, with the goal of promoting commercial, cultural and other connections, as well as mutual goodwill. The number of sister relationships more than doubled from 325 in 1979 to 694 by 1989 and almost doubled again in the 1990s, reaching 1,237 in 1999.⁶

The third stage of development has been from the 1990s onwards, when international cooperation activities have been both expanded and diversified. Programs have been consolidated within central government policy under the slogan *'Koryu kara kyoryoku e'* (From exchange to cooperation), indicating explicitly the shift from ritualistic or 'feel good' programs to a range of cooperative activities with concrete mutual benefits. International cooperation centres have been established in many municipalities in Japan and international cooperation programs have become much more commonplace in all Japanese localities as a result.⁷ Although local governments initiated some international cooperation programs based on their own ideas and policy initiatives, an important catalyst for their activism has been the central government's new policy directions, funding and drive to coordinate the local-level actions.

Policies and Budgets

Particularly since the 1990s, we have seen greater interest and guidance – both practical and philosophical – from the central government. The ministry responsible for local governments is now the Ministry of Public Management, Home Affairs, Posts and Telecommunications (Somusho). Until the reorganisation of Japan's ministries and agencies in January 2001, the Ministry of Home Affairs (Jichisho) was an independent ministry in charge of local governments. In 1989, the Jichisho introduced its Guidelines on the Promotion of Local International Exchange, a policy statement on developing comprehensive, coordinated policies that included the promotion of international exchange at the local-government level. In 1995, this ministry released a detailed follow-up aimed directly at local governments, in the form of its

⁵ Regarding the Japan Sea Rim Zone, see Glenn D. Hook, 'Japan and Micro-Regionalism: Constructing the Japan Sea Rim Zone', in Yoshinobu Yamamoto (ed.), *Globalism, Regionalism and Nationalism: Asia in Search of its Role in the 21st Century*, Oxford: Blackwell Publishers, 1999, pp. 126-41.

⁶ For comprehensive details see Council of Local governments for International Relations, *Japanese Local Government International Affiliation Directory*, Tokyo: CLAIR, 2001.

⁷ A booklet outlining such programs issued by the Kobe International Cooperation Center in 1993 is a representative example. For earlier examples and the philosophies behind local international cooperation, see Yujiro Eguchi, 'Municipal Governments and International Co-operation', *Technology and Development*, No. 5, January 1992, pp. 47-54. Developments are covered in detail in Hitoshi Yoshida's book *Chiho jichitai no kokusai kyoryoku: chiiki jumin sankagata ODA o mezashite* (Local International Cooperation: Towards ODA in Which Local Citizens Can Participate), Tokyo: Nihon Hyoronsha, 2001.

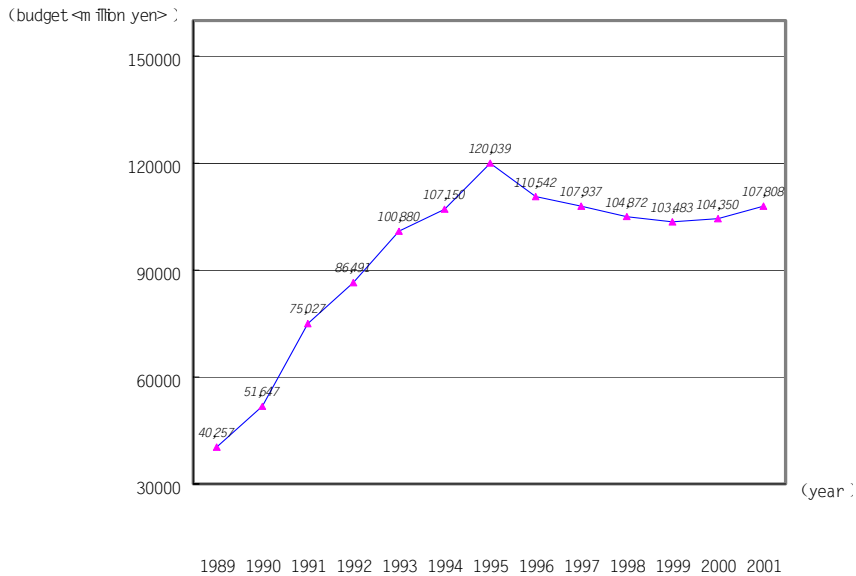
Guidelines on Developing Charters for Promoting Local Government International Cooperation. The follow-up guidelines set out how to fine-tune institutional structures for international cooperation, so that local governments could prepare comprehensive international cooperation policies appropriate for the specific conditions in their locality. In 2000, the Ministry released its Policy on the Status of Community Groups in Charters Promoting Local Government International Cooperation and in Charters Promoting Local International Exchange. Here were guidelines for local governments wishing to strengthen links with NGOs and other community groups in pursuit of international cooperation. These policy statements have signalled the central government's interest in involving local governments in these international programs, and have guided the development of an official structure for international cooperation at the local government level, guided by Somusho at the centre. This style of official institutionalisation of international cooperation by local governments, through the central government ministry responsible for local governments, appears to be distinctive even in a global context.

Parallel with these policies, the central government and in particular the Jichisho began to include local governments in the nationwide distribution of a massive international affairs budget during the late 1980s. It did so through the Local Allocation Tax (*chiho kofuzei*), which is a general grant that helps to equalise benefits to local governments throughout Japan. These funds are allocated to the general account of each local government, which is then free to distribute the funds according to its own choices and priorities. In the wake of this development, local governments began to allocate increasing sums to international cooperation from their own financial sources (including transfers through the Local Allocation Tax), independent of central government control. Funding for international affairs projects conducted by local governments, provided from local governments' own independent sources, totalled 40.2 billion yen in 1989, peaking at 120 billion yen (approximately US\$ 1 billion) in 1995, roughly triple the 1989 level. After 1995, the stagnation of the Japanese economy forced local governments to reduce local funding to around 100 billion yen. The 107.8 billion yen from local governments in 2001 (see Figure 1) was equivalent to about one seventh of the Ministry of Foreign Affairs entire budget for that year.⁸

Of total expenditures by local governments on international affairs projects, the share spent on international cooperation has hovered at around seven to eight billion yen since 1994. Spending on international cooperation projects rose from seven to eight per cent of total spending on international projects. This amounts to roughly 1/150th of Japanese government official foreign aid, but it is one tenth of the Austrian government's international cooperation budget and half that of the Luxembourg administration. Comparatively, then, in a global context, Japanese local governments spend considerable money and effort on international cooperation.

⁸ The total MOFA budget was 746.6 billion yen. Of this, 538.9 billion yen was allocated for ODA administered by the Ministry of Foreign Affairs. However, a number of other ministries have allocations for ODA in their annual budgets. www.mofa.go.jp/mofaj/gaiko/yosan/15/index.html (accessed 4 April 2003).

Figure 1 Amount of Spending on International Projects Independently Funded by Local Authorities (Initial Budget)



Characteristics and Areas of Cooperation

At present in Japan, about 10 projects – either the local government’s own projects or projects in cooperation with central government ODA – are carried out per prefecture each year. This means that just fewer than 500 international cooperation projects are implemented across Japan each year. If the international cooperation projects implemented by municipalities are added to this, the number of international cooperation projects implemented by local governments each year is more than 1000, at a moderate estimate.⁹

A breakdown of the international cooperation projects implemented by local governments from the 1990s reveals that an overwhelming number are in fields within the scope of local governments’ routine functions, such as environmental conservation, protection of the natural environment, health care, education, agriculture, regional development, disaster relief, protection of cultural assets and academic research. Projects are concentrated in fields in which local governments can mobilise expertise and personnel, implement a broad range of cooperation that makes use of regional characteristics, and arrange participation of local citizens. Local governments are equipped to undertake cooperation that pays close attention to the needs of the counterpart region. Let us consider the details of this cooperation, with illustration from case studies in the fields of environmental conservation, healthcare and agriculture, in which a particularly large number of projects are conducted.

⁹ There are currently about 3,300 local governments in Japan, in a multi-tiered structure that is broadly divided up into prefectures (government-designated major cities), cities, towns and villages. There are 47 local governments at prefectural level.

Environmental Conservation

Environmental conservation is the area in which most international cooperation projects by local governments are implemented. International cooperation in this field mainly focuses on the cultivation of human resources who have skills and know-how, such as through dispatching experts and taking in trainees. Other cooperative projects create environmental conservation plans and conduct joint research into measures for conserving the environment, particularly after, or to avert, particular types of damage. One example is the *Kan-Nihonkai Kankyo Kyoryoku Suishin Jigyo* (Japan Sea Rim Environmental Cooperation Promotion Project) (from 1994 onwards) that Toyama Prefecture is implementing in collaboration with countries in continental Northeast Asia on the Japan Sea coast. Projects to protect the natural environment from a specific threat include numerous afforestation initiatives. The *Midori no Koga Yukorin Gassaku Jigyo* (Yellow River Friendship Forest Collaboration Project) (1998 – 2000), undertaken jointly by Yamaguchi Prefecture and Shandong Province, created a model forest for regional environmental conservation along the banks of the Yellow River in China. Another type of project in this field involved the development of hard infrastructure to establish a centre for academic exchange on acid deposition. Another example is the *Shisen-sho to no Kankyo Hogo Gassaku Jigyo* (Joint Environmental Conservation Project with Sichuan Province) (1991), undertaken jointly by Hiroshima Prefecture, Hiroshima City, Sichuan Province and Chongqing City.

Perhaps the most egregious example of projects for environmental conservation is the world-famous *Dairen-shi Kankyo Moderu Chiku Seibi Keikaku* (Dalian Model Environment Zone Development Plan) (1996 – 2000), created by Kitakyushu and the Chinese city of Dalian. This project created a basic environmental conservation plan, with the aim of systematically transferring the know-how of the environmental administration in Kitakyushu to Dalian. In 1995, the Japan International Cooperation Agency (JICA) adopted this as a development survey project. A large-scale research group that included employees of the Kitakyushu city government was dispatched to study the formation of environment-related projects in China. Ultimately, a project was planned that would transfer as a single package 1) a general plan for developing the model environment zone; 2) hard infrastructure; and 3) soft measures, such as technological transfer and human resource cultivation. Under this plan, around 200 cooperative projects, categorised under 10 headings such as atmospheric pollution, water pollution, waste disposal and urban planning, are to be implemented by 2010.

Healthcare

Healthcare is the second most common field for projects. Cooperation in this field too mainly takes the form of cultivating human resources, such as dispatching experts and taking in trainees, but there are also initiatives such as joint research. Examples include cooperation aiming to transfer specific medical technology, such as in the *Zenritsusen-gan Soki Hakken Soki Shindan Purojekuto* (Prostate Cancer Early Detection and Early Diagnosis Project), implemented by Miyagi Prefecture and China's Jilin Province. The *Hoshasen Hibakusha Iryo Kokusai Kyoryoku Suishin Jigyo* (International Project for the Healthcare of the Radiation-Exposed) (1991 onwards) was implemented in regions within such countries as Russia, Kazakhstan and the ROK by the Hiroshima International Council for Healthcare of the Radiation-Exposed, which was established in 1991 by Hiroshima Prefecture and Hiroshima City. Other initiatives concerned with preserving health have been aimed at educating people about health and transferring systems relating to public health. These projects apply JICA's project-type technical cooperation and include such initiatives as Chiba Prefecture's *Mongoru-koku Haha to Ko no Kenko Purojekuto* (Mongolia Mother and Child Health Project).

Another salient example is Saitama Prefecture's *Indonejia-koku Haha to Ko no Kenko Techo Purojekuto* (Indonesia Mother and Child Health Card Project) (1998 – 2003). This project was implemented to improve regional health services in Indonesia (Western Sumatra and Northern Sulawesi), where upgrading mother-and-child healthcare services is a priority issue. It sought to establish in Indonesian localities the mother- and-child health card system used in Saitama and across Japan. Saitama Prefecture has dispatched its employees (doctors and nurses) to implement the project and employed trainees from Indonesia at the prefecture's public health centres and hospitals. Saitama Prefecture has consistently implemented international cooperation

in the field of public health, through such initiatives as jointly hosting the Saitama World Summit on Public Health in association with the World Health Organisation in 1991.¹⁰

In this example we see how some projects aim to transfer systems that operate at the national level (here an aspect of the national health card system) through programs implemented at the local level of both aid-donor and aid-recipient nations.

Agriculture

In the field of agriculture too, the main type of project is the cultivation of human resources through dispatching experts and taking in trainees, but joint research undertaken. Examples of joint research include *Chugoku-san Kako Koteki Daizu Sentei no tame no Kyodo Kenkyu Jigyo* (Joint Research Project Aimed at Selecting Chinese-Grown Soybeans Suitable for Processing) (1998), which was implemented by Niigata Prefecture in collaboration with Heilongjiang Province. The project was to develop soybeans for export to Japan. At present, there are many involved in agriculture in Japan who are opposed to cooperation in this field, fearing that it will have a boomerang effect at their expense.¹¹ Local governments are taking these opinions into consideration, with Toyama Prefecture taking care to ensure that no technological transfer takes place that would threaten markets for products grown within the prefecture, by choosing varieties of soybean that differ between Japan and China.

There are many cooperative projects in agriculture that benefit both the donor country (Japan) and the recipient country (developing nations), but these are generally not well known. In one creative, mutually rewarding, agricultural initiative, Yamaguchi Prefecture now receives Hijyo peaches from Shandong Province and is trying to develop a district for growing them within Japan. In another initiative, Tottori Prefecture has attempted to produce its local speciality of *amagaki* persimmons in Hebei Province. Tottori has been sending technical staff to Hebei Province and this project is being co-funded through central resources (MOHA and CLAIR) since 1998 under a 'model project's scheme.

In cultivating human resources through agricultural projects, the focus is on training personnel who will transfer technology relating to specific crops. One of the best examples here is the *Mongoru-koku Nogyo Seinen Jiritsu Shien Jigyo* (Project to Support the Self-Reliance of Young People in Mongolian Agriculture) (2002). It was implemented by Shariki Village in Aomori Prefecture with the aim of transferring rice cultivation technology to Mongolia. Shariki Village has successfully conducted technology transfer for cultivating rice and vegetables in Mongolia since 1991. Projects are undertaken at the request of the Mongolian Ministry of Livestock and Agriculture and involve dispatching experts from Shariki and taking in agricultural trainees from Mongolia. Follow-up work under the project has involved sending agricultural experts and resources from Shariki to the farms set up by trainees after their return to Mongolia, to support development of self-reliance within the context of the recipient nation.

¹⁰ <http://www.jica.go.jp/partner/jichitai/06.html> (accessed on 5 December 2003).

¹¹ This response was prominent in an oral survey Purnendra Jain conducted with trainees from a number of Japanese local governments at the Japan Intercultural Municipal Academy of Municipalities in Otsu during December-January 2001-2002.

Other Types of International Cooperation

Other fields in which cooperation is conducted include development of regional trade and industry, disaster relief, protection of cultural resources, and academic research. Many of these types of projects involve technology transfer and cultivation of human resources. One example is Oita Prefecture's *Jumin Sanka-gata Chiiki Shinko (Isson Ippin Undo)* (Regional Development in which Local Citizens Can Participate – the 'One Village, One Speciality' Initiative) (1999). Another is the *Chiho Kaihatsu Shien 'Michi-no-Eki' Donyu Kanosei Chosa* (Feasibility Study Regarding the Introduction of the 'Roadside Station' System as a Means of Supporting Regional Development) (2001), which Gifu Prefecture carried out in Thailand in collaboration with the Japan Bank for International Cooperation (JBIC). Hyogo Prefecture has conducted training courses under its *Saigai Fukko, Saigai Taisaku, Kinkyu Shien* (Post-Disaster Reconstruction, Disaster Countermeasures, Emergency Aid) initiative (2000) in which trainees come from a range of countries.¹²

A Case Study of Local Government Cooperation in Technological Transfer: Niigata Prefecture and Heilongjiang Province

From the discussion above, it is clear that technology transfer is a crucial component of most international cooperation projects undertaken by Japanese local governments. In this section we will consider in more detail this aspect of international cooperation through a case study of technological transfer in a cooperation project between Niigata Prefecture and Heilongjiang Province. The field of this cooperation is medical technology.

Before the Second World War, many people from Niigata Prefecture lived in the three provinces of Northeastern China. After the war, Niigata Prefecture forged links with one of these three provinces through a number of initiatives. These included aid for development of the Sanjiang Plain in Heilongjiang Province that was implemented early on by the Kameda Land Improvement District. In 1979 Niigata City became a sister city of Harbin, the capital of Heilongjiang Province, and in 1983 Niigata Prefecture and Heilongjiang Province concluded a Friendship Agreement. There have been positive developments based on this agreement, with the content discussed annually by both sides at such meetings as the Regular Prefecture–Province Conference on Administrative Matters and the Prefecture–Province Economic Exchange Promotion Conference.

One area of this bilateral cooperation that facilitates technology transfer is government-funded foreign students/trainees from Heilongjiang Province studying/ training in Niigata Prefecture. Between 1984 and 2001, a total of 181 Chinese people from government bodies, universities and research institutions in Heilongjiang Province studied at such institutions in Niigata Prefecture as Niigata University, the Prefectural Cancer Centre and the Prefectural

¹² <http://www.jica.go.jp/partner/jichitai/06.html> (accessed on 5 December 2003).

Experimental Laboratory.¹³ The acceptance of these government-funded students does not stop at the prefectural level. During 1982-2002 the prefectural capital, Niigata City, has also accepted 71 trainees from Harbin, mainly medical trainees.¹⁴

It is not only the local governments that are engaged in international exchange in Niigata Prefecture. Cooperation enabling technological transfer between the prefecture and countries in parts of Northeast Asia also involves three research institutes, five universities and 21 NGOs, as well as more than 30 libraries, foreign diplomatic missions and business groups in Niigata. These institutions have a variety of aims that are consistent with the aims of international cooperation. Importantly, their contributions also serve to support international exchange and cooperation in provincial cities across Japan.

The universities and research institutes are involved in regional internationalisation through initiatives relating to the formulation of local governments' international policies and the cultivation of human resources. The NGOs are deepening links between project participants on both sides by participating directly in international exchange administered by local governments, in activities funded by those administrations. Mass media and libraries in the region are gathering and disseminating international information in line with the interests of local citizens, and are beginning to amass considerable reserves of information. We see here how in Japan's provincial cities, a multi-tiered collection of groups with local governments at their core is conducting multi-faceted international activities, and their scope is expanding continually.¹⁵

The Niigata Prefecture case study also provides an instructive example of a new trend in local government involvement in international cooperation. The trend concerns financing these projects, and highlights a domestic political dimension of this cooperation in the context of Japanese local governments' concern to maintain the support of their local constituencies.

With its finances shrinking due to Japan's severe economic recession, Niigata Prefecture has begun to pursue a new concept in international cooperation to secure public approval of this considerable expenditure outside the prefecture. The prefecture's explicit aim is now to support projects that enable prefectural administrators to explain clearly to local citizens (the government's constituents) why their taxes are to be used for international cooperation projects instead of for directly improving citizens' livelihoods in Niigata at a time of greater financial stringency for many Japanese. This is why international cooperation projects have been shifted 'from assistance (unilateral benefits for the recipient) to cooperation (mutual benefits for donor and recipient)'. In collaboration with the government of Heilongjiang Province, the prefecture

¹³ According to *Kokusai Koryu Gaiyo* (Outline of International Exchange) published by Niigata Prefecture International Exchange Department in 2002, the breakdown was 145 foreign students, 34 trainees in the medical field and 2 technical trainees.

¹⁴ Yoshida's interview with Mr Notoya Iwao, Director of the Niigata City Foreign Affairs Division, 17 April 2003.

¹⁵ On the current status of international exchange groups, see Hitoshi Yoshida, *Chiho jichitai no kokusai kyoryoku: chiiki jumin sankagata ODA o mezashite* (Local International Cooperation: Towards ODA in which Local Citizens Can Participate), Tokyo: Nihon Hyoronsha, 2001.

has begun to use funds from the Japanese government's ODA budget to implement cooperative projects. These projects 1) have the approval of local citizens; 2) are mutually beneficial; 3) generate new value; 4) are in the field of social development; and 5) local citizens and groups can participate in.

Two salient examples of these cooperation projects are the *Kokuryuko-sho Harubin-shi Iryo Gijutsu Kyoryoku Jigyo* (the Heilongjiang Province and Harbin City Medical Technology Cooperation Project) and *Kokuryuko-sho Kanreichi Doro Hosu Gijutsu Kyoryoku Jigyo* (the Road Paving Technology Cooperation Project for Cold Areas of Heilongjiang Province). Both these projects are being carried out (2001-04) by Niigata under JICA's grassroots technical cooperation projects with funding from the ODA budget and also partly funded by local sources both at prefectural and city levels.¹⁶

The aim of the Heilongjiang Province and Harbin City Medical Technology Cooperation Project is the two-way transfer of medical technology through an equal partnership between Niigata Prefecture and Heilongjiang Province, with its capital Harbin city. The project provides the Chinese side with the technology that Japanese hospitals, which are advanced in Western medicine, use to treat malignant blood diseases such as leukaemia and in this way helps to improve the general standard of medical technology in Heilongjiang. Niigata receives information about new treatment technology using traditional Chinese medicine, in which the Chinese side excels. The project therefore has potential to improve medical technology in both Heilongjiang and Niigata – and by extension in China and Japan – thereby improving the welfare of local citizens initially, and at a national level in the longer term as the modern and traditional technologies are passed on in their new national settings.

A group from the Niigata Prefectural Cancer Centre visited Heilongjiang Provincial Hospital China in October 2001 to conduct studies and academic exchange. During the visit, an expert from Niigata gave a lecture on the use of chemotherapy in treating malignant blood diseases, which was well received by the many Chinese who attended. This became an important catalyst for the cooperation to take off. The Niigata Prefectural administration became the coordinator for the project that same year and the cooperation group was reconfigured to include representatives from Niigata Prefecture's major medical institutions such as Niigata Prefectural Cancer Centre, Niigata University Faculty of Medicine, and Niigata Citizens' Hospital. The prefectural government made an application to the national government and this cooperative project was adopted as one of the Japanese government's ODA projects.

This project is currently being implemented with ODA funding from the Japanese government (as a JICA grassroots cooperative project) under a three-year plan from 2002–2004. In fiscal 2003, a team of medical specialists from China were to make an extended visit to Niigata and Japanese medical specialists and nurses were to be dispatched to China for a short visit.

¹⁶ In relation to these projects, the Ministry of Foreign Affairs, under its Japan-China intellectual exchange support program, commissioned the Economic Research Institute for North Asia in Niigata, Heilongjiang Provincial Academy of Social Sciences, Jilin Provincial Academy of Social Sciences and Liaoning Provincial Academy of Social Sciences to conduct surveys from social perspectives the prospect of successful implementation of such projects which they are doing in collaboration with Niigata Prefecture.

The medical benefits of these projects between Niigata Prefecture and Heilongjiang Province are primarily, or at least initially, for Chinese and Japanese citizens. However there are other mutual benefits from international cooperation that are not immediately obvious but may reasonably be expected to eventuate as a result of the 'local' cooperation. One of these benefits is the positive connection fostered between governments at both the local and the national levels. Another, which may be priceless for both governments, is the mutual goodwill among citizens and opportunities for developing other connections that these programs tend to create. These potential outcomes are further reason why the central government is interested in involving local governments in ODA funded international cooperation.

Future Issues

The foregoing discussion indicates how Japanese local governments' involvement in international cooperation has been progressively institutionalised within the framework of central government policy. The move has helped to provide scope for local governments to initiate and administer their own international cooperation policies. From the late 1990s in particular, the national economic downturn has forced Japanese governments at all levels to reappraise their work in terms of efficiency and effectiveness, identifying priorities and the best ways to meet them. Economic stringency has inevitably forced large-scale reform of the national ODA program, including international cooperation and the role of local governments within this policy area. Here we take up two issues arising from this process. Both have major consequences for the continuing role of local governments in international cooperation programs, and are likely to influence the style of Japan's national ODA policy to some extent. One concerns the coordination of practical contributions by all involved in these programs to maximise the effectiveness of limited public funds. The other concerns public funding for these programs, since it comes from the public purse and needs to be accounted for legitimately by those who spend it.

The Coordination and Expansion of Community Contributions to International Cooperation

Various policy statements from the central government and local governments underscore the need for better coordination of actors and actions in this policy area. This evolving approach involves a clearer division of labour and responsibility among those who are directly involved, and extending involvement across society at local levels to achieve broader, better-coordinated and systematic participation by community members. It aims for the coordination of international cooperation programs not just within locations that are the administrative domains of local governments, but also involves comprehensive coordination within the national context.

The CDI (community-based development initiatives)¹⁷ concept is consistent with the 'community-participation model' of international cooperation put forward in recent policy

¹⁷ CDI has been advocated particularly for projects that seek to establish a livelihood base for the local community, spread democracy and promote environmental conservation. A detailed discussion of the concept can be found in Ebashi Takashi and Tomino Kiichiro (eds), *Jichitai Kokusai Kyoryoku no Jidai* (An era of local government international co-operation), Tokyo: Daigaku Kyoiku Shuppan, 2001.

papers. This model advocates closer collaboration between the different types of actors involved, with a clearer role for local governments in coordination. The model also advocates effective community-wide public relations efforts to keep citizens informed about the international cooperation projects under way in their local communities, aiming to develop broad-based community understanding, support and public participation in international cooperation activities.¹⁸

To fulfil their role in coordinating this work at the local level, local governments are exploring ways to strengthen both the compensated and voluntary involvement of a broad array of participants – NGOs, universities, businesses and community members – in cooperation projects that seek to enhance development in their own and their partner locality. Local governments are seeking to identify projects that can be delegated to research bodies, universities, NGOs, business groups and members of the public within the locality and to clarify the selection criteria and review methods for projects. Better coordination by local governments will require local assemblies to hold regular public hearings so that community members have a sense of participation, inclusiveness and ownership.

One aspect of expanding these programs across local communities goes beyond simply broader community participation and concerns something that is a prerequisite to achieving this community participation. Here we refer to strengthening the local government's accountability to the local assembly and to the local community, since public funds are used to finance the bulk of these cooperation programs. To increase public accountability for their actions in international cooperation projects, local governments will need to establish systems for thoroughly reviewing these projects and to enable free public access to information concerning the projects. Another step towards achieving broad community participation and support is to form public committees that include representatives of local groups and the local community and have input into policy decision-making by local governments so that policy is informed by and reflects public opinion. This means both the central government and local governments following a 'community participation model' for international cooperation programs.

Restrictions on Government Funding

Financial restructuring and administrative reforms in Japan have meant that all central government ministries continue to face significant budget reductions. Local governments' international cooperation budgets are inevitably being cut back, since much of their funding is through the budget provided by the central government to carry out these programs. With the poor performance of the national economy forcing continued domestic economic stringency, budgets are set to become a major problem for international cooperation at the sub-national level. Not only is there less money in the ODA budget, there is also less available from the central funds provided to local governments to allocate as they choose. It is thus not surprising that policy reforms have put forward measures to increase the efficiency and effectiveness of programs, including a more thoroughly coordinated nationwide approach to international cooperation policy and the incorporation of financial and other input from a range of non-government bodies and individuals across communities.

¹⁸ Discussion of the 'community-participation' cooperation model and the rationale for it appear in *Final Report of the Council on ODA Reforms for the 21st Century*, Tokyo: Ministry of Foreign Affairs, January 1998.

It is useful here to review briefly the pertinent policy developments and legislative changes that have begun to influence local governments' role in international cooperation. We will also consider trends under way in organisations that have become involved in international cooperation through local governments adopting the 'community participation model' of cooperation.

1) *Policy and legislative change in local governments' involvement in international cooperation*

The Cabinet Office (formerly the Economic Planning Agency) Committee on Economic Cooperation Policy released two policy statements: *Towards Sustainable Economic Cooperation* in 1997, and *Towards Further Reforms of Economic Cooperation* in 1998. Both propose new policy directions such as the greater involvement of local governments, establishing a review system for all ODA programs including international cooperation programs, and complete freedom of information.¹⁹ In January 1998, the Ministry of Foreign Affairs Council on ODA Reforms for the 21st Century released its *Final Report*, which was largely consistent with the Cabinet Office's reports on economic cooperation. The Council's report advocated a mutually cooperative relationship among a broader range of participants in ODA delivery. It proposed incorporating local governments through means such as the 'contracting out method' where the central government allocates responsibility for certain aspects of ODA and economic cooperation. A Cabinet resolution accepted the Medium-Term Policy on ODA that incorporated these reports. This formally initiated the promotion of the community participation model of international cooperation, which involves local governments in various capacities including local-level coordination. In June 1998, the Fourth House of Councillors Advisory Committee on International Issues finalised its report on ODA and the outline of a *Basic Law on ODA*. Strengthening collaboration with local governments was part of the recommendations.²⁰ ODA legislation has not yet been passed but the documents forming its foundations make it clear that local governments are to be instrumental in international cooperation programs, as both practitioners themselves and local-level coordinators of non-government bodies.




¹⁹ <www5.cao.go.jp/e-e/doc/e1997bg11.html> accessed on 25 March 2003.

²⁰ The Committee was headed by Ichita Yamamoto and is known as the Yamamoto Plan. Details are available in Yoshida, *Chiho jichitai no kokusai kyoryoku*, pp. 126-28.

Table 1 Trends in the Government and Diet mid-1997–2001:

Acceptance of Local Governments' Contribution in International Cooperation

Date	Details
Jun 1997	Economic Planning Agency Committee on Economic Cooperation Policy (経済企画委員会) releases <i>Towards Sustainable Economic Cooperation</i> (持続可能な経済協力)
Jan 1998	Economic Planning Agency Committee on Economic Cooperation Policy releases <i>Towards Further Reforms of Economic Cooperation</i> (経済企画委員会)
27 Jan 1998	Council on ODA Reforms for the 21 st Century (Advisory Body to the Minister for Foreign Affairs) releases its <i>Final Report</i>
03 Jun 1998	4 th House of Councillors Committee on International Issues (参事院国際問題委員会) delivers its <i>Final Report</i> to Chairman Saito, proposing strengthened Diet participation in ODA and the drawing up of an outline of a draft <i>Basic Law on ODA</i> .
17 Sep 1998	LDP House of Councillors Project Team on the <i>Basic Law on ODA</i> (参事院ODA基本法プロジェクトチーム) (Chaired by Ichita Yamamoto), Announcement of a draft <i>Basic Law on ODA</i> (the Yamamoto Draft) JICA International Cooperation Research Centre

Oct 1998	(     ) releases its <i>1999 Basic Survey on Promotion of the Community Participation Model of Cooperation - Participation of Local governments in International Cooperation Projects: Phase 1 Report</i>
	Release of the <i>Interim Report on ODA</i>
1 Aug 1999	JICA International Cooperation Research Centre releases its <i>Participation of Local governments in International Cooperation Projects: Phase 2 Report</i>
Nov 2000	Japan Bank for International Cooperation (JBIC) commissions a <i>Survey of Local government Involvement</i> from Mitsubishi Research Institute
Dec 2001	

2) *Trends in organisations involved in international cooperation*

JICA, which is one of the principal semi-government bodies for managing and delivering Japanese ODA, underwent major reorganisation in 1999 and a Domestic Projects Section was established. The Foreign Ministry's 1998 ODA reforms were incorporated in JICA's reorganisation and the new Domestic Projects Section is to help strengthen the involvement of local governments and non-government actors through the 'contracting out' method mentioned above. Particular types of cooperation projects have been targeted for collaboration with local governments, including environmental protection, medical care and the training of education personnel. Many of these are model training projects in response to local proposals, and projects for small-scale development partnerships.²¹ Since 2001, the semi-governmental Japan Bank for International Cooperation (JBIC) has conducted surveys to inform its plans for collaboration

²¹ Cooperation promoting trade and economic ties at a local level has also been in place for sometime. Hook cites an example of Niigata and Yamagata prefectures conducting feasibility studies and providing information and intellectual support to develop a port in Primorsky Territory, in the Russian Far East, which is 'Official Development Assistance' in all but name. Hook, 'Japan and Macro-Regionalism', pp. 134-35.

with local governments in implementing yen loan programs.²² The local governments of Kitakyushu and some other localities have begun to offer loans for environmental protection through this program. For example, Kitakyushu is providing assistance to China and Indonesia in relation to waste management and examining various options to transfer its know-how and technology to these countries. Similarly Gifu Prefecture is in the process of transferring its own knowledge of such local economic revitalisation programmes as ‘drive-in markets promoting local products’ (*michi no eki-chiiki tokusanbutsu o hanbai suru doraibuin*).²³ Overall, international organisations inside and outside Japan and the national governments of developed nations now give greater consideration to the capacity of local governments to undertake international cooperation. These bodies recognise that in developing nations, balanced development at a local level is crucial and local governments have the know-how, personnel and experience in community development to make a major contribution to implementing projects for the development of local communities. Today, after several decades of collaboration with counterparts abroad, Japan’s local governments are well connected within local government networks, which can also enhance their capacity to contribute to international cooperation programs with developing countries.

The central government therefore has various reasons for seeking to expand the role of local governments in international cooperation programs. One is to have local governments help with coordination while these programs are made more effective and efficient nationwide, in response to budget cutbacks. Another vital reason is that local governments have considerable capacity to contribute to the effective implementation of these programs. Governments below the national level have expertise and experience that the central government may not have, and they often have political will to pursue these international projects since they recognise opportunities for a range of benefits for their locality, their constituents, and ultimately themselves. Local governments are therefore generally willing to take on these roles when the central government has allocated the necessary funds, and central government bodies are generally willing to accept the valuable contribution that local governments can make towards collaborative international cooperation. Hence the mutual benefit is not only transnational but also intranational.

Conclusion

In the 1990s, progress was begun in developing policies, budgets and systems relating to international cooperation on the part of Japanese local governments, and involvement in these activities spread rapidly from the prefectural level to the level of municipalities. Looking at the situation by sector, we can see that the overwhelming majority of these activities took place in fields that fall within the remit of local governments in Japan, such as environmental conservation, healthcare, agriculture and regional development. More specifically, international cooperation undertaken by local governments since the 1990s has the following four characteristics:

²² Yoshida Hitoshi, ‘Jichitai ODA no keizaigaku: jichitai renkei yen shakkan no kanosei to kadai’ (The Economics of local ODA: prospects and problems of cooperation in yen loan with local governments), *ERINA Report*, June 2003, pp.

²³ www.jbic.go.jp/japanese/oec/local_jbic/index.php (accessed on 5 May 2003).

i) International cooperation is moving away from independent activities undertaken by local governments, in favour of activities that involve the whole of regional society, including NGOs, research institutes, academic institutions and companies.

ii) In the fields of environmental conservation, healthcare and agriculture, most activities involve the transfer of technology and know-how relating to public goods that fall within the remit of local governments,²⁴ and local governments are now beginning to play an important role in ‘soft’ cooperation that involves knowledge and ideas and that directly targets local citizens.

iii) ‘Hard’ cooperation, such as the construction of facilities and the provision of expensive equipment, is mostly small in scale and there are very few of these projects.

iv) There are many cooperative initiatives that benefit both the donor country, Japan, and the developing countries that are the recipients of aid; these initiatives include joint research in such fields as agriculture and environmental conservation.

Of these characteristics, the most important point is that cooperation on the part of local governments specialises in cooperation in fields relating to people’s livelihoods, which directly target the citizens in localities and regions within developing countries. At present, Japan’s local governments are conducting the transfer of technology and know-how in fields that fall within their remit in Japan, such as environmental conservation, healthcare and industrial technology. Developing countries have expressed a strong desire for the expansion of ‘soft’ cooperation that directly targets regional citizens. Accordingly, it can be anticipated that an increase in the share of the Japanese government’s ODA accounted for by local governments would not only benefit the local government itself, but also have a significant effect in terms of improving the lives of the citizens within and beyond localities of developing countries. It would also result in a qualitative improvement in the Japanese government’s ODA.

As to the four characteristics we have identified above, the most important point for Japan’s local governments is that their cooperative projects aim to – and actually do – benefit the livelihoods of people both within the locality providing the aid and within the locality receiving it. There is fresh potential in this area for international cooperation on the part of Japan’s local governments. If the results of mutual technology transfer or joint research are shared, and used to achieve new technological development or to improve the welfare of regional citizens, this would become a new means of regional development. But this will require not just coordination from the centre but also the allocation of more ODA funds for distribution through local-level international cooperation.

International cooperation between local governments using funds from the Japanese government is increasing rapidly. The ODA reforms implemented by the Japanese government in recent years have helped to lubricate this flow of ODA funding. Local governments now pursue international cooperation aiming to generate benefits for both sides as equal partners. We

²⁴ On global public goods conceptually and in case studies, see Inge Kaul, Isabelle Grunberg and Marc A. Stern (eds), *Global Public Goods: International Cooperation in the 21st Century*, Oxford University Press, 1999.

believe that their ability to establishment equal partnerships will be crucial in determining both the efficacy of using the central government's ODA budget in this way and their success in conducting cooperative projects with benefits for citizens and governments on both sides as cooperative partners.

III. CHANGING CONTEXT OF AID FROM CONCESSIONAL TO NON-CONCESSIONAL *Issues in Delivering Aid for Regaining Sri Lanka*

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INTRODUCTION: THE ECONOMIC AND SOCIAL BACKGROUND

The development objectives of post-independent Sri Lanka sought to achieve a reasonable rate of growth, equity and social welfare. Sri Lanka achieved a high level of social progress relative to its level of per capita income. Development policies changed course in the late 1970s with the adoption of market oriented policies saw the acceleration of economic growth, driven by a massive public investment program that was largely donor funded.

Significant structural changes followed. By mid 1990s the share of agriculture in GDP declined to about 25 per cent while manufacturing and services expanded to account for 15 and 50 per cent respectively. Yet, agriculture continued to provide livelihood to as much as 65 per cent of the population while providing employment to about 37 per cent of the labour force. The economy averaged 5 per cent growth in GDP during the last decade. The downside of macro-economic performance has been the balance of payments record and budget deficits. The external debt increased over the years to 64 per cent of GDP in 2000, though debt service remained manageable due to the concessionary terms of foreign aid.

The progress in maintaining macro-economic stability and a reasonable rate of growth masked the vulnerabilities as reflected in the balance of payments record and continuing budget deficits. Further there was a growing gap between economic and social performance and the aspirations of the people, especially the youth. It has been said that Sri Lanka's growth performance is below what the country's human capital would warrant.²⁵ The strains of internal conflict have limited development options. The role of the government remains dominant in the economy, while public sector institutions and governance have continued to weaken.

It is in this development scenario that the new Government (late 2001) launched its vision and strategy for "Regaining Sri Lanka" (RSL)²⁶. The strategy advocates a four pronged approach, incorporating better economic management towards achieving economic growth, overcoming debt crisis and enhancing productivity; poverty reduction; re-defined role of government; and achievement of lasting peace. These development thrusts of RSL delineates the program imperatives of the emergent aid agenda

This Paper examines the emerging pattern of aid flows and the institutional system for its delivery. It will review the nature and scope of system change responses to the changing context

²⁵ Sri Lanka: Recapturing Missed Opportunities, World Bank, 2000.

²⁶ Regaining Sri Lanka is Government's policy document for setting out the "Vision for Growth" and "Sri Lanka's Poverty Reduction Strategy". Government of Sri Lanka, 2003

of aid. The paper will go on to assess the impact of change responses towards enhancing effectiveness in delivery in the context of the challenges of the emergent aid agenda.

1. THE AID SCENARIO

Foreign aid provides as much as 50 to 60 per cent of Sri Lanka's public capital expenditure annually. The type and form of aid is in a process of change with Sri Lanka approaching middle income levels in late 1990s. While performance in aid utilization has been less than satisfactory, aid commitments have been steady and are poised to increase significantly with international support of peace and reconstruction. Sri Lanka is a less indebted country though debt burden has started eating into resources available for development. This Section reviews the aid scenario and trends in aid flows and the ensuing imperatives of re-designing the delivery system.

The aid situation represents a complex interaction of borrower needs (demand) and donor interests (supply). The expression of borrower need and donor interests has policy concerns. There may also be aid conditionalities regarding purposes and the manner of utilization. Attempts to rationalize the matching of need and supply has sought to place aid within a strategic if a not a policy framework. Foreign aid has become a significant input into the public sector investment program providing as much as 50% per cent capital expenditure annually. In the context of government's efforts to contain budget deficits within limits of fiscal stability donor funded projects have become the drivers of development initiatives, albeit, raising fundamental questions about their rationale in terms of borrower needs of donor preferences.

1.1 Overview of Aid Flows and Actors

Aid flows to Sri Lanka are mostly comprised of development assistance to the state, mainly for supporting macro-economic reform, infrastructure development, poverty reduction and private sector development. A second area aid flows is to civil society organizations, supporting community livelihood development programs, democracy and human rights, peace and national reconciliation and media. The third area is humanitarian assistance to the conflict affected areas, supporting the provision of basic needs, health and education, trauma counseling and peace building. These are largely outside the official aid program and are channeled through international, local and multilateral development cooperation agencies. The concern of this paper is with official assistance to the state.

Three donors dominate aid flows to Sri Lanka. Japan led accounting for 32 per cent of all disbursements. The Asian Development Bank (ADB) accounted for 27 per cent of disbursements while the World Bank (WB) accounted for 16.5 per cent of total disbursements. Thus together they accounted for 75.5 per cent of all disbursements. It is significant to note that Export Credit arrangements accounted for approximately 9.2 per cent of all disbursements. (See Annex 2)

The sectoral composition of disbursements reflects the respective aid priorities of the donors.

- Economic infrastructure dominated Japan's aid disbursements (61 per cent) followed by Social Infrastructure (18 per cent) which is a recent and a growing concern of Japan's aid portfolio.

- The sectoral composition of ADB's disbursements had a broader spread comprised of economic infrastructure (34 per cent) Private Sector Development (28 per cent) and Social Infrastructure (20 per cent).
- As far as the WB was concerned Agriculture dominated (34 per cent), followed by Social Infrastructure (24 per cent) and Private Sector Development (17 per cent).
- Export Credit financed Economic Infrastructure (62 per cent) and Social Infrastructure (38 per cent).
- The UN agencies that account for approximately 5 per cent of total aid disbursements have focussed on social infrastructure, poverty, gender and environment.

The sectoral composition also reflects the pattern of borrowers. Almost 40 per cent of disbursements were for Economic Infrastructure, followed by Social Infrastructure accounting for 23 per cent, Agriculture and Private Sector Development accounting for approximately 13 per cent each. (See Annex 2)

1.2 Aid Commitments and Disbursement

The total amount of foreign aid commitments by multilateral and bilateral donors and creditors in 2002 amounted to US \$ 890 million, committed in the form of loans, grants and technical cooperation. This amount comprised of grants and loans as follows.

- Grants and Technical Cooperation amounted to US \$ 111 million or 12.5 per cent.
- Concessionary Loans amounted to US \$ 687 million or 77 per cent.
- Non-concessionary Loans amounted to US \$ 92 or 10.5 per cent.

Aid Commitments:

Total aid commitments during 2002 increased over the preceding five-year average by approximately US \$ 221 million reflecting an increase of 33 per cent. Whereas grants decreased by 11 per cent, loan commitments increased by 37 per cent. The increase in total commitments during 2002 was due to additional funds extended by donors in support of the peace process. These funds have been used for the "immediate humanitarian assistance and rehabilitation" requirements of the conflict affected areas. (See Table 1.1)

Total commitments by multilateral and bilateral donors amounted to US \$ 840, increasing by US \$ 254 million over the preceding five-year average (43%). It excludes the non-concessionary loans borrowed from export credit agencies and development financing institutions. While multilateral commitments increased by 108 per cent, bilateral commitments increased by 09 per cent. (See Table 1.2)

Aid Disbursements:

The total disbursements of grants and loans during 2002 amounted to US \$ 587 million. While 87 per cent was disbursed under loan commitments, 13 per cent was disbursed under grant commitments. Total disbursements during 2002 increased over the preceding five-year period by

only 6 per cent. While disbursement of loans increased by 12 per cent, the disbursement of grant funds declined by 22 per cent. (See Table 1.3)

Disbursement Ratio:

About 90 per cent of the projects have a life span of 5 – 6 years. Accordingly a satisfactory level of disbursement should be between 16 - 20 per cent. Except for 2000, the disbursement ratio has exceeded this level. (See Table 1.4) However two issues question the efficiency of the disbursement rate. First, the total committed un-disbursed balance (CUB) of US \$ 2650 million at the beginning of 2002. This amount had increased to US \$ 3,100 million at the beginning of 2003. (Table 1.5) Second, the share of Program Loans in total disbursements. Program loans have a very much shorter life span and are often disbursed directly in the form of “budgetary assistance”. In 2002 program loans constituted 13.8 per cent per cent of disbursements. In 2003 approximately 40 per cent out of the forecasted disbursements is targeted to be in this category.

Terms of Assistance and Concessionality:

During the last decade loan commitments have been largely on concessional terms. The average interest rate applicable has been 1.2 to 2.3 per cent. Grace periods averaged 9.6 to 10.1 years. Repayment periods were between 31.2 to 37.2 years. These terms have led to an average grant element that was in the range of 63.8 to 76.0 per cent during the entire decade. However there is a discernible trend towards a reducing grant element. (Table 1.6) The indicative trend from 2003 onwards is towards non-concessional loans. The build of non-concessional commitments in 2003 is likely to exceed US \$ 500 million.²⁷, constituting approximately half of forecasted commitments on the basis of Tokyo Donor Conference (Annex 7).

1.3 External Debt Situation

According to the external debt indicators Sri Lanka is a “less indebted” country.²⁸ Thus the ratio of total debt outstanding to GDP has shown a declining trend in the 1990s reaching 56 per cent in 1998. Further the ratio of debt service payments to export of goods and services and private transfers also declined during the same period with the level reaching 11 per cent in 1998. The Study notes that “commercial sources including borrowing from capital markets, commercial banks and export credit agencies are “poised to increase significantly in the first decade of the new millennium”. Following aspects are noteworthy.

- External Debt Outstanding

During the period 1990 – 1999 the external debt outstanding increased from US \$5.8 billion to \$ 8.2 billion. Government and government guaranteed debt accounting for 85 to 90 percent increased during the period by 55 per cent or 5.5 per cent annually. (Table 1.7).

²⁷ Personal communication with Officials of the Department of External Resources.

²⁸ Nihal Kappagoda, Report of Consultancy for the Preparation of a Debt Policy and Borrowing Strategy, External Resources Department, 2000

- Creditor Situation

The share of multilateral stock of debt increased from 30.2 to 41.2 per cent whereas bilateral and commercial shares declined from 53.8 to 48.4 per cent and 16.0 to 10.2 per cent respectively. (Table 1.8)

- Borrower Situation

The government share of long-term debt outstanding has increased from 90 per cent in 1990 to 93 per cent in 1999. (Table 1.9)

- Debt Stock and Flows

Net transfers were positive for the ten years 1990 –1999, exceeding \$ 100 million during six of the years. For bilateral lending net transfers were negative for five years whereas for multilateral lending net transfers were positive and in excess of \$ 100 million during the entire period except for one year.²⁹ The external debt service payments have been relatively stable during the period 1998 –2002.³⁰ The ratio between principal (65 per cent) and interest (35 per cent) has remained more or less constant throughout the period. (Table 1.10).

1.4 Trends in Aid Flows

Following are the key features of the trends in aid flows.

- Shift from concessional to semi/non-concessional, with the trend accelerating from 2002 onwards.
- Shift from bilateral to multilateral sources, multilateral commitments increasing several-fold in comparison with bilateral commitments.
- Increasing importance of on-lending, with private sector development gaining importance and priority.

1.5 Aid Issues and Concerns

The heavy reliance on overseas development assistance to fund the public investment program raises several areas of issues and concerns.

- The shift of aid from concessional to semi/non-concessional and the absence of a borrowing strategy to guide non concessional foreign financing.
- The large amount of committed un-disbursed balance raises serious concerns regarding the efficiency of the delivery system.

²⁹ Op cit., Nihal Kappagoda, 2000

³⁰ Sri Lanka Foereign Aid Review, External Resources Department, 2002

- The poor absorptive capacity of the public sector to ensure effectiveness of utilization. Disbursements are projected increase significantly in the years ahead. (Annex 3)
- The rationality of the current aid flows in the context of the failure to disburse.
- Donor priorities reflect areas of overlap raising concerns regarding sectoral coordination.
- The absence of an explicit aid delivery focus for working on conflict
- The need therefore to develop a coherent policy framework for overall direction of accessing aid sources and efficiency in financing project investments including a borrowing strategy and debt policy.
- Foregoing issues and concerns questions the role and functioning of the aid delivery system as a whole and of the External Resources Department (ERD) as its focal agency.

These issues and concerns suggest that the extant aid delivery arrangements are becoming increasingly inefficient and ineffective.

2. THE AID DELIVERY SYSTEM : THE DESIGN FOR PARTNERSHIP

3.

Institutionally the foreign aid delivery system constitutes an interlocking network of partner agencies contributing to coordination, negotiation, mobilization and utilization of official development assistance to the Government of Sri Lanka. The External Resources Department (ERD) constitutes the focal agency in the aid system networking with policy, donor and user agencies. The resulting institutional scenario constitutes a complex set of aid delivery relations. The efficiency and effectiveness in the functioning of the several sets of relations separately and collectively will be critical for the overall performance of the system. This section reviews the organizational arrangements for the performance of the several roles and responsibilities in aid delivery and assesses performance in terms of system coordination.

3.1 The Aid Management Subsystem : The Department of External Resources

The ERD is the central organ of the Government to mobilize external public resources for the development of the country. It is responsible for identifying, negotiating and monitoring the project portfolios under a program of capital assistance and technical cooperation within the overall framework of national aid management policy and strategy. In this regard the ERD is called upon to ensure the effective utilization of foreign financing by ministries and agencies. It must ensure fair and equitable distribution of foreign training opportunities provided by donor agencies/countries. It must also provide accurate data on commitments made by donor agencies, their disbursement, loan repayments and the status on external debt.

These responsibilities are organized around five core aid management functions.

Policy Management

This is about aid coordination and aid management activities in order to improve aid mobilization and utilization in the country. It involves the preparation of updated reports on donor policies, priorities and strategies. It includes reporting and disseminating information on the utilization of foreign aid. The Policy Division established for this purpose, has since been assigned responsibility for clearing project proposals received from ministries and agencies for donor funding.

Portfolio Management

Portfolio management is organized around five donor divisions, namely, Asian Development Bank, World Bank, Japan, Bilateral West and Bilateral East. They are responsible for all matters related to:

- a. The mobilization of resources for Government's priority projects and programs from respective donors, including the development of a project pipeline for donor funding, coordinating project formulation process, negotiating and signing of Loan/Grant agreements in compliance with government and donor procedures.
- b. Strategic management of loan and grant portfolio of respective donor financed projects.
- c. Coordination with ministries and respective donor missions regarding the donor resources (excluding technical assistance).

Project Oversight and Monitoring

Responsibility for ensuring effective utilization makes project oversight and monitoring a core function of ERD. It is a responsibility of the donor divisions but is organized around the Project Management Information System (PMIS). Specific activities include:

- a. Coordination of activities connected with the review missions fielded by donors and follow-up on actions recommended.
- b. Maintaining a database on monitoring of donor funded projects.
- c. Participating in Steering Committees set-up by ministries to monitor implementation of donor funded projects.
- d. Reviewing implementation of projects jointly with donors.
- e. Participating in monitoring meetings conducted by the Ministry of Policy

Development and Implementation

Technical Assistance (Foreign Training) Management

The effective management of foreign training opportunities as well as consultants, experts and volunteers provided by donors under technical cooperation programs constitutes a distinct responsibility of ERD. The subject is assigned to a dedicated division for the purpose, the Technical Assistance Division. The management of technical assistance has an annual cycle.

Working through Points of Contact (POCs) in ministries and provincial councils, requirements are fed into a database of TA needs that enables matching needs with donor offers.

Debt Recording and Management

The recording of information on foreign aid commitments, disbursements and debt service payments in an accurate and timely manner constitutes an aid management function of increasing importance. This function includes responsibility for the Debt Recording and Management System (DRMS). However the function falls short of control and coordination of borrowing and formulation of policy on external borrowing and its operationalization. ERD's role is collection of data on borrowing and coordinate with the Central Bank and the State Accounts Department in accounting of debt.

3.2 The Policy Support Subsystem

The ERD functions under the overall supervision of the Ministry of Policy Development and Implementation (MPD&I) and in close linkage with the Ministry of Finance (MF).³¹ Significant changes were introduced in structures, roles and functions for policy development and management linked to the agenda for Regaining Sri Lanka. The policy/planning and budgetary aspects of the foreign aid agenda have been separated out between the two Ministries.

The oversight of clearance of project proposals and the disbursement and utilization of foreign aid have been vested in the newly established Economic Policy Committee (EPC) and high level Task Force on Foreign Aid Utilization. The EPC is chaired by the Prime Minister and clears all major investments prior to submission to Cabinet of Ministers for approval. In addition it reviews progress achieved in the implementation of Action Plans of thematic Task Forces/Steering Committees established in respect of areas where major reforms are considered necessary. The EPC would identify constraints and coordinate technical assistance requirements to effectively implement action plans.

Within this policy framework for foreign aid are three key functions in aid delivery, namely, screening of project proposals, budgeting for disbursements and accounting of disbursements. This sphere of aid delivery action has as its overall objective the speedy movement on to negotiation and approval and thereafter the smooth and efficient disbursement of funds.

- Screening of Foreign Funded Projects

Screening of projects from the aspects of overall sectoral and national planning priorities was hitherto vested with the National Planning Department (NPD). It now works with the policy development system and its officials are assigned to support the work of the Steering Committees of the new policy development system. Project proposals are now cleared by the EPC and the preliminary screening of project proposals has been assigned to the Policy Division

³¹ The Ministry functions were rearranged following election of a new Government at end 2001. The functions of Policy Development and Policy Implementation were separated from Finance and Planning and assigned to separate Ministries. Line or sector Ministries were made responsible for the "implementation of national policy".

of ERD. The technical capacity of ERD to perform this task has become a matter of concern for both users and donors.

- **Budgeting for Foreign Funded Projects**

The National Budget Department (NBD) provides for the fund requirements through the Annual Budget wherein provision must be made for all fund disbursements during the year. Based upon the project implementation plan worked out with ERD, the implementing Ministry/Agency requests for budgetary provision for the foreign aid as well as for the domestic funds that may be required to meet local costs. A separate line for “Foreign Aid Related Domestic Fund” has been introduced from the 2003 Budget to ensure the provision of adequate funds to support the implementation of foreign aid projects.

- **Accounting for Foreign Aid**

Accounting for financial disbursements of foreign borrowings is the responsibility of the State Accounts Department (SAD). It is also responsible for managing the actual disbursement of project funds through Fund/Account procedures, designed and developed in association with the Asian Development Bank. The key objective of the procedure is to ease the flow of funds for project expenditures. The Guidelines that have been issued (2002) incorporates procedures for the withdrawal, reconciliation and final liquidation as well as monitoring disbursements.

3.3 The Donor Subsystem

The ERD classifies donors into Multilateral, Bilateral, Export Credit Agencies and Commercial Banks. The network of multilateral and bilateral donors function in a loosely coupled manner. A “Country Assistance Strategy” reflecting their perception of needs, interests guides their respective aid agendas. The sectoral distribution of aid flows in Annex 2 reflects the respective priority areas of donor engagement. There are overlaps and duplication when aid programs get on to implementation at the institutional level, where major users receive aid from several sources.

The principal modalities for donor networking have been the Development Forum chaired by the World Bank. Now being held annually, it facilitates the overall coordination of aid policy and implementation. The UNDP led Donor Forum provides an opportunity for informal meetings of multilaterals, bilaterals and NGOs. The recent UN initiative has been the Common Country Assessment (CCA) and the UN Development Assistance Framework (UNDAF) seeking to provide a common analysis and response from the UN agencies. The ongoing peace process would seem to have generated some degree of donor understanding on the need for coherence in aid efforts towards addressing development issues.

3.4 The User Subsystem

The aid user subsystem extends from the central government ministries and departments to provincial councils and local authorities. The disbursement and utilization of aid is however channeled through Ministries functioning either as Executing Agencies or Implementing

Agencies, with provincial councils and local authorities functioning as Implementing Agencies only. The latter has only a marginal role in aid decisions, lacking in capacity to formulate proposals and access the aid decision making apex. Therefore they can only respond to donor/government initiatives. The users establish direct relations with the donor in respect of project accounting and implementation monitoring. The user subsystem constitutes an amalgam of Implementing Agencies and Project Management Offices /Project Implementation Units.

3.5 System Coordination Arrangements

It would thus seem that the delivery subsystems function in relative isolation. Their effective coordination therefore constitutes a critical capacity element in aid performance. Indeed, for effective performance of the aid delivery system, the traditional notion of aid coordination should be complemented by the idea of the coordination of delivery subsystems. Coordination in the context of aid delivery has been worked out more as the organization of one to one relations between a donor and user rather than as a program-based partnership with distinct system responsibilities. Aid coordination is effected in a segmented manner.

A fundamental issue in the coordination of aid is the existence of a series of aid agendas on the part of the government and the donors, as well as for each donor and user. This situation makes aid coordination an aid governance issue. On the one hand is the issue of appropriate structures and processes that can support transparent partnership arrangements. On the other is the issue of incentives that can effectively influence aid delivery performance. The first would apply to subsystem partnership. The second applies to the uses of aid and performance in the use of aid.

The issue of structures and processes for partnership as far as donors are concerned has been examined earlier in this Section. There is increasing attention being paid to in-country donor coordination and co-financing arrangements. Sectoral planning is being encouraged by the ADB. The World Bank in partnership with UNDP has assisted in the development of a “poverty reduction framework”, now adopted by the strategy and vision of Regaining Sri Lanka. A further initiative in the same direction is the “triple R program” for the coordination of relief, rehabilitation and reconstruction. There is also tendency for coordination between bilaterals, such as UK, Netherlands, Germany and Scandinavian Countries. However it has been noted that formal coordination mechanisms tend to be more effective at the operational level than at the strategic decision making level as there is a lack of long term planning.³²

Partnership in aid coordination is even more problematic between donors and government. The governmental structures for planning and implementation involving national, provincial, district and local levels constitute a complex web of institutional arrangements and bureaucratic politics. The donors by entering the system at different points have tended to complicate further a system that is already complicated. It has resulted in disparate working arrangements and multiple levels of coordination.

³² Jonathan Goodhand, *Aid, Conflict and Peace Building in Sri Lanka*, The Centre for Defence Studies, University of London, 2001

Influencing delivery performance at the project level has been more complicated. Efforts to improve delivery performance have focussed on establishing the organization for project delivery as an adjunct activity under a Project Management Office and monitoring implementation operations. The issue is more complicated and concerns the institutional readiness of implementing agencies not merely to “absorb” aid disbursements, but more importantly their capacity and willingness to mainstream aid interventions. While the issue raises the question of project “ownership”, it concerns the fundamental issue of the achievement of intended results, going beyond the concerns of rates of disbursement.

Coordination of aid for engagement with conflict and conflict related needs such as relief and rehabilitation as well as reconciliation and peace building has been approached as a spatial program for the north and east. The delivery system is yet to recognize engagement with conflict as specific dimension of an integrated approach to the aid agenda. A coordinated and comprehensive approach has been lacking and as pointed out, “working on conflict” may be less to do with new instruments and more about the optimal use of the broad range of existing institutional arrangements.³³The approach so far has been “working in conflict” with a primary focus on relief and rehabilitation.

4. MANAGING THE DELIVERY OF NON-CONCESSIONAL AID IN A POST CONFLICT SITUATION: CHALLENGES AND RESPONSES IN AN EVOLVING AGENDA OF AID MANAGEMENT

The emerging trends in the aid scenario and the current status of the aid delivery system raise several areas of serious concern regarding its overall relevance, efficiency and effectiveness. At the same time the context in which aid sought and received is changing rapidly. These pose further challenges to the aid delivery system. This Section reviews the key issues, approaches and responses in meeting the challenges of aid management in the context of emerging realities of the aid environment.³⁴

4.1 The Changing Context of Aid Management

There have been fundamental changes in the external and internal aid environment of Sri Lanka.

- Externally:

First, is the imperative of having to move from a largely concessional funding status to one of semi-concessional funding and commercial borrowings and the ensuing imperative of effective debt management. Second, there is also the ensuing imperative of having to manage a more diversified portfolio of development financing spreading across bilateral donors, multilateral donors, commercial banks and export credit agencies. Third, at the same time the conflict, reconciliation and peace building creates a further set of external dynamics. It has

³³ Op. Cit., Jonathan Goodhand,

³⁴ This Section will draw heavily from the experiences of the initiatives in capacity building for aid management in Sri Lanka supported by UNDP/UNDESA over the last decade.

created a new arena for aid with implications for the overall aid agenda that must address not only goals of structural adjustment and liberalization but also issues of governance, human rights and social objectives. Fourth, it has also necessitated engagement with a broad-based donor network funding relief, reconciliation and rehabilitation. These imperatives arising from the changing borrower context creates a whole new aid situation calling for not only new knowledge and skills but also ways of managing new sets of aid relationships.

- **Internal Aid Environment**

Internally the borrowing context has also changed. First of all there is the change in the policy context of moving from a predominantly public sector-led to a largely private sector-driven development scenario and the need to engage increasingly with the needs of the private sector. Second, at the same time aid must support a development strategy that combines poverty reduction and productivity enhancement with the identification and selection of appropriate funding. Third, the changing politico-administrative arrangements involving a shift from a centralized to a devolved system requires addressing development needs of regions. Fourth, the gathering momentum of the peace process calls for new institutional arrangements for fast tracking aid disbursement and engaging with structures outside the mainstream administrative system. Finally, the ERD now functions under the purview of new policy oversight arrangements, being placed under the purview of MPDI and associated Committee structures.

As noted earlier approximately 50 - 60% of Sri Lanka's development budget is financed by ODA. The economic growth and development targets set by RSL will require investment at higher levels and more importantly utilize these resources in a more timely manner and effective manner than in the recent years. Further to the extent that the income levels rise, Sri Lanka will be required to diversify further its instruments of development financing. A steady acceleration in the diversification of its portfolio of development financing will be necessary involving an increasingly large share of semi-concessional and non-concessional agreements on most favourable terms. This is yet new territory. Indeed RSL will set in motion imperatives of aid dynamics of its own.

3.2 Aid Delivery Concerns of Stakeholders

The test of an aid delivery system is its relevance to the primary stakeholders, the donors and borrowers. For both, donors and borrowers, aid is a policy instrument. It is one of several, influenced by other policy concerns. Aid does not emerge from a political vacuum, nor is it delivered into an institutional vacuum. What is at issue is how well the portfolio of development needs gets matched with a portfolio of financing opportunities. Both, donors and borrowers (Ministries and Departments) have significant concerns in this regard. Thus:

- **Absence of a Strategic Approach to Aid Planning**

The aid system has been very much supply-driven. Users respond to country assistance strategies of donors. Incentives and arrangements to match supply with demand are yet inadequately institutionalized.

- Absence of a Sectoral Approach

Both, donors and government ministries see the need for a sectoral approach. It would avoid competition and/or duplication as far as the donors are concerned and provide for better coverage of needs as far as the government ministries are concerned.

- Level of Policy/Planning Backstopping

Taking aid delivery from such a dialogue to finalization of projects for funding calls for varied technical inputs, all of which are not be available with the ERD. The screening of project proposals is now carried out by ERD. Both donors and government ministries have concern regarding the withdrawal of the NPD from the performance of this function and reservations regarding ERD's capacity to perform the same.

- Inadequate Coordination of Disbursement/Utilization

Both, donors and ministries are concerned about disbursement problems and welcome active involvement of ERD in the project implementation process. They expect ERD to play a continuing facilitation-cum-problem solving role, without "leaving off" after the aid agreement is signed.

- Inadequate Engagement in Project Implementation

The quality and quantity of project management is a key area of donor concern. What is at issue is the scope of the involvement of the central aid agency through the "project cycle". Donors' point of view is that the central aid agency is involved in the preparation of the aid project and must therefore necessarily continue to be involved in this regard due to its relationship with donors and knowledge of donor policies and practices.

3.3 Re-designing the Delivery System

The changing context of aid and the stakeholder concerns about delivery focuses attention on and points out extant as well as emergent problems and issues in the aid delivery system. Overall, the focus has been on re-designing the aid management system towards greater efficiency and effectiveness in delivery. It has incorporated the following areas of change and improvement.

- Formulation of a economic policy and fiscal management framework to guide aid financing.
- Introduction of program frameworks for more rational selection of projects.
- Strengthening the capacity of ERD as the focal agency of the aid system for better management of negotiation, mobilization and utilization of aid.

3.3.1 Policy Responses:

There are several policy level initiatives that address the inadequacies experienced hitherto in aid management. First, RSL provides a comprehensive policy and plan framework for

the development of an aid plan that has hitherto been a lacuna in Sri Lanka's aid management. RSL combines Government's Economic Reform Program (ERP) and the Poverty Reduction Strategy (PRS) in a set of "priority actions", creating the opportunities for the Sri Lankan aid agenda to become proactive. A high level Economic Policy Committee chaired by the Prime Minister clears all major project proposals. The Task Forces/Steering Committees established for working out action plans address questions of timing and sequencing actions and therefore investments.

Second, the implementation arrangements for ERP/PRS have separately identified priority actions relating to relief, rehabilitation and reconciliation, including rehabilitation projects to be funded mainly by donors. It provides a program framework for engagement with conflict, reconciliation and peace.

Third, the development of a Medium-term Expenditure Program is under way and when fully established will enable forecast multi-year changes in public spending. It will allow for better timing and sequencing of foreign aid requirements and inputs into the development process. It will also enable better matching of development needs with sources of finance.

Fourth, the Fiscal Management (Responsibility) Act (2003) will require the preparation, submission and reporting on three year budgets. It will also set targets for borrowing. Thus the reduction of government debt by ensuring that by the end of 2006 budget deficit shall not exceed 5 per cent of GDP, and that total Government liabilities do not exceed 85 per cent of GDP to be reduced to 65 per cent of GDP by 2013.

Fifth, the establishment of Public Debt Management Office under the purview of the Ministry of Finance but reporting to Parliament will provide for the development of a borrowing policy and strategy in line with the provisions of the Fiscal Management (Responsibility) Act.

3.3.2 Program Responses:

Creating system capacity for rational selection of projects under a clear strategic focus complements the policy responses for strengthening the aid delivery system. There were two key initiatives in introducing a strategic focus into the aid delivery system. First was the development of sector program frameworks as a basis for identification and formulation of projects. The ERD coordinated the preparation of the Poverty Reduction Strategy (PRS) and the program framework for Relief, Rehabilitation and Reconstruction (The Triple R Program), both of which have been adopted and incorporated in the "Regaining Sri Lanka" program. Additionally sector strategies have been initiated in respect of tertiary education, integrated management of natural resources and information technology.

Initiative in the preparation of sector strategies respond to donor and user concerns regarding the absence of a strategy framework for ensuring that donor initiatives in financing development projects do not lead to duplication of effort and competition to fund. It also addresses the concern regarding lack of intra-sectoral coherence in project selection and funding. A critical aspect of system capacity for rational selection of projects is the institutionalization of stakeholder consultations in aid strategy reviews. This aspect of system capacity links up with

the capacity of ERD as the focal organization in the aid management system to facilitate sector strategy preparation and aid strategy reviews.

In this regard special mention must be made of the role of the Triple R program as a strategic response to the absence of an explicit aid delivery focus on conflict. The Triple R program while correcting this gap in the extant aid agenda also provided for the institutional basis for the coordination of donors and government agencies on a program basis. As seen in the context of later developments in aid management on conflict (discussed later in this section), the program process created institutional opportunities for engagement in post conflict development.

The second initiative in introducing a strategic focus to the delivery system was the incorporation of a debt policy and a borrowing strategy. The introduction of a borrowing strategy involved the preparation of policy guidelines and procedures for mobilizing funds from commercial sources. However this is yet at an incipient stage of implementation.

3.3.3 Institutional Responses:

The substantive focus in redesigning the aid delivery system has been on institutional strengthening. The institutional strengthening initiative was a two pronged one, capacity building of ERD and the strengthening and/or establishment of institutional arrangements for the performance of supportive delivery roles and responsibilities. The overall institutional strengthening strategy was for ERD to focus upon core aid management functions and establish capacity elsewhere in the aid delivery system for other supportive functions.

The Institutional Strengthening of ERD –

There were three broad foci. **First**, was the strengthening of institutional linkages between ERD and its stakeholders including donor agencies and user ministries and departments. Institutional arrangements for linkage building with stakeholders included, annual consultative strategy reviews; stakeholder reporting (Foreign Aid Review, Status of foreign funded projects on the web, Review and Analysis of Foreign Training Opportunities); and an interactive Project Management Information System (PMIS).

Second, constituted a major program of institutional change and re-tooling of ERD focused on its capacity to work as the focal agency in the aid system functioning in an increasingly dynamic and rapidly changing aid environment. The capacity building included several elements. The *Organizational Re-design* from a hierarchical to a matrix-type cross-functional team-based system. Such an organization design would enable ERD re-configure its resources as required in order to cope with changing needs and demands of its stakeholders. The establishment of an *Integrated Management Information System* based on modern information and communication technology capability with intra-net and web-based internal and external information sharing. The information system comprised of the Aid Management System (AMS), the Project Management Information System (PMIS) and the Foreign Training Management System (FTMS). The integrated information system allows effective communication between over 200 project offices in the tracking of late activities and proactive reminders for project management as well as access to current and past information in respect of Contracts/MOUs, project concepts and proposals by sector/donor/date etc. In addition there is also the Debt

Recording and Management System (DRMS). The integrated information system also allows the creation of institutional memory through the establishment of a Knowledge Management System with information on approximately 1031 project studies completed since 1992. The third element was *Enhancing Professional Capability* of ERD to manage more diversified development financing modalities. This involved an extensive training program in new areas of engagement such as aid policy, mixed credit, debt management and negotiation skills.

Third, addressed the issue of *Project Management Capability* of ERD. The initiative had two aspects. The *first* was effective portfolio management. This included the preparation of a project portfolio for a three-year period, consolidation of the portfolio database, provide guidelines for the preparation of good project proposals and the establishment of core groups for the preparation of large and complex projects. This initiative is supported by the information capability of the AMS. The *second* was effective project monitoring. This involved the establishment of a project management database, reporting on major procurement activities and training of project managers. This initiative is supported by the information capability of the PMIS.

The Creation/Establishment of Supportive Project Management Capacity -

There were two important areas of institutional strengthening designed to ensure speedy and effective delivery. *First*, was the strengthening of project management in the implementing agencies. This involved the establishment of separate Project Management Offices/Project Management Units Project Director reporting to the Secretary of the Implementing Ministry. The Secretary was vested with powers to recruit staff on special salaries. The PMO/PMU were linked to ERD through the PMIS. *Second* was the establishment of the Procurement Support Bureau (PSB). It functions as a regulator of all government procurement including procurements by donor funded projects. It is responsible for procurement policy, monitoring of procurement activities and training of procurement staff of implementing agencies. It tracks progress in respect of tender documentation, invitation to tender, evaluation of tenders and the awarding of tenders.

3.4 Aid Delivery for Post-conflict Development

A key strategic response in building capacity to address aid needs for conflict affected areas and for post-conflict development was the Triple R program. Subsequently a “National Framework for Relief, Rehabilitation and Reconciliation”³⁵ has been prepared as the operational basis for coordinating implementation of work on conflict. In the emerging post-conflict situation it provided the framework for engagement with post-conflict development. The political imperatives of delivering aid for post-conflict development leaves the organizational arrangements very much an interim affair. The interim organizational arrangements provide for networking between government agencies coordinating with donor-funded projects, donors and non-government organizations in the delivery of aid.

The overall strategy for engagement in post-conflict development has been to take the coordination and implementation oversight of the aid agenda out of the ERD. Thus the Prime Minister’s Office is made responsible for the coordination of aid delivery for post-conflict development, reflecting the urgency, priority and the political sensitivity of the operation. A

³⁵ Government of Sri Lanka, National Framework for Relief, Rehabilitation and Reconciliation, Colombo Donor Forum, June 2002

National Coordinating Committee for Triple R oversees the delivery of aid for conflict affected areas. The Coordinating Committee includes government ministries, the North East Provincial Council, the District Secretaries, donors including UN agencies. The Secretary to the Prime Minister chairs the Committee.³⁶ An agency/committee arrangement oversees and coordinates four key areas of support for conflict-affected areas, Relief and Rehabilitation, Mobilization of Resources, Implementation and Capacity Building, and Reconciliation.

There are three donor-funded projects under the regular Country Assistance Program engaged in the North and East. These are:

- a. North East Community Rehabilitation and Development Project, funded by the Asian Development Bank.
- b. North East Irrigated Agriculture Project, funded by the World Bank.
- c. North East Emergency Project, funded out of World Bank Emergency Fund.

These projects follow the delivery arrangements as for other projects, with a PMO headed by a Project Director. The North East Provincial Council coordinates with the Projects.

4 LINKING AID DELIVERY TO REGAINING SRI LANKA: LOOKING AHEAD

5

Accelerating economic growth and bringing about greater prosperity for the people call for the resolution of several policy strategy dilemmas. On the one hand it calls for increased investment while containing public debt and overcoming the debt crisis. On the other it calls for increasing employment opportunities while bringing about widespread improvement in productivity. The achievement of peace will support and be reinforced by the success achieved in the development arena. The financial resources, human skills and institutional capacity for achieving such a growth rate goes beyond what is currently available. Relief, reconstruction and rehabilitation under the ongoing peace process would call for further resources. These imperatives of development create new challenges for aid management.

The need to fast-track aid delivery has emerged as the fundamental imperative of effective aid management. The program framework for RSL redefines the role of the public sector and assigns responsibility for “commercial” activities to the private sector. This will necessitate mixed modes of foreign financing. The aid delivery system must continue to adapt to its changing context. This section reviews the successes and failures in aid management in the context of the challenges of the emergent aid management agenda.

4.1 Developing a Comprehensive Framework for Aid: Linking Aid to Regaining Sri Lanka

4.2

Sri Lanka’s aid program remains essentially a collection of donor funded projects. The re-designing of the aid delivery system has as yet not been able to address coherence in terms of purposes and objectives across donors and users. Aid coordination should go beyond mere

³⁶ The new Government (2001) established Region Development Ministries. There are three Ministries that cover the North and East.

referral and collation. The initiatives to re-design the project selection process has had limited impact in the absence of comprehensive aid plan framework in providing a rational basis for selection of projects. Project selection at present is at best a discrete exercise in the referral of projects in the ERD pipeline to selected donors.

The primary and continuing task of the aid delivery system should be the formulation of a comprehensive aid plan/budget framework for the government as a whole. This requires that the selection of projects should not be reactive to individual requests for aid by users but be proactive in the selection of components for the aid plan. Indeed the aid portfolio should be responding to development priorities and the required timing of investments while also being sustainable in terms of the debt commitment. Thus the selection process should get linked to government's macro policy framework and the planning and budgeting processes.

The initiative by ERD to formulate a rational basis for project selection through the preparation of "sound development strategies" has been superseded by the "action planning" for RSL and the associated changes in the institutional arrangements (referred to above) for the implementation of Governments ERP/PRS. The poverty reduction strategy and the triple "R" programs have been incorporated in the program framework for RSL. A comprehensive framework for aid would now have to proceed from the actions plans and the implementation arrangements for Regaining Sri Lanka.

4.1 Managing a Diversified Development Finance Portfolio: Moving from Concessional to Non-concessional

The initiative to manage the transition from concessional to semi/non-concessional aid has been approached primarily from a knowledge and skills basis. Thus selected ERD staff has been given training in commercial lending instruments and practices including mixed credit arrangements and negotiation skills. The capacity to identify opportunities, initiate discussions and effectively assist with negotiations for semi-concessional through non-concessional development financing is not only a question of skills. The shift from concessional to semi/non-concessional overseas development financing is also very much one of borrowing strategy and portfolio management, especially the design of the appropriate mix of funding sources matching the development purposes. The aid delivery system is yet to approach aid portfolios from an investment analysis perspective.

Aid portfolios are donor-based and not program-based and is not guided by a borrowing strategy. It does not permit the application of a borrowing strategy. There are fundamental issues that would require be addressed especially in the context of a very much expanded role for the private sector. These issues would include the balance between external loans and foreign equity capital, borrowing levels of the public and private sectors, loans from official and commercial sources, local as against foreign borrowing and the impact these would have on the debt situation. The bottom line of a national borrowing policy is the annual or multi-year ceiling on borrowing as set out in the Fiscal Responsibility (Management) Act. These elements of a borrowing policy are addressed in a segmented manner by various agencies and require to be integrated into a coherent strategy for sourcing and negotiating aid.

4.2 Supporting Post-conflict Development

Aid engagement with post conflict development is emergent and unfinished agenda. The current arrangement to take aid for post conflict development in conflict affected areas out of the delivery mainstream of ministries constitutes a significant measure, given the importance of the program and the process for the success of the vision and strategy for RSL. The final institutional form and shape of the aid program for post conflict development in the conflict affected areas would naturally have to await the outcome of the peace negotiations and the interim arrangements for governance in the north and east.

However what is perhaps more important from the point of view of the aid delivery system would be the nature, scope and modalities of integration of aid in a holistic agenda on post-conflict development, without spatial separation of aid for the “north and east” and the “south”. The conceptualization of the nature, scope and content of “post-conflict development” on the part of donors and the government would be interesting and pertinent. Would a “comprehensive approach to “work on conflict” be spatially segmented. Obviously projects will have a spatial basis of operation. The point however is whether post-conflict development is about development in the north and east only.

Perhaps there are several issues that need to be addressed in placing aid within a wider policy framework. The emphasis of aid has been a receding one as far as social development is concerned. Pro-poor governance and poverty reduction is however very much on the aid agenda. Issues of social stability have efficiency as well as equity considerations. While addressing rehabilitation and reconstruction in the north and east, it is necessary to focus post-conflict development on concerns of social stability in a holistic manner and on an all island basis.

4.3 Tracking Debt Sustainability

In the context of the current debt situation current debt service payments exceed revenue, tracking debt becomes an important fiscal management function. The Fiscal Management (Responsibility) and the Public Debt Management Office seek to establish an effective purview over the debt situation, both internal and external. This would set coherent overall debt policy and a borrowing strategy, away from the ad hoc debt management and borrowing decision as has been the practice hitherto. These initiatives would require support of an effective debt monitoring system. Reference has already been made to the updating of the CS/DRMS system with ERD.

As far as the aid delivery system is concerned what is then required is working within this framework to analyze the debt sustainability implications of alternate lending instruments as financing options. While such analysis should be undertaken for the total country aid package, debt sustainability implications should also be worked out at the sector and individual program/project level. There would be financing implications that require to be taken into account in program/project design and selection.

4.4 Improving Aid Delivery : Fast-tracking Aid Disbursement

Sri Lanka has achieved a disbursement rate of approximately 21% during 2001 and 2002. On the basis of the average life span of a project being five years, this is a satisfactory level of

disbursement and indeed an achievement. However it masks two important aspects of aid disbursement that require to be taken into account. First is the timing and sequencing of disbursements within the project to ensure not only a satisfactory disbursement rate but also the delivery of development results. This is an aspect that is often neglected in the concern to speed up disbursement. The second aspect of aid disbursements in Sri Lanka is the large amount committed aid lying un-disbursed. While project management functions in a much more organized manner subsequent to the establishment of PMO/PMU, and project procurement has been facilitated with the Establishment of the PSB, approximately US \$ 3,000 lying un-disbursed constitutes unproductive resources. Indeed delays in delivery also have costs.

Project management and tracking delivery has always constituted a heavy call on the limited staff resources of ERD. The situation is likely to continue to be so in the future too, despite the establishment of the PMOs. There is no doubt that the primary responsibility for project implementation should rest with the relevant ministry. Organizational options for hiving off this responsibility from ERD are now being explored especially following the Tokyo Donor Forum and the likelihood of aid quantum increasing over the next four years.

4.5 Enhancing Capacity for Strategizing Aid

Hitherto the approach to enhancing capacity for aid management has focussed on the institutional strengthening of ERD to perform the system management role in the delivery of aid. The mission of ERD was thus delineated in terms of “to coordinate, negotiate, mobilize and oversee effective and efficient utilization of all forms foreign official development assistance to the Government of Sri Lanka for socio-economic development and to compile and manage government’s external debt”³⁷. Given the rapidity of the changes that occur in the context within which Sri Lanka seeks and receives development assistance, it would seem realistic and prudent to understand the emergent role in the medium-term. Indeed the above mission would be equally relevant to the aid delivery system. Thus while the mission would remain relevant to aid delivery in Sri Lanka, specific roles and functions and who should perform them would keep changing as the conditions that obtain in the context of aid continues to change over time.

It would seem that there are four core roles and functions.

- Heighten the level of donor confidence to continue in a long term and sustained relationship of providing assistance.
- Advise users on aid options taking into account implications of alternate modes of foreign financing and debt sustainability.
- Obtain for the country the optimally beneficial terms relating to donor assistance.
- Optimize the benefits that accrue to the country from the use of such aid.

These are roles that the focal aid agency would have to perform.

³⁷ External Resources Department, Change and Capacity Building, Report of Change Consultancy Mission, 2002

The effective performance of these roles calls for the separation of strategic from operational. There is a role for the focal agency as well as a distinct role responsibility for the individual ministry. The core functions of the focal agency would be the formulation of an “aid plan”, the negotiation of the aid plan, provide aid advice and maintain donor liaison. As far as aid utilization is concerned the focal agency should be exercising arms length oversight only. Ministries should be actively involved in the project process from formulation and negotiation through to implementation. It would make for greater preparedness of the ministries to take on implementation once the loan agreement is signed. It should be noted that there is much slippage at this point. An ongoing consultative negotiation of roles, functions and performance will be a necessary condition for system efficiency and effectiveness.

5 BEYOND REGAINING SRI LANKA: INSTITUTIONAL IMPLICATIONS OF AID DELIVERY INITIATIVES FOR SUSTAINABLE DEVELOPMENT

In the final analysis aid must not only be delivered (and delivered effectively) but should also deliver (development). The aid agenda has hitherto largely been a supply driven one, the users lacking in capacity to strategize aid requirements for development objectives. This lacuna is hopefully taken care of by the Action Plan to implement the program embodied in RSL. The Poverty Reduction Framework (PRF) that began in 1998 continued through to the preparation of a Poverty Reduction Strategy (PRS) incorporated as an integral part of RSL. Sri Lanka has surpassed most of the Millennium Development Goals (MDG)³⁸. However increased growth will be necessary to sustain and extend the benefits throughout the country. This is the development challenge that the aid delivery system should be addressing.

The PRF envisions a shift in the role of the Government from one of providing for the poor to becoming an enabler for poverty reduction. The PRF points to the need to connect poor areas with the more dynamic growth centres as well as provide infrastructure and social services to enable access markets, skills and finance. The participation of the poor in growth will call for the revitalization of the rural economy, promoting agro-industry and small enterprise development. A significant aspect of pro-poor growth is environmental conservation. Some of these elements of PRF have been worked into donor funded projects already under implementation. The challenge is not delivery in terms of mere disbursement, but more importantly mainstreaming poverty reduction activities in the governance and development management processes. In fact Sri Lanka’s development challenges and opportunities have been delineated in terms of a nexus of political, economic and social action involving the restoration of peace, reduction of poverty and improved governance.³⁹ Two aspects of this challenge will be examined briefly in this section.

5.1 Aid Utilization for Sustaining Sustainable Development

Foreign aid currently funds 50 to 60 per cent of public sector investment requirements of development. The quantum of aid is likely to increase significantly in the future. Given the

³⁸ Life expectancy at birth is 73 years, adult literacy rate is 93%, infant mortality rate is 17 per thousand, and maternal mortality rate 23 per hundred thousand.

³⁹ United Nations Development Assistance Framework (UNDAF) 2002 –2006, UNDP, Colombo, 2001

availability of a policy and plan framework for project selection, the current situation of aid delivery calls for significant enhancement in the efficiency of delivery as well as effective mainstreaming of deliveries for better result orientation. The large quantum of committed undisbursed aid balances in fact constitutes an indictment on the efficiency and effectiveness of the delivery system.

There is clearly a need for strengthening absorption at the implementation level. This cannot be approached entirely through the establishment of PMO/PMU for the major donor funded projects. A significant capacity building effort is necessary in the public sector delivery system. Such a program would be outside the realm of reform of the aid delivery system, though a necessary condition for effective utilization. There is then a need for the reform of the aid delivery system to link up with public sector reform program.

5.2 Integrating Aid Delivery and Development Management for Efficient Delivery of Services

In the final analysis foreign aid is about financing development, which is in turn about the provision and delivery of goods and services. Mainstreaming aid outcomes to be supportive of poverty reduction will require significant improvements in governance and empowerment. The marginal role of the sub-national levels of government⁴⁰ in the aid decision-making process has been noted. They are takers of aid than initiators of aid proposals. The aid delivery system should then empower sub-national units of government to become partners in the aid agenda.

This calls for action in two areas. First is the re-orientation of the aid system to bring in the sub-national units of government, Provincial Councils (PCs) and Local Authorities (LAs) as partners in aid management. It requires modalities to work with Provincial Councils and on-lending arrangements to LAs. An aid window especially for LAs operationalized through a scheme of conditional on-lending transfers would address aid needs at this level. Second, it calls for significant changes in the role and role performance of public sector organizations. Public sector organizations should move on to strategic partnerships with private sector and civil society to become more effective in utilization of aid targeted at poverty reduction.

⁴⁰ The system of sub-national government in Sri Lanka underwent fundamental change in 1988 with the introduction of Provincial Councils by Constitutional Amendment. Significant powers have been assigned to Provincial Councils. They have been functioning throughout the country except in the North and East provinces that were temporarily merged to constitute a single Council.

TABLES

Table 1.1

Foreign Aid Commitments 1997 – 2001 (US \$ Mn)

Year	1997	1998	1999	2000	2001	Ave. 1997 - 2001	2002
Loans	562	607	640	351	687	569	779
Grants	138	128	71	96	67	100	111
Total	700	735	711	447	754	669	890

(Source: ERD)

Table 1.2

Multilateral and Bilateral Commitments 1997 – 2001 (US \$ Mn)

Source	1997	1998	1999	2000	2001	Ave. 1997 - 2001	2002
Bilateral	473	328	301	190	507	360	369
Multilateral	165	296	357	142	170	226	471
Total	638	624	658	332	677	586	840

(Source: ERD)

Table 1.3**Foreign Aid Disbursements by Type 1997 – 2001 (US \$ Mn)**

Year	1997	1998	1999	2000	2001	Ave. 1997 - 2001	2002
Loans	412	579	348	442	426	441	495
Grants	131	114	109	71	69	99	77
Total	543	693	457	513	495	540	572

(Source: ERD)

Table 1.4*Disbursement Ratios for 1998 – 2002*

Type	1998	1999	2000	2001	2002
<i>Loans</i>					
Disbursement	482.9	357.9	337.6	450.9	495.1
Beginning CUB	2,305.8	2,239.7	2,432.0	2,220.0	2,467.2
Disbursement Ratio	20.9%	16.0%	13.9%	20.3%	20.1%
<i>Grants</i>					
Disbursement	122.2	107.9	83.0	83.3	74.4
Beginning CUB	265.9	259.0	182.4	200.1	183.1
Disbursement Ratio	45.9%	41.6%	45.5%	41.6%	40.6%
<i>Total</i>					
Disbursement	605.1	465.8	420.6	534.2	569.5
Beginning CUB	2,571.7	2,498.7	2,614.4	2,420.1	2,650.3
Disbursement Ratio	23.5%	18.6%	16.1%	22.1%	21.5%

(Source: ERD)

Table 1.5*Disbursement Ratios by Type of Donor*

	1998 %	1999 %	2000 %	2001 %	2002 %
Japan	17.1	12.2	13.6	20.2	14.5
ADB	35.8	23.3	14.1	16.2	23.5
World Bank	23.9	14.7	15.3	16.6	40.8
Other Bilateral	36.1	39.4	30.3	44.7	20.9
Other Multilateral	28.4	28	24	21	21.8
Export Credit	71.3	14.8	51.1	72.7	57.6
Overall	23.5	18.6	16.1	22.1	21.5

(Source: ERD)

Table 1.6
Average Terms of New Commitments

	1990	1993	1996	1999
Interest (%)	1.3	1.9	1.8	1.7
Maturity (Years)	35.9	33.9	32.9	36.2
Grace Period (Years)	9.9	9.9	9.6	9.1
Grant Element (%)	76.0	71.2	69.4	63.8

(Source: Kappagoda, Report on Debt Policy and Borrowing Strategy, ERD)

Table 1.7**External Debt Outstanding (US \$ Mn)**

	1990	1993	1995	1996	1997	1998	1999
Govt. & Govt Guaranteed Debt	4867	5926	6834	6728	6472	7237	7451
PNG Debt	102	90	90	88	84	77	55
IMF Drawings	410	516	595	531	531	433	258
Total Long Term External Debt	5379	6532	7519	7347	7087	7747	7764
Short-Term Debt	405	266	595	566	480	433	475
Total External Debt Outstanding	5784	6798	8114	7913	7567	8130	8239

(Source: Kappagoda, Report on Debt Policy and Borrowing Strategy, ERD)

Table 1.8**Total Long-term Debt Outstanding by Creditor Category (US\$ Mn)**

	1990		1993		1996		1999	
	Amount	%	Amount	%	Amount	%	Amount	%
Bilateral	2,677.7	53.8	3,072.6	51.1	3,341.0	49.0	3,711.0	48.4
Multilateral	1,502.8	30.2	2,224.4	37.0	2,839.0	41.7	3,174.8	41.4
Commercial	793.8	16.0	718.2	11.9	635.9	9.3	782.7	10.2
Total	4,974.3		6,015.2		6,815.9		7,668.5	

(Source: Kappagoda, Report on Debt Policy and Borrowing Strategy, ERD)

Table 1.9**Total Long-term Debt Outstanding by Borrower Category (US\$ Mn)**

	1990		1993		1996		1999	
	Amount	%	Amount	%	Amount	%	Amount	%
Government	4,452.5	89.5	5,495.8	91.4	6,363.5	93.4	7,127.9	93.0
Corporations	298.1	6.0	296.5	4.9	236.2	3.5	312.4	4.1
Private Sector	223.6	4.5	222.8	3.7	216.1	3.2	228.2	3.0
Total	4,974.2		6,015.1		6,815.8		7,668.5	

(Source: Kappagoda, Report on Debt policy and Borrowing Strategy, ERD)

Table 1.10*Government Foreign Debt Stock and Flows 1998 – 2002 (US \$ Mn)*

Creditor Category	1998	1999	2000	2001	2002
Disbursed Outstanding Debt	6,872.3	7,107.9	6,787.6	6,570.7	7,352.0
Disbursements	470.1	348.4	345.8	425.7	495.3
Principal Repayments	198.8	241.0	219.8	216.0	237.5
Net Flow on Debt	271.3	107.4	126.0	214.2	257.9
Interest Payments	114.5	124.4	122.2	116.0	121.8
Net Transfer on Debt	156.8	(17.1)	3.8	93.7	131.6
Total Debt Service	313.2	365.4	342.0	332.0	359.5

(Source: Kappagoda, Report on Debt Policy and Borrowing Strategy, ERD)

Table 1.11*External Debt Indicators (Percent)*

	1994	1995	1996	1997	1998
Debt Service Ratio	11	14	13	11	11
Total Debt Outstanding/GDP	71	67	61	54	56
Share of Government in Debt Service	60	45	51	54	55

(Source: Kappagoda, Report on Debt Policy and Borrowing Strategy, ERD)

Table 1.12*Debt Service Payment Forecast on Existing Portfolio (US \$ Mn)*

Donor / Creditor	2003	2004	2005	2006	2007
Bilateral	253.9	282.0	306.2	327.0	342.6
Multilateral	101.8	112.9	124.5	135.3	142.9
Commercial Banks	8.4	8.7	8.9	7.8	5.7
Export Credits	18.5	23.9	27.6	32.0	27.2
Grand Total	382.6	427.5	467.2	502.1	518.4
Percentage increase		11.7	9.3	7.5	3.2

Note:

1. Total Debt Service includes amortization, interest and other charges.
2. Exchange rate as at 31/03/2003 is used for the calculation of future debt services.

IV.

Direct aid delivery - reaching the hardcore poor:

UNDP/CBO case study in Myanmar

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Table of Contents

	Page
1. Introduction	2
2. Country situation	3
3. UNDP programme strategy	6
3.1 Substantive strategy	6
3.2 Implementation arrangements	8
4. Targeting – to reach the poorest of the poor!	9
5. Community organisation and village development	10
6. Micro-finance and economic empowerment	13
7. Cost-effectiveness	15
8. Empowerment and equity	16
9. Sustainability	17
10. Policy imperatives	19
11. Conclusions	21
Annexes	
Annex 1 Geographic locations of HDI projects	24
Annex 2 HDI projects by Township and number of villages covered	25
Annex 3 HDI programme budget	27
Annex 4 Operational and financial sustainability of the Micro-finance project	28

Introduction

Myanmar is somewhat isolated from the influence and impact of the recent developments in international aid policy and financing of aid to eliminate poverty in the developing world. Following the political developments in Myanmar in 1988 international development assistance to the country was drastically cut back. Only UN agencies and a few bilateral donors especially Japan have continued their official development assistance programmes albeit on a limited scale. A number of international non-governmental organisations (NGOs) also operate their assistance programmes with relatively smaller budget. The UN assistance has been primarily humanitarian support in nature. However, the assistance of the United Nations Development Programme (UNDP) has evolved into innovative development interventions targeted at reaching the poor households and communities at the grassroots level. This paper attempts at analysing the innovations promoted by UNDP in programming and delivering aid to address the poverty situation in Myanmar.⁴¹ The paper highlights the innovations that have led to efficient and effective utilisation of aid funds, aligned to the objectives of UNDP's Human Development Initiative (HDI) in Myanmar implemented since 1994, to reach the poor, especially the hardcore poor at the grassroots, village level.

UNDP assistance to Myanmar has been carried out in accordance with the decisions of the UNDP Executive Board.⁴² In recognition of the critical humanitarian and basic human development needs of the people of Myanmar, these decisions mandated UNDP to carry out assistance activities that are targeted to have grassroots-level impact in a sustainable manner. In response, UNDP has completed three phases of its HDI programme in Myanmar covering HDI-1 (1994-96), HDI-2 (1996-99) and HDI-3 (1999-2002). Seven HDI-3 sectoral projects and a HDI Support project had ceased operation effectively in February 2002. The Community Development in Remote Townships (CDRT) project also stopped most of its work in mid-2002.⁴³ The current programme (HDI-4) commenced operation in March 2003 (see Annex 2 and Annex 3 for the list of projects).

The projects under the four HDI phases have been designed and implemented to fulfil the basic needs of target communities in improving access to, and quality of, basic social services (primary health care, basic education, small village infrastructures, water and sanitation and HIV/AIDS support) and support for sustainable livelihoods, including income-generating activities and environmental improvement. Although each HDI phase has retained its focus on ensuring grassroots-level impact, the programme itself has evolved in terms of strategy, implementation arrangements and geographical coverage. HDI-1 comprised 15 projects

⁴¹ Much of the material in this paper is drawn from the information gathered by the author from his recent field visit to several villages in Myanmar (11-31 August 2003) undertaken as part of his UNDP assignment in association with Mr Robert Shaw (Team Leader) to assess UNDP's Human Development Initiative in Myanmar. The author is indebted to Robert Shaw and the staff members of UNDP Myanmar as well as the project personnel of the six HDI projects for their insights into the dynamics of community development issues in rural Myanmar. The author is also deeply grateful to the many village community members and UNDP project volunteers who so well articulated their reality and reflected on the many strategic issues of development interventions assessed in this report. However, the author remains solely responsible for the analysis and conclusions presented in this report.

⁴² With reference to UNDP Governing Council (GC) decisions 92/26 and 93/21, and in subsequent periods decisions of the successor of UNDP GC the UNDP Executive Board (EB) – viz. decisions 96/01, 98/14, 2001/15 and 2003/2

⁴³ Annex 2 provides a comprehensive list of projects covered under the HDI-2, HDI-3 and HDI-4.

implemented in 14 Townships and was designed for quick impact. The second phase of the HDI brought an additional 9 Townships, situated adjacent to the existing Townships, into the programme. HDI-2 began the long-term community development and local capacity building task at the village level. It also added a micro-finance component. HDI-2 contained 10 projects with a total budget of \$52.1 million over three years. HDI-3 added assistance to Northern Rakhine State to its programme portfolio of 11 projects with a total budget of \$50.0 million over three years (1999-2002). HDI-4, originally conceived to cover the period 2002-4, had a delayed start due to delays in securing government approval of the six projects constituting the programme.⁴⁴ The current phase commenced operation effectively in March 2003 with an approved budget of \$22.0 million from UNDP core resources, a dramatic decline from HDI-3. It has a small cost-sharing budget from Australia and from Joint Programme on HIV/AIDS. HDI-4 has been programmed to cover 3,900 villages in 24 Townships, representing about five per cent of all villages in Myanmar.

Country situation

Myanmar is rich in natural resources and cultural heritage. The country has significant human potential but its developmental potential has been constricted due to inward-looking economic policy, economic distortions caused by excessive government interventions, and weak administrative governance compounded by the lack of progress in political governance since the suppression of the democratic process that was initiated in 1988. The country has thus remained isolated from the opportunities created by the globalisation process and most importantly the potential economic opportunities available within the framework of the ASEAN (Association of South-east Asian Nations). As a result, Myanmar's development outcome has been stunted, with the exception of the brief period of economic growth the country experienced in the latter part of the 1990s. Myanmar's economy is identified amongst the Least Developed Countries and the country's poverty situation has worsened in recent years. In the year 2002 Myanmar was ranked 125 among 174 countries in the Human Development Index. The economy remains basically agrarian, with approximately 75% of a total population of some 50 million residing in rural areas.

Paucity of reliable socio-economic data does not support a comprehensive analysis of the poverty situation in Myanmar. In particular, there is almost no reliable and consistent information on trends. The last published Household Income and Expenditure Survey (HIES) appeared in 1997 and a new HIES has been completed recently but the results will not be available until 2004. Japan International Cooperation Agency (JICA) and UN Agencies have undertaken small surveys as part of their assistance programmes in health, education and infrastructure. These data and information along with the 1997 HIES provide an overall perspective of the poverty situation in Myanmar.⁴⁵

⁴⁴ As noted in Section 3, HDI-4 consolidates the efforts made in the previous phases largely implemented through sectoral projects. The strategy adopted in HDI-4 is based on the success of the CDRT multi-sectoral programme approach to supporting community development at the village level.

⁴⁵ This section is drawn from the author's recent work in Myanmar undertaken in association with Robert Shaw. Reference: Report on the "Independent Assessment Mission of UNDP Human Development Initiative in Myanmar, 11-31st August 2003."

More than a quarter of the population live in severe poverty. Urban poverty may have risen in recent years due mainly to the high inflation rate (currently estimated to be running over 40 percent per annum), the banking crisis of early 2003 and the recent (July 2003) economic sanctions by the United States that have already impacted adversely of labour-intensive export based industries especially ready-made garments.⁴⁶ However, the largest number of acutely poor people is still situated in the rural areas. The Independent Assessment Report of UNDP's HDI (August 2003) depicted a profile of rural poverty in Myanmar. Rural Myanmar cannot in general be characterised as a subsistence economy, i.e. with the majority of farmers growing cereals and other crops principally for their own consumption. Most rural households have a strong preference for rice as the staple food even in rice-deficit areas. The rural economy is highly monetised with a considerable degree of specialisation, even among very small farmers, on cash crops that can be sold to buy rice and other essentials. A large proportion of the rural population depends on casual labour to survive, earning usually meagre wages. Those who can find work as casual labourer earn between 25 to 60 US cents per day, while the small marginal farmers are able to earn a slightly higher income.

Chronic malnutrition rates are relatively high, affecting perhaps two out of five children in many rural areas. Primary schools are spread widely throughout the country so that physical access is possible for most children. However, education costs money even for the poorest of the poor who are often not able to keep their children at school beyond standard 3. Only a very small percentage of secondary school-going children can afford to attend standard 5 and above because of the physical distance and rising cost. The overall quality of education in rural Myanmar is poor.

The health status of the rural population has been negatively affected by the lack of budget support for rural health facilities. The budget of the UN system and international NGOs can provide only a very small proportion of the health support needs. The international agencies do not always have access to certain areas in rural Myanmar where the need for health and nutrition support is urgent. Today, less than half of the rural population have access to safe water or proper sanitation; malaria is rampant and is the single leading cause of mortality and morbidity; tuberculosis is also widespread; and the spread of HIV infection and the increasing number of persons living with HIV/AIDS is of serious national concern.

In socio-economic terms the rural poor can be placed in the following four broad categories:⁴⁷

- i. A small proportion of destitute families with almost no asset or skills; a majority of rural widows; families in which the male has been injured; the growing number of people living with AIDS, and HIV/AIDS-affected families (namely orphans and widows). They survive on traditional support systems in the villages, but they remain most vulnerable because they are still unable to receive adequate health care and nutrition support.
- ii. The landless who often represent 30 to 40% of the rural population and who subsist primarily on casual daily labour. They tend to work at a variety of different tasks depending

⁴⁶ Field observations in August 2003 informed that as many as 40 export-oriented ready-made garments manufacturing had closed down due the economic sanctions.

⁴⁷ Shaw, Robert and M Shafiqur Rahman, August 2003. Report on the "Independent Assessment Mission of UNDP Human Development Initiative in Myanmar", 11-31st August 2003.

on demand and availability of local resources (e.g. collecting firewood and fodder, planting and harvesting, carrying construction materials, etc.). The landless are particularly affected by seasonal cropping pattern: in periods of low demand for casual labour, the landless generally have to resort to consumption loans from moneylenders or to the widespread practice of seasonal migration. The landless have few assets and almost no capacity for investment. They often remain indebted.

iii. Small and marginal farmers constitute the majority of the households in a village. They possess relatively good farming skills, but their income earning capacity is constrained by lack of access to credit, agricultural inputs, technology, market, infrastructure, environment conservation measures.

iv. The relatively larger farmers and occasional traders and skilled artisans comprise the fourth group among the rural poor. The households in this group generally have adequate food and income security, but they are still poor in terms of relative income levels, access to health care and education in the villages, and insulation from mainstream economic development.

The HDI projects appear to have been targeted at categories ii. and iii. above. As analysed in Section 5 below, the poor including the hardcore poor in category ii. above, have been reached most effectively through the formation of self-reliance groups (SRGs), while the sectoral projects have benefited the relatively elite and small/marginal farmers. None of these approaches however have been able to help the destitute.

UNDP programme strategy

UNDP programme strategy for each of the four phases of the HDI has been developed within the scope provided for in the mandate derived from the GC/EB decisions. The HDI projects have thus concentrated on activities that are at the grassroots, village level designed to impact on communities, households and the poor. Below is a description of the substantive strategy of the four HDI phases and the implementation arrangements adopted for the HDI projects.

3.1 Substantive strategy

The HDI intervention strategy evolved with modifications in response to initial circumstances, and development and experience gained from the implementation of the various projects since 1994. The overall programme strategy is anchored at mobilisation and promotion of community organisations for self-help and village development through mutli-sectoral activities. Based on a targeting approach to reach the poor and, where possible, the hardcore poor, the HDI programme has supported the formation of various forms of community organisations around user groups for economic activities, social development groups, self-help groups, and savings and credit groups. The programme encouraged and supported utilisation of traditional community strength around social and village governance activities, while these community organisations have also been given additional support and knowledge on best practices of community management systems that facilitated members to better articulate their household and community needs, resource mobilisation, and implementation. Social mobilisation

and empowerment of communities through learning formed a key strategic consideration for all forms of technical, financial (grant and credit), material and capacity building support for the community organisations and their members.

Under HDI-1, UNDP support comprised sectoral projects for agriculture and food security, small infrastructures and basic social services including support for water and sanitation and education. Additionally, Quick Impact Projects (QUIPS) were pursued to meet the immediate and urgent needs of the poor in the north eastern and northern states. In the subsequent phase, the QUIPS were abandoned and a more strategic programming approach involving the patient task of community development was initiated in 1996 under HDI-2. This strategy was followed through in HDI-3 with additional geographical coverage. The projects in the first three phases of the HDI were largely sectoral in approach, delivering assistance in health, education, water supply and sanitation, community management of forest resources and environmental regeneration, income-generating activities including financing through community-managed revolving funds. All of these project activities have been undertaken by members of the community organisations that formed the social capital base in the villages covered by the HDI programme. The sectoral approach was abandoned in the formulation of the HDI-4. Two of the six projects of HDI-4, taking up 64 percent of the budget, are exclusively focused on community empowerment and building of local governance capability.⁴⁸ The other two inter-sectoral projects are HIV/AIDS and Micro-finance (assuming 21% of the HDI-4 budget). The remainder two, receiving 15% of the current programme budget, are designed to provide data and analytical information for policy and programming – viz. the agricultural survey and assessment of household living conditions.

The micro-finance project of the HDI adopted from the beginning a more institutionalised approach to meeting the credit needs of the poor. The project intervention, delivered through three international NGOs (INGOs), and a private consulting firm replacing one INGO from the early part of 2003, is relatively well structured and operationally sustainable. The introduction of micro-finance can be seen as contributing to financial intermediation at the village level.

Only three projects are being implemented at the national level. The HIV/AIDS programme activities are implemented across the country, concentrated in areas where the HIV infection and the spread of HIV/AIDS is high. However, the project places considerable emphasis on community support and use of community based organisations and village volunteers for awareness building, home and community based care and support, and augmenting capacities of village health centres/clinics. Since HIV/AIDS poses serious threat at the countrywide and cross-border level, UNDP support is also provided at the national level in influencing and strengthening policy and programmatic capacity of the government programme implemented through the National AIDS Programme (NAP). UNDP's HIV/AIDS project is an integral part of the Joint Programme formulated through a coordinated participation of all UN agencies having programmes in Myanmar, INGOs, bilateral donors and the government's NAP.

The other two projects at the national level implemented under HDI-4 are designed to generate structured data and information through extensive field surveys on the agricultural

⁴⁸ The projects are (a) the Community Development in the Remote Townships (CDRT), implemented since 1996 in Rakhine, Chin and Kachin states, and (b) the Integrated Community Development Project (ICDP), a new project that has consolidated the earlier sectoral project activities and integrated within the inter-sectoral strategy of the project.

sector and living conditions at the household level especially the of the poor. The outputs of this work would support policy analysis and programme/project design.

While recognising the critical importance of policy and regulatory measures that are needed to have sustainable impact of its community based human development projects, UNDP is unable to work upstream. However, government officials have encountered UNDP projects at the village level and many appreciated the effectiveness of the development models and strategies pursued through the HDI projects. Such visits together with reading of project reports and papers have influenced the “thought-process” of government officers at the technical level. The impact on policy is however constricted by lack of access to decision-making level in the government. Issues of policy imperatives are discussed in Section 10 below.

UNDP programme strategy has entailed experimentation and innovation involving direct support to communities without any linkage with government programmes or local government structures. In most instances, UNDP is also the sole provider of humanitarian and development assistance at the grassroots, village community level. Without other partners in such development effort, it is difficult to achieve sustainable outcome or impact especially with the limited budget available to UNDP for the colossal human development needs of the poor. In order to minimise the risk of its intervention programme, UNDP has focused its assistance to a limited geographical area while continuing to attempt at seeking opportunity to penetrate other areas. Thus UNDP’s programme activities are now concentrated in 24 Townships covering 3,900 villages, reaching about 5% of the country’s total population of about 50 million. The effects and impact of these interventions are described in the following sections of this report.

3.2 Implementation arrangements

Except for the new ICDP project, all HDI projects are executed by UN agencies which have the relevant sectoral/thematic expertise and programme mandate. These UN executing agencies have in-country presence. Those not present in Myanmar manage their projects through in-country full-time project or agency project managers. The UNDP country office has generally assisted the Agencies with administrative and programme support as well as provided substantive oversight and monitoring of the projects. The ICDP project is directly executed by UNDP, requiring the organisation to build up a programme management capacity at both Yangon and field level.

For downstream, operational activities the UN agencies have used nationally recruited project personnel, international NGOs, private sector consulting firms, national NGOs and community-based organisations (CBOs). These implementing agents have also been encouraged to utilise the services of volunteers and individuals having background, commitment and relevant expertise. The village community workers and volunteers have collectively formed a significant human capital base for the village level, grassroots project activities under the HDI programme. Accountability of project performance including the judicious use of UNDP resources have been ensured through a system of decentralised accountability and reporting arrangements. The executing agencies (e.g. UN Office for Project Services, Food and Agricultural Organisation) are accountable to UNDP, while the implementing agencies including NGOs, CBOs, private sector firms, individuals including volunteers are responsible to the executing agencies. Monitoring,

assessments and evaluations, as well as project management meetings have been used as mechanisms for assessing progress, accountability and impact of the programme.

Targeting -- to reach the poorest of the poor!

UNDP started its programme activities in 1994 with meagre data and information on poverty, profile of the poor in the rural areas, and their human development conditions in the villages they live in. Thus the programme management had the daunting task of developing strategies for reaching the poor, particularly the hardcore poor identified in villages. Having successfully profiling the poor in terms of destitute (asset less, orphans and widows), landless, and small and marginal farmers, the challenge for UNDP has been to reach these target groups without working through the government administrative set-up that itself is weak in providing support to the target groups. Physical inaccessibility due to rough terrain, remoteness of villages, lack of access roads, swamps and many paths which are negotiable only during the dry season place severe constraints on attempting to reach the hardcore poor. In Myanmar remoteness intensifies poverty; therefore, the challenge for UNDP has been to find ways for secured access to remote areas, especially in the hilly and mountainous border areas of the Shan, Chin, Kachin and Rakhine States.

In planning its assistance programme with limited resources, UNDP identified target areas by first selecting the Townships within the six regions – the Delta, Shan State, Dry Zone and the eastern Rakhine, Kachin and Chin State. Later efforts have been made to find opportunity to access the remote areas of northern Rakhine where poverty is reported to be most acute.

The first step in the exercise entailed poverty mapping and integrated village-level planning. Beginning at the Township level, the planning process involved mapping of all village tracts and identification of clusters of poorest village tracts within each Township. The next step involved the use of PRA techniques to identify and rank poverty conditions in the villages selected on the basis of a combination of critical dimensions of poverty, including: the nature and level of access (or lack of them) to basic health and education services, safe water, credit; and food security and dependence on natural/environmental resources for primary needs; remoteness of location and more difficult access to institutional credit sources. In villages selected by these poverty criteria, village maps describing land use and areas of opportunity were prepared. This methodology provided the basis for selecting the poorest of the poor villages but the identification of actual beneficiaries of assistance involved a more elaborate process of community participation through formation of community organisations representing user groups, income generating groups, self reliance (affinity) groups and micro-finance groups. Clearly, reaching the target groups – the hardcore poor – has depended on the effectiveness of community organisations. These are discussed in the section below.

It has not been possible to reach the hardcore poor in all areas where HDI projects have been implemented. Furthermore, the poorest of the poor could not be systematically covered under the HDI micro-finance project operating in three regions – the Delta, Shan State and Dry Zone. The

poor living in remote villages having scarce resources and meagre income earning opportunities are unable to meet the borrowing criteria (viz. repayment capacity) for the micro-finance. Thus, the micro-finance operations have been concentrated in villages which are comparatively easier to assess, closer to market, have reasonable population density, and are relatively resource endowed for supporting a reasonable level of economic activities. Where micro-finance operation could not be feasibly carried out, the HDI has attempted to provide funds for the communities to manage and allocate to the members (e.g. CDRT, income generating activities implemented through the sectoral projects, and more recently the ICDP).

In the target villages, the HDI projects have given special emphasis on women. Income generating project activities have supported women who represent the households in affinity or economic groups. Women are also the direct beneficiaries of projects that have supported health and nutrition and non-formal education, and credit provided through micro-finance and community development funds operated by the Self Reliance Groups (SRGs).

Community organisation and village development

The HDI strategy is anchored at community development and empowerment as both institutional mechanism as well as process for improving livelihoods of the poor. Community empowerment has also been seen as a learning process, enabling community members to reflect on the strength of their collective human capacities and to improve their individual wellbeing as well as community and village development. The HDI programme experience has further demonstrated that community development is a key to building social capital and local governance at the village level.

Despite a strong tradition of community self-help and of providing assistance to the disadvantaged, there is a tendency for the leadership of rural communities in Myanmar to be directive and exclusive. Exclusion of women, the poor and landless, and other disadvantaged groups and individuals from the decision-making process is often the norm. The HDI made a major contribution to assisting the village population to enhance their community-based village level activities. New knowledge and best practices of community organisations have been introduced in the HDI villages. While approaches to community organisation and member participation modality varied as different projects pursued different programme objectives, the general theme has been to encourage the village population to build on their traditional community organisations. The HDI has made conscious effort to encourage and counsel the poor to take active participation in their respective community organisations. Using PRA techniques, the individual, household and community needs have been identified. At the village wide level, Village Development Committees (especially in the Delta), Parents Teachers Association and similar other user groups have been involved in identification and prioritisation of projects that cut across community needs. Such projects include education, water and sanitation, footpaths, rural roads, getties, etc. Additionally, community based organisations (CBOs) created by the sectoral projects in the previous HDIs (e.g. Food Security Project) have undertaken projects including administration of revolving funds at the village level, while ensuring allocation to community organisations based on demand-driven micro-income earning and sustainable livelihood activities.

Through the HDI support projects three types of community organisations have evolved, namely: the self-reliance groups (SRGs)⁴⁹ mainly active under the CDRT project in Chin, Kachin and Rakhine states; user groups and income earning groups under the sectoral projects in the Shan, Delta and Dry Zone;⁵⁰ and peer groups for participation in the micro-finance project implemented in the above three zones.

Field visit, project monitoring and the annual assessment reports inform that the SRGs are highly focused on the hardcore poor. These are affinity groups and the members (15-20 women in each SRG) are largely landless, asset less and very poor. Their homogenous backgrounds make the SRGs more cohesive and sustainable. The SRG approach has been highly successful in the CDRT areas in promoting empowerment of the poor and income and gender equity. Their needs, reflected in the community action plans, are primarily for supporting livelihood opportunities such as livestock raising and breeding, farm feed, homestead gardening, village shops, trading, village transport service, and similar micro/small scale income earning activities. With savings and injection of funds from the UNDP project, the SRG members have skilfully managed the financial resources. They have successfully managed credit operation, and applied flexibility to lending to their own group members. Repayment periods varied from three months to one year, while the interest rates have ranged from 50 to 60% per annum compared to the rate of more than 120% per annum charged by the traditional village moneylenders or traders. The capacity of credit utilisation of the SRG members has grown considerably in a short period of five years. Members are now able to borrow five times more and are able to pay back with interest. The SRG however faces a number of challenges in the future, viz. issues of graduation and aggregation to enable the members to participate in the wider village economy and beyond their communities. These are issued discussed in Section 9: Sustainability.

The HDI sectoral projects had induced the formation of user groups and income earning groups. Groups formed at the village level including water and sanitation (WATSAN), essential drugs management, PTA, youth group, etc. have identified and undertaken priority projects at the village level. Members from across village socio-economic levels and community organisations have normally provided participation in these groups. Variants of village level groups/forums have been effective in securing commitment of village communities and individual households to contribute to repair and maintenance of these social infrastructure projects. In many villages, members of the group or forum have generally agreed on household's ability to pay; hence, the hardcore poor have been exempted from making payment for repair and maintenance of such social infrastructures although they may provide in-kind labour as their individual/household contribution. Similarly, at the village level there has been greater understanding of the need to help the poorest households/families who do not have the money to send their children to primary school or meet basic health and nutrition needs.

The food security projects, which ended in February 2002, promoted the formation of income-generating groups for allocation of resources at both village and community levels. These groups were identified and formed on the basis of livelihood needs using the PRA process. Thus groups such as Farmer Income Generation Group (FIGG), Livestock Income Generating Group, Women Income Generating Group and other similar groups were formed. Generally the

⁴⁹ The SRG model was introduced in 1998 by MYRADA, an NGO based in southern India.

⁵⁰ The SRG concept also underpins the intervention strategy of the new ICDP project being implemented under HDI-4.

more educated persons assumed leadership and management role in these groups while the HDI project staff made efforts to ensure that the poor were adequately represented and that their needs were addressed. These groups received grant that revolved under the management of the groups for meeting the input and fund requirement of the group members for their livelihood activities. In some areas funds for revolving credit were given to committees at the village level for achieving scale-economy in management. But their actual allocations were made to members of community groups in the village. The committees at the village level maintained the books of accounts of the revolving funds. In other areas, the sectoral project management staff disbursed the funds directly to community organisations and their members managed the funds for their income generating activities. The HDI in the past also supported income-generating activities under the primary education project. Here the school PTA supervised the operation to provide opportunity to the poor, who could not meet the educational expenses of their children, to engage in off-farm and on-farm income generating activities.

Generally, these project interventions led to increased level of economic and social activities in the villages covered under the HDI programme. The overall well-being of the beneficiaries improved while there has also been village-wide development in an entire range of social and economic sphere. However, the benefits had not always been equitably derived by the households and community groups. For instance, given the purpose of the FIGGs, the revolving funds allocated to these groups benefited those having agricultural land. Assessment Reports and field monitoring visits by project staff have reported of the numerous instances in which project benefits accrued mainly to the village elite and/or to committee members, while the main target group did not benefit proportionately and might not have felt adequately motivated to maintain the activities. However, the funds allocated to WIGGs and income-generating activities under primary education largely empowered the poorer economically.

UNDP itself had apprehended that the cohesiveness of these income-generating groups would become inoperative and loose their organisational dynamics once funding and close supervision by project staff would cease. Indeed, within a year of closure of these sectoral projects in March 2002 some 60% of these groups have either become inactive or ceased to exist. There is also no clarity of understanding as to the status of the revolving funds and how they are being used. UNDP has recently engaged an audit firm to carry out a comprehensive audit of these revolving funds and activity status of the groups.

Recognising the narrow economic deterministic objective of the income generating groups, and the relatively high unit cost of sectoral projects accompanied by the problem of forging inter-project coordination, UNDP in its current HDI phase (HDI-4) has abandoned the seven sectoral projects and instead launched the new inter-sectoral project, Integrated Community Development Project (ICDP) that started operation effectively in March 2003. The ICDP strategy builds on the successful SRG model applied in the CDRT project. The ICDP, which plans to operate in the same villages that had earlier received support through the sectoral projects, has adopted a careful approach to social mobilisation taking into account the community development support extended under previous phases of the HDI and the traditional social organisations in the villages. The ICDP is now challenged with the task of introducing the SRG concept in villages where the poor (i.e. the target groups) had earlier associated and worked with different types of group dynamics. Thus the intervention should follow a gentle, patient approach to coaching and supporting the poor to consolidate their collective strength into SRGs.

Community organisations or groups should in principle be able to exercise greater accountability with some degree of organisation stability as discussed in Section 9 below.

Micro-finance and economic empowerment

As part of the HDI strategy for an attack on poverty in the rural areas, UNDP introduced micro-finance in 1997 in three regions: the Delta, Shan State and Dry Zone. Three international NGOs were contracted through UNOPS to implement the three micro-finance sub-projects.⁵¹ Following decision not to renew its contract, the NGO in Delta was replaced by a private sector firm based in India having experience in rural development. Presently, the micro-finance project operation is meeting the credit needs of the rural poor in 1,700 villages. UNDP is perhaps the first international development organisation that has successfully promoted micro-finance operation on a large scale in Myanmar.

As noted in Section 4 above, the hardcore poor could not always benefit from the Micro-finance project due to the lending criteria and the need to operate in locations where the credit demand pattern would make the project operationally and financially viable. Yet, to a large measure the Micro-finance project has provided improved livelihood opportunities for the more than 130,000 borrowers, of whom over 95% are women. For those who had earlier borrowed from village money lenders and traders, are now able to relieve themselves from indebtedness to money lenders who charge exorbitant rates in the range of 70% to 240% per annum. In comparison, the Micro-finance project charges an average effective interest rate of 38% to 40% per annum. In recent months the average real interest rate of the micro-finance operation may have reached a negative level due to inflation of 40 to 50% per annum.

Borrowers of the micro-credit have used the funds for seasonal consumption (in Shan state), homestead gardening, agriculture, seed, fertiliser and pesticides, small investments in livestock and fisheries, treatment for ill health and injury, rural transportation such as carts and small boats, working capital in small training business, and micro-enterprises. Although a comprehensive socio-economic impact study has not yet been undertaken, it is clear from the structure of loan portfolio that the three Micro-finance sub-projects have made a significant contribution to socio-economic development in the villages, especially for women. The group-lending concept of micro-finance has helped to strengthen community management among the village population. The programme has empowered women and improved their social status in the village community: men and elders are unequivocal about the ability of Myanmar women to manage household finances and livelihood investments.

All three sub-projects have registered consistent growth through reinvestment of retained earnings. Annex 4 shows that the projects are operationally self-sufficient and financially sustainable. Their long-term financial sustainability is however being undermined by the recent trend in the inflation rates as noted above. The demand for micro-credit in the HDI programme areas far exceeds the available supply, while the project's funding base is not adequate to expand

⁵¹ The sub-project in Delta was contracted to Grameen Trust (an NGO based in Bangladesh). Following completion of its contract, the Grameen's work was taken over by an Indian private sector firm EDA Rural Systems (Pvt) Ltd. (as from March 2003). The micro-finance operation in Shan State is implemented by GRET (a French NGO), and the one in Dry Zone is implemented by a US based NGO, PACT.

its credit operation. In two of the three sub-projects, the funding base is just about the size of the total loan outstanding, implying that the growth in volume of its loan portfolio cannot be more than the increase in its retained earnings (derived from operating profits). UNDP has approved an additional capital injection of \$200,000 under HDI-4 for each the three sub-projects, but the amount will permit only limited growth in the real value of the loan portfolio. The recent collapse of the banking system and limited funds from the international community offer little hope for an expanded operation of the micro-finance programme. The intervention is dependent on the UNDP project framework. Neither the commercial banking law nor the cooperative legal framework offers adequate policy and regulatory instruments for the institutionalised operation of micro-finance in Myanmar. Without an institutional framework any major expansion of the UNDP micro-finance programme would be risky, especially in the event of a decline or withdrawal of UNDP support to the programme in an economy where inflation is high and the banking system is fragile and undeveloped.

In programming terms the HDI needs to develop a strategy for harmonising the lending schemes of SRGs and the Micro-finance project. The SRGs have proven to be effective in meeting the credit needs of the hardcore poor. SRG loans are generally more flexible than in the Micro-finance project, with interest rates and repayment dates being set by the group members themselves. Over time SRG members would be expected to develop their capacity to place demand for relatively larger loan amounts that can be obtained from the Micro-finance project. The two project interventions may thus operate in the same village but having two sets of target groups. The projects must however be prepared to respond to the dynamics of the SRGs; they must cooperate, share knowledge and information, and work together to help the SRG members to graduate and move on to higher levels of economic activities.

Cost effectiveness

The issue of cost-effectiveness and accountability is an important dimension of the UNDP HDI programme in Myanmar. UNDP has been addressing this issue from the inception of the HDI by trying to find innovative ways of drawing participation of implementing partners. The combination of substantially reduced budgets in HDI-4 (compared to earlier phases) and a more integrated approach to programming has drawn attention to the cost-effectiveness of programme implementation. Currently, both CDRT and ICDP have an effective package of interventions at a cost in the range of US\$5,000 to US\$7,000 per new village, depending on the size and situation of the village. The allocation per new village is less than half that prevailing in earlier HDI phases. This has placed additional pressure on project management to reduce project intervention cost by economising on project overheads such as using existing buildings and monasteries for project office or management activities, while in the past new premises were constructed for such purposes. There is no data on the actual expenditure or investment cost per head in the villages of HDI programme activities. Rough estimates point at a per capita cost of US\$10 for a broad package of investment in human wellbeing. The costs of providing such a package to the great majority of the approximately 35 million rural people in Myanmar would be far beyond the current capacity of the country's resources.

Programme budget effectiveness has also been addressed through the consolidation of the seven sectoral projects into one integrated framework of the ICDP project. It has contributed to a

significant reduction in project management cost (by not having to incur management cost of multiple sectoral projects), field office management including travel and other logistics, elimination of duplication of project activities in a village, and economy in project monitoring and reporting.

The HDI has been successful in reducing project budget cost through strategic use of project personnel as well. The unit cost of project personnel has been reduced largely through re-engineering budgets using more local expertise and village volunteers. This has had the added impact on national capacity utilisation. Similar attempt at reducing the international personnel cost of a micro-finance sub-project demonstrated that without undermining project implementation progress about 70% of the budget component could be saved. In this particular case (of the Micro-finance sub-project in the Delta), the modality of technical assistance (TA) has been modified to mobilise an external (international) institution to provide input in strategic areas using coaching and advisory method with periodic country visits rather than full-time in-country presence of international experts. Besides achieving a reduction in project cost, the TA modality has made a profound impact on national capacity building where national experts have been challenged to perform higher-level decision-making and project leadership and management functions.

Along similar lines, the induction of young, dedicated village volunteers – both men and women – in the community development programmes is an innovative way of building capacity of local human resources as well as instituting a human capital base for sustaining village level interventions. The volunteers constitute a major force for tomorrow's human development programme at the national level in Myanmar.

Empowerment and equity

The hundreds of community volunteers who have received training and support from the HDI projects are providing dedicated support in the areas of health and nutrition, HIV/AIDS, community formation, social mobilisation, micro-credit operation and resource management. The philosophy of the HDI programme and its outreaching strategy to reach the truly poor has been the source of inspiration for the volunteers. Their technical know-how, experience, commitment and village-wide presence form a major source of social and human capital for the country. Similarly, a large number of nationals have benefited from training and exposure to work on programmes/projects that have offered new knowledge, concepts and strategies. Their collective effort has been extended to empower the many hundreds of women and men who have participated in the various projects as both members and beneficiaries. Women in particular have been empowered and new forms of social relations have evidently emerged in the many villages where the HDI programme activities have been carried out. For instance, men now have greater appreciation of the capacity and strategic role of women in managing community and household finance.

Building on local traditions and values, the HDI projects have further nurtured community values. Thus, for instance, meetings and discussions among members of community organisations have made the village population aware of the strength of collective effort, strategies for resource planning and development prioritisation, the need to assist the weak and

the hardcore poor with health and education support, and similar community and societal development issues.

The SRGs and micro-finance groups have instilled confidence among the poor who in the past did not have similar opportunities to secure social and economic empowerment. The process has been a learning experience for the poor who are now evidently aware of their potential and the opportunities available for improving their livelihoods. With greater access to education and literacy programme they should be able to participate more actively in community management and village governance.

These outcomes are a result of both the underlying conceptual framework and substantive strategies of the HDI programme and its constituent projects, as well as the effective targeting methodology and implementation strategies of the projects. However, much work is needed in sustaining these impacts and eventually institutionalising the programme interventions as analysed below.

Sustainability

Sustainability of UNDP support may be assessed in terms of (a) the capacity of the assisted communities to sustain their organisations, (b) assurance of uninterrupted flow of resources to ensure that the foundation of community organisations is made adequately strong to survive shocks and develop further independently of outside assistance, and (c) supportive legal and policy instruments.

Community development and social capital formation at the grassroots level entail long, patient effort. However, the HDI programme has been implemented in short phases of approximately 30-month period. Further, there was a hiatus in programme activities for almost 12 months before HDI-4 effectively started operation in March 2003. Interventions involving community empowerment and changes in individual and societal attitudinal behaviour such as those required for HIV/AIDS prevention and caring for the affected persons and families necessarily require sustained, long-term support. The interruptions caused by delays in project approvals (through the government administrative process) for each HDI phases have adversely affected the continuity in support required for such project interventions. Considerable time and costs are involved in relocating the trained personnel and in mobilising an entire set of project inputs.

Constricted by the GC/EB mandate, UNDP's HDI project activities have been implemented without a country programme context that can provide the linkage with the national administrative apparatus at the central and local level and most importantly mainstream programme budget. The long-term sustainability of the HDI community development interventions may be at risk particularly if resources available to UNDP for its programme in Myanmar decline substantially as has been the case for the current phase of the HDI.

The programme is also exposed to considerable risk due to lack of funding for sustained development of community organisations as well as micro-finance operation. A total collapse of the country's banking system in 2003 has seriously undermined any linkage of micro-finance with the national banks for access to funding much needed for the growth in financial intermediation performed so effectively in the rural areas by the Micro-finance project. An

earlier hope of linking the community organisations managing revolving funds with the agriculture and other national banks⁵² for sustainable development of the participatory village development efforts has also been frustrated.

Within the UNDP administered programme framework, some degree of institutional sustainability can be ensured if the various project activities under the HDI are linked and made inter-operable at the Township level.⁵³ This inter-project linkage would also facilitate more effective project delivery, particularly for project activities pertaining to support for primary education, primary health care, water and sanitation, HIV/AIDS, re-forestation, and all activities in the Border Areas. At the technical level, technical agencies and personnel in the government such as those from the cooperative department, national agriculture research and extension, and similar relevant government agency workers could be encouraged to visit HDI project locations so they may adopt successful interventions for possible application and replication in non-HDI townships and villages. UNDP has indeed been encouraging the sharing of such experiences with technical personnel of national institutions. The impact of such initiative however depends on the scope and ability of the technical personnel as well as the opportunity available to senior management staff in the government to influence at the higher decision-making level – a process that has thus far not been sufficiently responsive.

Sustainability of community organisations assisted through external support depends on the socio-economic profile of the community members. Section 5 above discussed the cohesiveness of affinity groups and their ability to withstand “shocks” such as a sudden interruption in resource flow. Sustainability of community organisations must also be supported by carefully designed intervention in terms of both volume of resources and the nature of assistance. Many of the pilot initiatives in agriculture, which depended on in-house technical capacity to support communities to implement the activities, were often on a scale beyond the ability of households and community groups to sustain. While this has proved effective in demonstrating innovative technologies, the relatively resource intensive nature of some of the activities has posed questions for sustainability of post-project initiatives by the communities. In some cases, the emphasis on project-induced technologies has supplanted local and indigenous services and technologies.⁵⁴ It is therefore important to build capacities on the local knowledge and resource management processes familiar to the local population.

The programme may establish a system of assessing the maturity and capabilities of community organisations by introducing an Institutional Maturity Index⁵⁵ accompanied by criteria and guidelines for “graduation” of the community organisations. This would indicate the possibility of replicating the HDI supported programme and up-scaling the intervention. The SRG model has demonstrated its effectiveness in empowering the hardcore poor, but as the members build their confidence and meet their basic livelihood needs they would need support to aggregate their organisational effort to participate in activities that go beyond their small group needs. Such activities include small social infrastructures, health and education services, group

⁵² “Micro-finance and Revolving Funds Strategies for HDI Phase 4”, report of the Mission on the Formulation of Micro Finance and Revolving Fund Strategies for the HDI Programme, 30th April to 28th May 2001.

⁵³ This point was emphasised by the members of the Assessment Mission of July 2000, see: “The UNDP Human Development Initiative Myanmar - Report of the Review Mission, 2000 (27th May to 15th July 2000)

⁵⁴ “Programme Formulation Framework – Human Development Initiative Phase IV, 2002-04, UNDP Myanmar”, an internal UNDP note prepared by Mr Tin Aung Cho, UNDP Yangon, June 2001.

⁵⁵ Such as the system evolved by the Aga Khan Rural Support Programme in Pakistan.

marketing effort, a broader community base for managing environmental degradation, transport services, and similar activities. These are challenges that the new ICDP project must address.

A number of community organisations under the HDI programme are beginning to reach a stage where they would have the capacity to enter into economic relationship with the more dynamic local and regional markets and the mainstream economy. This is a stage where their graduation can be supported by locally available support systems augmented by technical assistance and extension, support for technology transfer and dissemination, enhanced level of credit, rural micro-enterprise development, market access, and institutional development. The latter is critical if the community organisations must have the legal status to enter into contractual relationships with the wider rural economy, e.g. suppliers and traders, the financial system, etc. Clearly this stage of development is not realisable at the present time due to the weak legal framework and supportive policies and government administrative machinery.

Policy imperatives

Lessons of community development for empowering the poor have demonstrated the critical importance of the enabling policy environment that must reinforce the downstream efforts. These initiatives must be supported by adequate macroeconomic and sectoral policies and incentive measures, legal and regulatory frameworks, national programmes and related development budgetary resources. None of these are adequately supported presently by government policies and strategies, although there have been partial efforts to address sectoral issues such as the agricultural procurement policy that had until recently usurped rural produce for filling in government administered “stocks” at prices below cost of production with the resulting impoverishment of many farmers. Agricultural activity thus declined and the landless also lost job opportunities. Similarly, the government’s inability to contain inflation (currently running over 40% per annum) has undermined the gains achieved from HDI in improving livelihoods of the local population in the villages covered by the programme. Even the Micro-finance project comes under threat as price inflation erodes the project’s capital base.

UNDP through its HDI programme has responded to these threats by exercising considerable resilience and ensuring continued support for the grassroots interventions while at the same time seeking opportunities for influencing policy on politically neutral issues. Government technical departmental officers who paid visits to the various project sites have been exposed to the effectiveness of a number of interventions. In some cases the officers have adopted these strategies in their national programme. For example, government has adopted in its national programme the HDI administered community forestry strategy in improving sustainable livelihoods. The National AIDS Programme (NAP) has been responsive to the data and information on the spread of HIV infection in the country made available from the UNDP supported HIV/AIDS programme. The NAP now benefits from UNDP support for safe blood screening and ethical use of HIV/AIDS test kits. Using the results of the Agricultural Sector Review and Integrated Living Conditions Assessment being implemented under the current phase of the HDI, UNDP and the UN Agencies should have an opportunity to sensitise

government on poverty issues and living conditions of the poor as well as the strategic issues pertaining to the agricultural sector.

There are indeed opportunities for engaging in policy consultation with the government. Additionally, UNDP may share more widely the data, information and knowledge generated from the HDI projects with other UN Agencies, bilateral donors, diplomatic missions having presence in Yangon and NGOs having programmes in the country. For this UNDP would need to make greater effort in organising a system of transforming the data and information into knowledge amenable to policy analysis and programme strategy articulation. In this regard, the Monitoring and Evaluation (M&E) system being developed under the HDI-4 can be used for learning and generating information for policy analysis. For instance, project monitoring and reporting activities of the various projects generate important socio-economic data (e.g. price index, poverty profile at the village level, income trends, wealth ranking, agricultural production, community organisational issues, etc.). Much of this information is retained within the individual project domain. There is also much information and knowledge residing in the heads of staff engaged in project implementation at both the field and management levels. A system can be developed to capture the wealth of data and information and subsequently stored in a structured, codified knowledge base that can be easily accessible to staff across the programme, as well as to other partners and professionals interested in learning from the HDI experience. The exercise may form an integral part of the M&E system at the programme level. UNDP may also integrate Process Monitoring in its M&E to provide the basis for assessing the decision-making dynamics of communities and the effectiveness of communities in sustaining their development activities. At the present time, for example, it is difficult to find systematic information on the status and effectiveness of the many income-generating groups and associated revolving funds that were established under earlier HDI phases. Lessons learned from process monitoring would help to improve the strategies for community organisation and mobilisation in the interest of even greater empowerment and equity.⁵⁶

UNDP's Policy and Programme unit (in Yangon) may coordinate the information and knowledge management function. Additionally, the unit with additional expertise/manpower may perform analytical work producing issues related papers and briefs that can contribute to actionable knowledge for programme and project formulation and policy analysis. UNDP along with other UN Agencies and donor partners may organise workshops, briefing sessions, forums and seminars on issues that are likely to have an impact on the rural and urban poor and where development agencies would benefit from donor and programme coordination. Government participation in these events and process consultations would be critical.

Conclusions

This paper has depicted a unique pattern of official development assistance extended by UNDP in Myanmar. Constricted by its Executive Board decisions of working only at the grassroots level, UNDP has since 1994 through its Human Development Initiative in Myanmar innovated development assistance programming and implementation modalities to assist the

⁵⁶ The HDI Myanmar Assessment Mission of August 2003 also underscored the importance of M&E with learning and its contribution to policy analysis and programme/project formulation.

hardcore poor at the grassroots level without having to work with any of the government administrative structures at either the central or local level. However, the HDI programme and each of its constituent projects have received endorsement of the government sometimes through lengthy dialogue because of the underlying implementation arrangements of the projects.

The vastness of the country and its varied geographical terrain, compounded by security problems in certain parts of the country at certain times, have posed considerable challenge for UNDP to design and implement assistance activities targeted at reaching the hardcore poor. Additionally, the lack of data and logistical problems of accessing remote villages have severely constrained identification and outreaching to target groups. Despite these problems the UNDP HDI programme has achieved significant results, especially in impacting on increasing livelihood opportunities for the hardcore poor at the village level in the Townships where the programme activities have been implemented since 1994. The programme's core strategy of building social capital at the local, village level through promotion of community organisations has proven to be most effective in supporting capacity development of the poor. Using PRA techniques and social mobilisation efforts, the HDI project personnel have succeeded in mapping poverty at the village level, locating and mobilising the poor especially women and the hardcore poor to form their own social groups through which collective decisions have been made for allocating resources provided by UNDP for livelihood and social infrastructures at the community and household level.

In the early part of the HDI programme, the projects were sectorally based and assistance was delivered through community decision-making at the village level rather than at the community group level. This approach had its inherent problem of inadequacy in inter-project linkages and absence of coherent cross-sectoral activities so critical for meeting livelihood needs of the hardcore poor. These sectoral projects, especially the food security projects, have largely benefited the small and marginal farmers. This was expected since the members of these economic groups were landowners who were thus eligible and capable of utilising the resources made available from the UNDP supported projects. However, projects involving small social infrastructures at the village level benefited the entire village population. The projects were identified effectively by the smaller community groups who in turn made presentation at village level forums and meetings for selection of such projects.

The SRGs have been much more effective in reaching the landless and in empowering them. The SRGs used the resources and support of UNDP productively and equitably, with the resulting impact on improving the livelihood of the hardcore poor. Micro-finance on the other had is appreciably more suitable for those who have the capacity to generate a stream of income from small investments or have the opportunity of employment (even seasonal) in the local economy. These two sets of interventions have reinforced each other to address the poverty needs of the poor including the hardcore poor in rural Myanmar.

The challenge is to institute mechanisms for sustainability of these interventions. The process of social capital formation through community development efforts takes time and thus external support must be continued until such time the community organisations have built up their capacity to withstand “shocks” and integrate with the dynamics of the local economy. Their development and livelihood opportunities of the poor will also require growth of the local economy and support systems that must provide the community group members with access to technical and financial support as well as market opportunities on a sustainable basis. Furthermore, appropriate policies for agriculture and rural economic development are also critical for reinforcing support at the grassroots level. Further upscaling of these efforts will require linkage with government structures at the local level with adequate level of technical and budgets for government supported programmes in such areas as infrastructure, economic, health, education, and other social services. Meanwhile, the support provided by UNDP through its community development programmes at the grassroots level is meeting the basic human development needs of the population being served by the programme. In the process, a wealth of experience and knowledge is being generated which must be captured in the organisation’s knowledge base and utilised for future strategy formulation, dialogue with the government on relevant policy issues, and shared with other development partners for designing pro-poor assistance programmes.

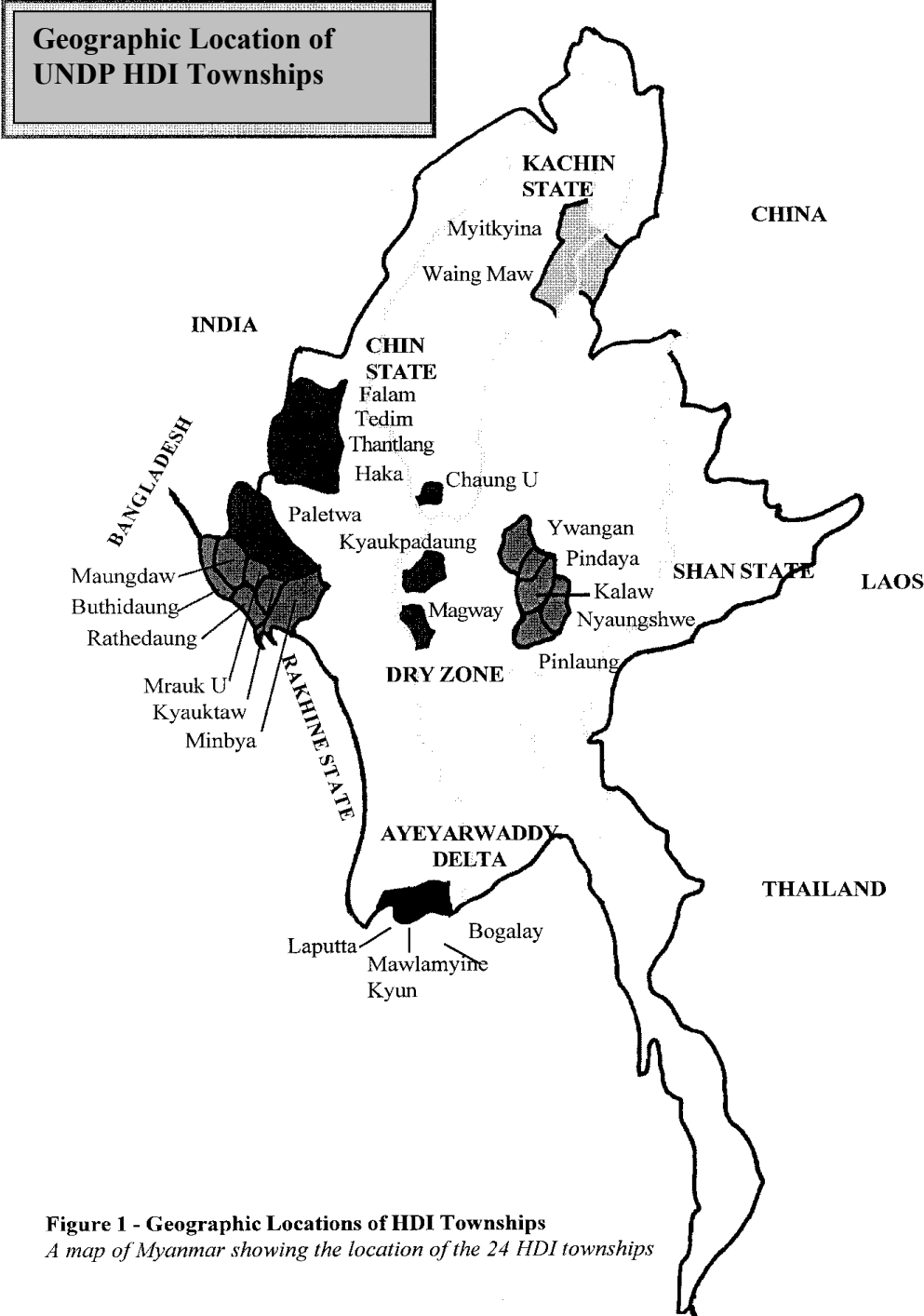


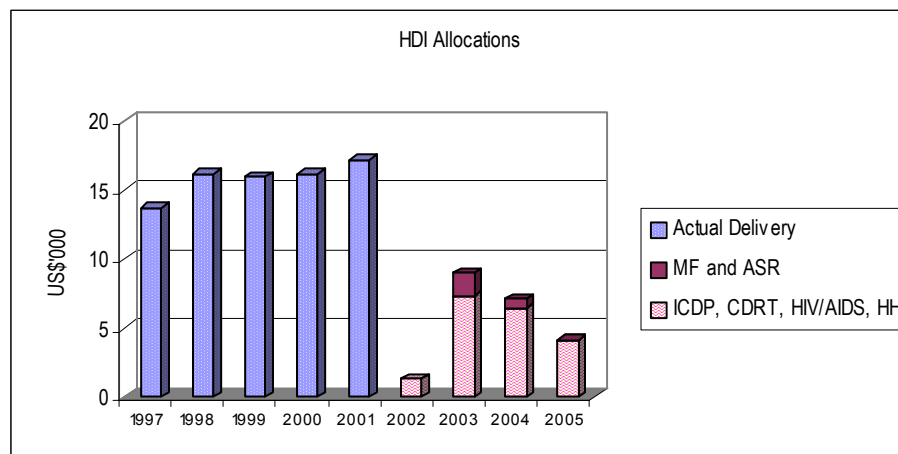
Figure 1 - Geographic Locations of HDI Townships
A map of Myanmar showing the location of the 24 HDI townships

HDI projects by Township and number of villages covered

Townships	HDI-II and HDI-III projects										HDI-IV projects					Total number of villages with HDI interventions	
	Primary Health Care	Water and Sanitation	HIV/AIDS	Primary Education	Micro Finance	Food Security (Dry Zone)	Food Security (Shan)	Food Security (Delta)	CDRT	HDI Support	NRS	ICDP	CDRT	HIV/AIDS	Micro-Finance		Integrated Household Assessment
SHAN																	
Ywangan	X	X		X	X		X			X		X		X			125
Pindaya	X	X		X	X		X			X		X		X			140
Kalaw	X	X		X	X		X			X		X		X			285
Nyaungshwe	X	X		X	X		X			X		X		X			445
Pinlaung	X	X		X	X		X			X		X		X			503
DRY ZONE																	
Chaung-U	X	X		X	X	X				X		X		X			74
Kyaukpadaung	X	X		X	X	X				X		X		X			335
Magway	X	X		X	X	X				X		X		X			210
DELTA																	
Bogalay	X	X		X	X		X		X			X		X			467
Mawlamyaingyun	X	X		X	X		X		X			X		X			499
Laputta	X	X		X	X		X		X			X		X			407
Sub-total																	3,490
RAKHINE																	
Maungdaw								X		X		X					16
Buthidaung								X		X		X					10
Rathedaung								X		X							3
Mrauk-U								X				X					36
Kyauktaw								X				X					43
Minbya								X				X					38
CHIN																	
Falam								X				X					36
Tiddim								X				X					36

Thantlang					X				X					36
Haka					X				X					36
Paletwa					X				X					45
KACHIN														
Myitkyina					X				X					40
Waingmaw					X				X					37
Sub-total													412	
Grand Total													3,902	

The HDI Programme Budget



HDI- IV (2002 - 2005) - Earmarkings		Total	2002 Budget	2003 Budget	2004 Budget	2005 Budget
						1,804,000
1	MYA/01/001 Integrated Community Dev. Proj.	10,000,000	1,800,000	3,261,000	3,135,000	0
2	MYA/01/002 C D R T	5,500,000	1,180,446	2,067,450	1,927,750	324,354
3	MYA/01/003 Enhancing Capacity of HIV/AIDS	2,500,000	518,738	893,552	915,222	172,488
4	MYA/01/004 Micro-Finance	2,500,000	1,006,970	788,920	621,060	83,050
5	MYA/01/005 Integrated Household Assessment	1,700,000	1,048,075	618,749	33,176	
6	MYA/01/009 Support to Civil Society	250,000	76,300	87,100	86,600	
7	MYA/01/008 Agricultural Sector Review	1,800,000	500,000	600,000	700,000	
	Total HDI - IV Earmarkings	24,250,000	6,130,529	8,316,771	7,418,808	2,383,892

Source: UNDP Yangon, Myanmar, September 2003

Operational and Financial Sustainability of the Micro-finance Project

(as at 30th June 2003)

Particular	Delta (Grameen & EDA)	Dry Zone (PACT)	Shan State (GRET)
Operational self-sufficiency $\frac{\text{Operational income (Interest plus Other Income)}}{\text{Operational Expense}} \times 100$	179%	381%	353%
Programme sustainability $\frac{\text{Operational income (Interest plus Other Income)}}{\text{Operational Expense} + \text{Cost of capital}} \times 100$	142%	272%	263%
Short-term financial sustainability $\frac{\text{Operational income (Interest plus Other Income)}}{\text{Operational Expense} + \text{Cost of capital} + \text{Loan loss provision}} \times 100$	139%	254%	261%
Long-term financial sustainability $\frac{\text{Operational income (Interest plus Other Income)}}{\text{Operational Expense} + \text{Cost of capital} + \text{Loan loss provision} + \text{Inflation}} \times 100$	57%	69%	80%

Source: UNDP Yangon, Myanmar, September 2003

AID MANAGEMENT AND ACCOUNTABILITY

I.

AID MANAGEMENT AND ACCOUNTABILITY: SELECTED RECENT DEVELOPMENTS AT THE WORLD BANK

I. INTRODUCTION

On November 6-7, 2003, the Government of Mexico, with support from the United Nations, will host the Fifth Global Forum on Reinventing Government. For the informal Experts Meeting scheduled as part of the Forum, United Nations colleagues requested that the World Bank review recent developments in aid management and accountability, especially those associated with the harmonization agenda. World Bank staff have prepared this paper in response to that request.⁵⁷

Focus of the Paper. The paper does not attempt to speak on behalf of any other multilateral or bilateral development institutions. Rather, it explores recent developments in three key pillars of the World Bank's current operational framework that aim to enhance its aid management and accountability—the focus on the Millennium Development Goals (MDGs), harmonization of aid delivery around improved country priorities, systems and processes, and disclosure of information and engagement with civil society.

Organization of the Paper. Following this introduction, Section II provides a historical perspective on aid and its role that sets the stage for the identification of the key issues of management and accountability. Section III illustrates how the World Bank is addressing these issues, and Section IV examines remaining issues and challenges, and draws conclusions.

II. HISTORICAL PERSPECTIVE

Official development assistance (ODA)⁵⁸ has always been associated with noble objectives—after World War II, financing for reconstruction; beginning in the 1960s, concessional support for improving the standard of living of the newly independent states; in the 1990s, urgent help for

⁵⁷ The views expressed in this paper are those of its authors—Colin Bruce, Shakuntala Gunaratne, and Kathryn Hollifield of the Operations Policy and Country Services Vice Presidency of the World Bank. They gratefully acknowledge the inputs of Kathleen Jordan, Khiba Nteso, and Sheoli Pargal, editing by Henry Chase and Patricia Rogers, and document production by Pauline Chin-Mori, Alloysius Ocheni, and Constance Polite.

⁵⁸ “Official Development Assistance includes all loans and grants provided to countries and territories on Part I of the DAC list of Aid Recipients (developing countries) which are undertaken by the official sector, with promotion of economic development and welfare as the main objective, and at concessional financial terms (if a loan, having a grant element of at least 25 percent). In addition to financial flows, technical cooperation is included in aid. Grants, loans and credits for military purposes are excluded,” from Organization for Economic Co-operation and Development, *The DAC Journal Development Cooperation, 2002 Report*, Volume 4, No. 1, p. 322, 2003.

transitional economies; and more recently, achievement of quantifiable MDGs within a specified timetable.⁵⁹ However, over the decades the focus of official development assistance has evolved.⁶⁰

Evolution. In the 1950s, reflecting the development paradigm’s emphasis on strong GNP growth and the physical sources of that growth, development assistance was provided mainly through investment lending for hardware, engineering, and bricks and mortar projects. In the 1960s and into the early 1970s, policymakers became more aware of the linkages between growth and balance of payments and of the importance of balanced intersectoral growth; and in the 1970s, the international development community began to recognize that growth is often accompanied by uneven distribution of income. The focus on poverty, particularly its human dimensions, has intensified ever since. For example, concerns about social services—such as education, housing, and health—that were prominent in the 1970s were complemented in the late 1980s and 1990s by attention to gender, empowerment, social protection, and so on. At the same time, the development community began attempting to define, assess, quantify, and report poverty indicators for middle- and low-income developing countries. Arguably, it is what these numbers reveal—the relatively slow pace and geographical unevenness of poverty reduction (see Table 1)—that has most stimulated refinements in the development paradigm and efforts to pursue improvements in aid management and accountability.

Table 1. Poverty
(millions with income below \$1 and \$2 per day)

<i>Number of people living below \$1/\$2 per day</i>	<i>1990</i>		<i>2000</i>		<i>Proportion (%)</i>			
					<i>1990</i>		<i>2000</i>	
	<i>\$1</i>	<i>\$2</i>	<i>\$1</i>	<i>\$2</i>	<i>\$1</i>	<i>\$2</i>	<i>\$1</i>	<i>\$2</i>
Developing country groups								
East Asia & Pacific	470	1094	261	873	29.4	68.5	14.5	48.3
excluding China	110	295	57	273	24.1	64.9	10.6	50.8
Europe & Central Asia	6	31	20	101	1.4	6.8	4.2	21.3
Latin America & Caribbean	48	121	56	136	11.0	27.6	10.8	26.3
Middle East & North Africa	5	50	8	72	2.1	21.0	2.8	24.4
South Asia	466	971	432	1,052	41.5	86.3	31.9	77.7
Sub-Saharan Africa	241	386	323	504	47.4	76.0	49.0	76.5
Total	1237	2653	1,100	2,737	28.3	60.8	21.6	53.6
excluding China	877	1854	896	2,138	27.2	57.5	23.3	55.7

Source: The World Bank, 2003.

⁵⁹ In September 2000 at the United Nations (UN) Millennium Summit, 189 Heads of State ratified the Millennium Declaration that outlined their collective commitment to poverty reduction and sustainable development. At the request of the UN General Assembly, the Secretary General subsequently prepared a plan for its implementation and included 8 MDGs, 18 targets, and 48 performance indicators. This MDG framework is the culmination of over a decade of global goal-setting and represents the shared commitment of donor and developing countries to eradicating extreme poverty.

⁶⁰ See, for example, Peter Hjertholm and Howard White, “Foreign Aid in Historical Perspective,” in Finn Tarp, ed., *Foreign Aid and Development: Lessons Learnt and Directions for the Future* (London and New York: Routledge, 2000), p. 81.

Further Conceptual Advances. Increasingly during the 1990s, the development community came to understand that development assistance can be successful in reducing poverty only in countries that have good policies and institutions.⁶¹ In 1997 the Asian financial crisis highlighted the risks of open markets and financial sector deregulation without commensurate institutional capacity (central bank supervisory and monitoring functions). It also became evident—as the benefits from adjustment lending were not shared equally across regions and countries (with a notable lack of lasting impact in Sub-Saharan Africa and countries of the former Soviet Union)—that good policy could not be “bought,” that governments might have been too quick to agree to reforms in exchange for resources, although there was neither ownership nor capacity to implement or to sustain the reforms.⁶² By the end of the 1990s, a more comprehensive development partnership approach emerged that aimed to support developing countries’ efforts to lead their own development processes in the pursuit of poverty reduction and sustainable development.⁶³

Current Synthesis. A broadly accepted synthesis emerged at the beginning of the 21st century: development institutions now understand that the greatest development impact comes from helping clients establish reliable internal systems, rather than imposing external policies and procedures. (This is especially true because external funding often accounts for a relatively small share of central government expenditure—although it is much higher in some countries.⁶⁴ If all government expenditure could become more effective—and not just the portion funded externally—the impact would be much greater.) This evolution in the development paradigm has enhanced the role of activities that build clients’ capacity to develop and maintain healthy policies and robust institutions. It has helped to sharpen the focus on results at the local and country levels, and on greatly enhanced donor collaboration in pursuing such results. It has also led to what World Bank President James Wolfensohn has called the “new multilateralism”⁶⁵—leadership by developing countries in articulating their own development programs in consultation with their civil societies and private sectors; and a partnership of mutual accountability between developed and developing countries in implementing these programs, including a commitment on the part of

⁶¹ See David Dollar and Lant Pritchett, *Assessing Aid: What Works, What Doesn't, And Why*, World Bank Policy Research Report (New York: Oxford University Press for the World Bank, 1998); Craig Burnside and David Dollar, “Aid, Growth, the Incentive Regime and Poverty Reduction,” World Bank, 2000; and Paul Collier and David Dollar, “Aid Allocation and Poverty Reduction,” *European Economic Review* 46(8):1,475–1,500, 2000.

⁶² See Ian Goldin, Halsey Rogers, and Nicholas Stern, “The Role and Effectiveness of Development Assistance—Lessons from World Bank Assistance,” Research paper from Development Economics VPU, World Bank, http://econ.worldbank.org/files/13080_The_Role_and_Effectiveness_of_Development_Assistance.pdf.

⁶³ This general approach was expressed with some variations across the development community, including the World Bank, the United Nations, the European Commission, Denmark, Canada, the United Kingdom, and Tanzania. See, for example, “Multi-partner Evaluation of the Comprehensive Development Strategy Framework,” Operations Evaluation Department, World Bank, 2003; “Joint Statement OECD/DAC, World Bank, UNDP,” December 1999; “Common Country Assessment and United Nations Development Assistance Framework – Integrated Guidelines,” May 22, 2002; and the UNDAF Status Report, January 18, 2001, Prepared for the Joint Meeting of the Executive Boards of UNDP/UNFPA and UNICEF, with the Participation of WFP, January 26, 2001.

⁶⁴ According to the World Bank (2003), data for 2001 range from less than 5 percent for countries like Argentina and Jamaica, and less than 20 percent for Côte d’Ivoire, Pakistan, and Vietnam, to over 60 percent for El Salvador, Mongolia, and Uganda.

⁶⁵ See James D. Wolfensohn, “A Time to Act,” Address to the Board of Governors, Washington, DC, September 29, 2002, at <http://www.worldbank.org.cn/English/content/105s6354820.shtml>.

developed countries to align assistance with the priorities of developing countries and to make resources available on a scale commensurate with the challenge.

Calls for Increased Accountability. This common understanding has increasingly been accompanied by calls for aid providers and recipients to show results—to be accountable. These demands have come from many quarters—from donor countries, NGOs, and other civil society groups.⁶⁶ Many development institutions (and partners themselves) have long appreciated the importance of effectiveness and efficiency and have in place processes at the global and country levels to promote and facilitate these objectives. The remainder of this paper looks specifically at some of the World Bank’s efforts in this area.

III. IMPROVED AID MANAGEMENT AND ACCOUNTABILITY: WORLD BANK EFFORTS

The World Bank has taken a broad range of measures to strengthen the management of the lending and other development assistance it provides, and the accountability for results. For example, in addition to lending for economic growth it has increased its focus on, and assistance to, other essential aspects of the poverty reduction effort; highlighted attention to governance improvements, anticorruption efforts, and better donor coordination; used indicators such as the Country Policy and Institutional Assessment ratings to allocate resources to better-performing low-income countries as well as to underscore where policy and institutional improvements are needed in all borrowing countries; strengthened its country-specific fiduciary diagnostic work; and created two independent accountability mechanisms (the Operations Evaluation Department, which assesses the efficacy of Bank operations, and the Inspection Panel, which receives and addresses complaints from people who have been adversely affected by Bank-financed operations).⁶⁷ A number of steps have been taken to address corruption. A four-part anticorruption strategy was announced in 1997, a key element of which was to prevent fraud and corruption in Bank-financed projects. In 2001, the Department of Institutional Integrity—which reports directly to the World Bank’s president—was created to investigate allegations of fraud and corruption in World Bank Group projects, including any allegations of misconduct by Bank staff. A full accounting of these developments and their impact is beyond the scope of this paper; instead, the remainder of this paper focuses on recent steps in three areas—measurable goals and progress indicators, efficiency in aid management, and disclosure, outreach and engagement—that further illustrate the Bank’s stepped-up attention to aid management and accountability.

A. Measurable Goals and Progress Indicators

Setting number goals for ODA is a relatively recent occurrence. In the early 1990s, the United Nations held a series of conferences with the active participation of developing countries on a wide array of development priorities, including education, children, environment, human rights, social development, and women. The targets arising from these conferences were

⁶⁶ See, for example, Hetty Kovach, Caroline Neligan, and Simon Burall, *Power without Accountability? Global Accountability Report 1* (London, U.K.: One World Trust, 2003); and the International Financial Institution Advisory Commission Report (Meltzer Report), 2000.

⁶⁷ For more information on OED and the Inspection Panel, respectively, see <http://www.worldbank.org/oed/index.html> and www.inspectionpanel.org.

subsequently consolidated in the publication *Shaping the 21st Century: The Contribution of Development Co-operation*,⁶⁸ which gave rise to the first integrated set of development goals and development effectiveness principles, of which managing for results was one. These targets have since been adopted globally as indicators of progress in the fields of economic well-being, social development and environmental sustainability; they are the antecedents of the MDGs.⁶⁹ (Annex A lists the MDGs and the specific targets for 2015.)

Millennium Development Goals and the World Bank. The first seven MDGs specify goals in eradicating extreme poverty and hunger; achieving universal primary education; promoting gender equality and empowerment of women; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria, and other diseases; and ensuring environmental sustainability. The last goal—global partnership for development—aims to create the means to achieve the first seven. The World Bank has embraced the MDGs as defining the minimum objectives of effective development assistance, and is supporting efforts at the global and country levels to achieve them. This approach is embodied in the Bank’s “results agenda,” which emphasizes greater focus on results throughout the development cycle: early on, for strategic planning and program design; during implementation, for day-to-day management; and toward the end, for evaluation and feedback for future work. The results agenda involves action at three levels: promoting a global partnership on managing for results, supporting countries as they try to define and monitor results, and working to change Bank incentives, instruments, and reporting to strengthen our focus on results.

1. Global-Level Activities

In Monterrey, developed countries were urged to make good on their commitments to meet the target of providing 0.7 percent of GNP as ODA to developing countries. To date, many countries still have some distance to go to meet this target. The Bank is helping to encourage fulfillment of this commitment and other assistance for achieving the MDGs. Both in his address at the Annual Meetings of the World Bank in September 2003, and in his recent speech at the UN General Assembly on follow-up to the Monterrey Conference, President Wolfensohn has emphasized the importance of policy coherence and adequate funding for the MDGs.⁷⁰ But the Bank has not waited on events; it has taken this discourse a step further. Bank analysis and research have demonstrated that the world could make greater progress toward meeting the MDGs through a combination of further policy reforms, additional financing, and improvements in aid modalities (harmonization). An April 2002 study, for instance, estimates that an additional US\$50 billion per annum in resources is needed to

⁶⁸ *Shaping the 21st Century: The Contribution of Development Co-operation* (Paris, France: Development Assistance Committee, OECD, May 1996).

⁶⁹ See John Hailey and Mia Sorgenfrei, “Measuring Success? Issues in Performance Management,” Keynote paper presented at the INTRAC’s 5th International Evaluation Conference—Measurement, Management and Accountability, KDK Conference Centre, The Netherlands, 2003.

⁷⁰ In his address, “A New Global Balance—The Challenge of Leadership,” to the Board of Governors, at the 2003 Annual Meetings of the World Bank (Dubai, United Arab Emirates, September 23, 2003), President Wolfensohn noted that “China, with 1.3 billion people, will achieve most of the Millennium Development Goals. India, with a billion people, is on track to meet the poverty goals. But in many other countries, the Millennium Development Goals will not be met. Sub-Saharan Africa, with 600 million people, will fare the worst. The number of people living in absolute poverty will increase, not decrease.”

achieve the 2015 goals, assuming the necessary policy and institutional changes are made.⁷¹ Subsequent research by Bank staff, examining recent progress and prospects for achieving the MDGs in 18 low-income countries with relatively good policies,⁷² illustrates the power of combining substantially higher aid and sustained country reform efforts in making faster progress toward the MDGs.

Work with Partners on Global Monitoring. Meanwhile, the World Bank is working jointly with the IMF and in collaboration with other agencies to assess progress on policies and actions needed to achieve the MDGs and related development outcomes, and to highlight priorities for action and the accountabilities of the key actors—developing countries, developed countries, and development agencies. For the Development Committee,⁷³ the Bank will produce an annual Global Monitoring Report to provide an integrated and strategic overview of the development policy agenda, priorities, and accountabilities. It will also develop a Global Monitoring Data Platform on the Development Gateway to provide the underpinnings for the Global Monitoring Report.

2. Corporate and Country-Level Activities

If the MDGs are to be achieved, they must be translated into measurable corporate objectives that are reflected in the policies, programs, and projects that development institutions support globally and locally. When, in the mid-1990s, the Bank started tracking quality, increased management attention led to progressive improvements in the quality of its products and services.⁷⁴ Now the Bank is also focusing on deliveries, quality, and results, going beyond just “doing things right” to ensure that it is also “doing the right things” to contribute to improvements in country outcomes or results.

1. ***Strengthened Operational Linkages.*** To better define and ensure the delivery of Bank commitments against the MDG agenda, the World Bank has prepared a multidimensional action

⁷¹ See Shantayanan Devarajan, Margaret J. Miller, Eric V. Swanson, “Goals for Development: History, Prospects and Costs,” World Bank Working Paper 2819, 2002, which is available at http://econ.worldbank.org/files/13269_wps2819.pdf.

⁷² See *Supporting Sound Policies with Adequate and Appropriate Financing, Implementing the Monterrey Consensus at the Country Level*, (DC2003-0016), September 13, 2003, available at [http://siteresources.worldbank.org/DEVCOMMINT/Resources/Fall-2003/DC2003-0016\(E\)-Financing.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Resources/Fall-2003/DC2003-0016(E)-Financing.pdf)

⁷³ “The Development Committee is a forum of the World Bank and the International Monetary Fund that facilitates intergovernmental consensus-building on development issues. Known formally as the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, the Committee was established in 1974. The Committee’s mandate is to advise the Boards of Governors of the Bank and the Fund on critical development issues and on the financial resources required to promote economic development in developing countries. Over the years, the Committee has interpreted this mandate to include trade and global environmental issues in addition to traditional development matters.” See www.devcommittee.org.

⁷⁴ In 1996, the Bank established the Quality Assurance Group (QAG) to provide real-time assessments of the quality of the Bank’s performance across major product lines (lending, portfolio management, and advisory services). Bank staff and managers are directly involved in the QAG process, and feedback is provided directly to the appropriate task team and its managers, with a report across all QAG activities presented annually to the Bank’s Board of Executive Directors.

program, focused on 13 specific implementation tasks, with a detailed action program for each task. A key task, for example, “alignment for increased effectiveness,” is about aligning the Bank’s six Regions and the relevant central units behind a shared set of expectations and work programs. As part of this exercise, the Bank conducted detailed work in March 2003 on realigning specific country activities with the corporate priorities and commitments related to the MDGs. For HIV/AIDS, for example, the exercise involved (a) identifying the World Bank’s global obligations and specific monitorable commitments or goals associated with them; (b) specifying criteria for selecting focus countries; (c) launching actions to achieve the goals—such as accelerating preparation of Regional strategies, addressing issues related to non-IDA countries, low-income countries under stress, and IDA countries in nonaccrual status, and enhancing incentives for multisector task teams; and (d) requiring all country directors to develop an appropriate response to the AIDS challenge, including strengthening donor partnerships. At the country level, the Bank is also looking to scale up the self-assessment process and practice through the introduction of the “results-based” Country Assistance Strategy (CAS), which involves more focused preparation, self-assessment at completion, and a subsequent independent evaluation by the Operations Evaluation Department. One of the first such CASs, Cameroon’s, was presented to the Bank’s Board of Executive Directors in September 2003.⁷⁵ It aligns Bank support with the priorities of the national poverty reduction strategy, includes key outcomes that could be achieved within the timeframe of the CAS, and incorporates appropriate indicators to manage implementation. Results-based CASs are also under preparation for Bolivia, Brazil, Cambodia, Mozambique, Sri Lanka, Ukraine, and Zambia.

Country Statistical Capacity Building. In addition to strengthening its operational linkages with the MDG agenda, the Bank is working to foster coordinated donor support to help countries adopt a results-based approach, including to build statistical capacity. Mechanisms include the Partnership in Statistics for Development in the 21st Century cosponsored by the World Bank and the European Commission;⁷⁶ a joint partnership between the World Bank and the International Monetary Fund and the United Kingdom’s Department for International Development to help 14 Anglophone African countries improve their statistical systems as part of the General Dissemination System; the global Trust Fund for Statistical Capacity Building; and the World Bank’s new lending application, the Statistical Capacity program.

B. Efficient Aid Delivery

Just as the MDGs provide a powerful focus for measurable development objectives and progress, harmonization is a powerful way to pursue such objectives efficiently and effectively. By now many sources have documented the unharmonized aid picture in developing countries— with an average of 25-40 donors each, developing countries have had to cope with hundreds of

⁷⁵ Cameroon Country Assistance Strategy, Africa Region, World Bank, forthcoming. See <http://www.worldbank.org/afr/cm/overview.htm>.

⁷⁶ The Partnership in Statistics for Development in the 21st Century is investigating the gaps and inconsistencies in national and international data need for monitoring the MDGs and country Poverty Reduction Strategy Papers.

new projects every year, each with separate donor missions, quarterly and annual reports, conflicting donor requirements, and so on.⁷⁷

The Global Harmonization Agenda. The harmonization agenda emerged from this chaos as an effort to reduce the transaction costs and improve effectiveness of aid management by aligning development assistance with partner countries' growth and development priorities and systems. The agenda is now supported by all major development agencies and a number of partner countries. Building on work begun in the 1990s,⁷⁸ technical groups representing multilateral development banks and bilateral donors,⁷⁹ plus partner countries, developed good practice principles or standards for harmonization.⁸⁰ At a High-Level Forum in Rome in February 2003, the heads of all major international financial institutions and senior representatives of 28 partner countries formally endorsed this technical work and agreed that the focus should now shift to implementation. The Rome Declaration on Harmonization specifies the agreed areas for action by donors and partner countries, refers to 16 countries that have volunteered to be frontier candidates for implementation, identifies mechanisms for generating peer pressure for timely action, and commits the participants to follow up with another high-level meeting in early 2005 to assess progress.⁸¹ (Annex B outlines the Action Plan for implementing the harmonization agenda, while Annex C summarizes the aid agency and partner country commitments stated in the Rome Declaration on Harmonization.)

Current Country Implementation Focus. Since the High-Level Forum on Harmonization, political momentum for harmonization has been sustained, and more country partners and bilateral

⁷⁷ See, for example, *World Development Report 2004: Making Services Work for Poor People* (New York: Oxford University Press for the World Bank, 2003); "Multi-partner Evaluation of the Comprehensive Development Strategy Framework," Operations Evaluation Department, World Bank, 2003; "Who is Paying the Highest Price for Uncoordinated Aid," OECD Secretariat, Paris, February 2003; and *Newsweek*, February 2003.

⁷⁸ The United Nations endorsed an Aid Management and Accountability Framework in 1993. The early results of the field work indicated that there was no standardized solution to aid management and accountability issues, even though donors and partner countries supported central aid management and accountability principles. The agencies of the United Nations Development Group are now working to harmonize their programming processes by 2004. Since 1995, the Arab Funds Co-ordination Group has been working on harmonization. The group, which meets regularly, comprises the Arab Fund for Economic and Social Development, the Kuwait Fund, the Saudi Fund, the Abu Dhabi Fund, the Arab Fund for Economic Development in Africa, OPEC Fund for International Development, and the Islamic Development Bank (IsDB). To date the group has developed eight sets of common proposals, guidelines, and agreements for project appraisal, use of consultants, feasibility studies, design and supervision, procurement of civil works, disbursement, post evaluation, and standard rosters of consultants.

⁷⁹ Principally the African Development Bank (AfDB), Asian Development Bank (AsDB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB), the World Bank, and the Development Assistance Committee of the Organisation for Economic Co-operation and Development (DAC-OECD).

⁸⁰ Good practice principles or standards elaborated included: a framework for donor cooperation; country analytic work; the preparation of projects and programs; financial management, procurement, reporting, and monitoring; delegated cooperation; and environmental assessment.

⁸¹ For more information on the High-Level Forum, including the Rome Declaration that resulted from it and the institutions that participated, see <http://www1.worldbank.org/harmonization/romehlf/>. The Rome Declaration is available at: <http://www1.worldbank.org/harmonization/romehlf/Documents/RomeDeclaration.pdf>. The 16 countries are Bangladesh, Bolivia, Cambodia, Ethiopia, Honduras, Jamaica, Kenya, Kyrgyz Republic, Morocco, Nicaragua, Niger, Pacific Islands, Philippines, Senegal, Vietnam, and Zambia.

and multilateral agencies are actively involved in the effort. Bilateral and multilateral agencies are now collaborating on key harmonization themes to promote and facilitate implementation;⁸² regional events to disseminate and launch action on the commitments have been held (in Africa, Asia, and Pacific Islands) for government officials and local representatives of donor agencies, and others are planned;⁸³ and concrete work is starting or continuing in most of the “frontier countries” named in the Rome Declaration. As the following selected country examples illustrate, harmonization is operating at the national, sectoral, and project levels.

- **Bangladesh.** While exploring a broad-based harmonization program in areas such as financial accountability and technical cooperation, the government of Bangladesh has been working with several donors on more efficient and effective arrangements for assistance to be provided under the Second Primary Education Development Program. This approach will bring under its framework over 20 separate donor-supported activities. AsDB is the program’s lead agency, supported by the European Commission, IDA, Japan International Cooperation Agency, United Nations Children’s Fund, and six bilateral donors: Australian Aid, Canadian International Development Agency, the United Kingdom’s Department for International Development, Netherlands, Norwegian Agency for Development, and Swedish International Development Agency. A key element of the program is the use of an upgraded government procurement system for about 95 percent of project funds.
- **Ethiopia.** Agreement on an architecture for donor-government dialogue to improve coordination, alignment, and harmonization has been reached; a joint government-donor task force has been established to develop an action plan for harmonization implementation; and implementation of a calendar for budget support aligned with the national budget year and poverty reduction strategy review process is beginning. Also, a Public Service Delivery Capacity Development Program—a multisector, multidonor program to build the capacity needed to implement a poverty reduction strategy in a decentralized public service delivery structure—has been designed.
- **Niger.** Niger’s development partners have aligned their assistance strategies with the PRSP and its priorities. Sector strategies for education, health, rural development, infrastructure, and decentralization are being developed, and the Ministry of Finance and Economy have reached agreement with five donors for joint work on a Public

⁸² To facilitate, support, and monitor progress on harmonization, in May 2003 DAC-OECD created the Working Party on Aid Effectiveness and Donor Practices (WP-EFF). In addition to the bilateral agencies and the IMF, the United Nations Development Programme, and the World Bank, which are already participating actively as observers, the WP-EFF has several new participants: the AfDB, AsDB, EBRD, IDB, and Strategic Partnership with Africa (SPA). For further information, see *Harmonization Follow-up: Global Architecture and World Bank Activities*, World Bank, September 2003, which is available at http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000012009_20031001100854.

⁸³ Major investments are being made, in cooperation with the Development Gateway, to develop online resources for sharing information, experience, and lessons, and to provide knowledge products for practitioners. For more information on the Developing Gateway, see <http://www.developmentgateway.org/>.

Expenditure Review and a Country Financial Accountability Assessment. A comprehensive action plan has been proposed with work (a) at the national/central level, on alignment with government strategy, analytic work, monitoring and evaluation (M&E), financial management systems, capacity strengthening, and environmental assessment; (b) at the sectoral level, with common M&E indicators linked to the Medium-Term Expenditure Framework; and (c) at the project level, with common project preparation procedures; common training on implementation, M&E, and supervision; and common financial and audit reports.

- **Philippines.** The government has set up a harmonization committee cochaired by the Departments of Planning and Finance, and has agreed with its partners to focus on procurement and financial management as the two priority areas for harmonization. The government and major donors have agreed on joint and streamlined project management units and harmonized project reporting and monitoring, and progress is being made in donor harmonization around government procurement procedures, including promotion of e-procurement.
- **Tanzania.** The harmonization process has been in place for several years, and the government and donors are building on the momentum of the High-Level Forum to deepen it. A fresh review, building on a monitoring process commenced in 1997, will set a baseline for future monitoring of progress. Current harmonization efforts focus on aligning budgetary support with the public expenditure review, the budget, and the poverty reduction strategy processes. The budget support group⁸⁴ has adopted a common performance assessment framework that focuses on results, improved public expenditure management, and capacity building. Sector working groups have been established in all priority sectors and will work on developing common reporting formats, maintaining a calendar of donor missions, and identifying areas for reducing transaction costs at the sector level. A new focus on fiduciary harmonization/capacity building is being planned. Partners are considering consolidating donor interventions in a Comprehensive Joint Country Assistance Strategy that would indicate each donor's comparative advantages and provide for a single cycle of reviews.
- **Vietnam.** The first country to come forward as a frontier country is now also a European Union harmonization pilot. AsDB, Japan Bank for International Cooperation, and the World Bank continue their close collaboration on harmonization, giving priority to procurement, financial management, social and environmental assessment, portfolio management, and analytic work. On economic and sector work, harmonization progress includes a joint action plan on Country Financial Accountability Assessment/Country Procurement Assessment Report findings; a multidonor trust fund to support public financial management reform; and a common Gender Action Plan. Moreover, discussions have been initiated on how the government's own feasibility studies and processes can substitute for the World Bank's appraisal procedures and processes. In parallel, the Like-Minded Group of

⁸⁴ In addition to the IMF, the World Bank, and the AfDB, nine bilateral agencies and the European Commission are providing budget support for the implementation of the PRSP.

bilateral donors is working to harmonize capacity-building support, create a common development vocabulary, and foster wider use of multidonor financing mechanisms to support sectorwide approaches (SWAs). The government is also planning to exchange study missions with Tanzania (a trailblazer in the harmonization effort), and to discuss harmonization experience with other countries in the Asia region.

- **Zambia.** In March 2003, the Government of Zambia, in collaboration with a Like-Minded Development Group of seven bilateral donors,⁸⁵ developed an agreement on the way forward and a Framework for Harmonization in Practice (HIP). The World Bank has since joined the country's harmonization program. Government and donor efforts focus on establishing a coordination mechanism around the PRSP; developing a joint donor approach toward budget support, public expenditure management, and PRSP monitoring; supporting the Public Expenditure Management and Financial Accountability Review that was completed in June 2003 (with HIP, the European Union, and the World Bank aligning pooled technical assistance to support its implementation); and streamlining the financial accounting, auditing, procurement, and joint monitoring arrangements in the health SWAp.

World Bank Involvement. The World Bank remains committed to the international harmonization agenda. At the request of some of its donor partners, it is assuming specific additional responsibilities at the global level in support of in-country implementation,⁸⁶ and it is involved in harmonization efforts in a broad spectrum of countries. It is adopting a more systematic and intensive approach to identifying, promoting, and supporting harmonization opportunities in specific country programs and projects, ensuring that its harmonization activities are fully screened and integrated within its country strategies and Network work programs (which reflect both country strategies and corporate priorities). Thus, beginning in August 2003, the vast majority of Bank CASs and lending operations are reviewed centrally for opportunities to accelerate and broaden upstream consideration of harmonized approaches in operational work. Management is also exploring ways to increase the impact of some of the resources spent in support of in-country implementation, by channeling them through the new global task teams in which both bilateral and multilateral donors participate and which can better catalyze broadly owned and sustained changes at the global, institutional, and country levels. The Bank expects to refine these evolving elements of its strategic approach over time.

Internal Bank Reforms. In addition, the Bank is undertaking internal reforms that put it in a better position to harmonize around country priorities and systems. These measures include strengthening the linkages between PRSPs and CASs, reforming loan administration and reporting, facilitating pooling arrangements in SWAs, modernizing environmental and social safeguard policies, and simplifying audit policy. Since March 2003, the Bank has carried out detailed work on realigning specific country activities with the corporate priorities and commitments related to the MDGs, as part of the follow-up to the World Bank's Implementation

⁸⁵ Denmark, Finland, Ireland, Netherlands, Norway, Sweden, and United Kingdom.

⁸⁶ For example, the World Bank is co-leader of the task team on harmonization and alignment. It also leads the joint venture on public financial management, and partners in joint ventures on procurement, capacity building, and managing for results, thus contributing to all of the key areas of the DAC-OECD Working Party mandate.

Forum. And as the focus on implementation increases, linkages to new applications for harmonization are being developed in areas such as disbursement, legal documentation, managing for results, global monitoring, trust funds, capacity building, disclosure, use of project implementation units/project management units, and training. Specific applications are also being explored for low-income countries under stress and middle-income countries.

C. Disclosure, Outreach, and Engagement

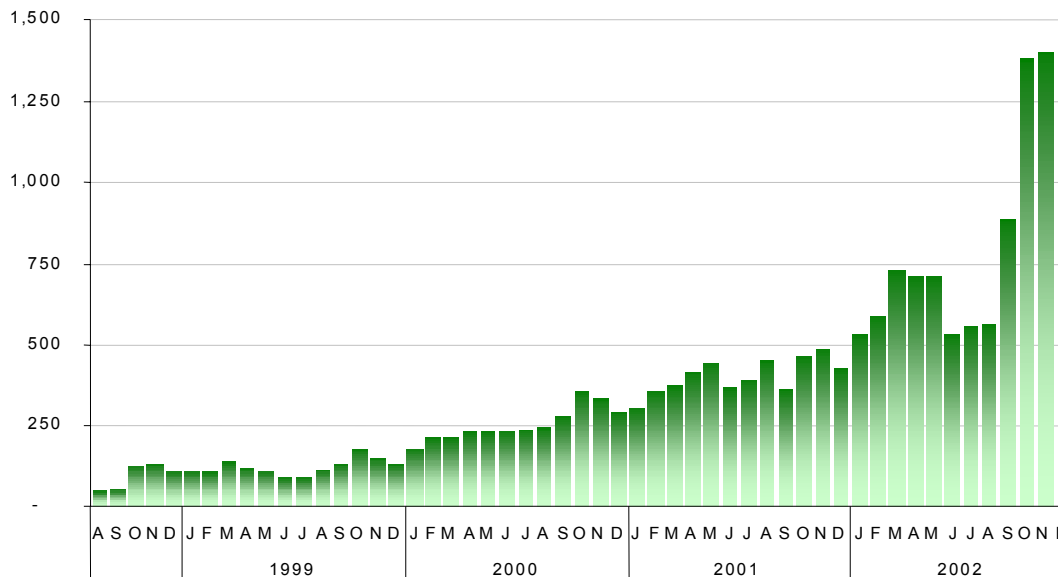
The World Bank views the disclosure of information as an important tool in both aid management and accountability. According to its Disclosure policy, “As a *development organization*, the Bank wishes to stimulate debate on and broaden understanding of development, facilitate coordination with its partners—countries and other institutions—and help create and nurture support for activities that promote economic and social progress in developing countries ... As an *organization owned by its member countries*, the Bank is accountable for its stewardship of public moneys and has an obligation to be responsive to the questions and concerns of its shareholders.” To this end, the World Bank first issued instructions to staff on the disclosure of information in 1985. Since 1993, the Bank has reviewed the policy biennially, and, in 1993 and again in 2001, it significantly expanded the amounts and types of information that it discloses to the public.⁸⁷ (Annex D summarizes the information to be made public under the World Bank’s revised Disclosure policy, beginning in January 2002.)

Disclosure and Outreach. The World Bank engages in a formidable amount of disclosure activity each year. During 2002, for example, the Internal Documents Unit alone catalogued, indexed, scanned, and released for public use over 1,700 reports, providing public access for about 50,000 individuals per month. Meanwhile, the number of new visitors to the Bank’s external website rose from around 500,000 per month in January 2002 to about 1 million per month in December 2002, and the number of 200-page book equivalents downloaded went from about 530,000 per month to about 1.3 million per month over the same period (see Figure 1).⁸⁸ The World Bank is now enhancing dissemination and outreach—through a program to upgrade its Public Information Centers (PICs) and its translation framework.

⁸⁷ For more information, see <http://www1.worldbank.org/operations/disclosure/>.

⁸⁸ A “book equivalent” is a measure of the amount of content requested (e.g., the number of “bytes”). It is equal to one megabyte of information, roughly the amount of information in a 200-page, text-only book.

Figure 1. Book Equivalents Downloaded, 1999-2002



- Public Information Centers.** The World Bank established the first set of public information centers in 1994, in Washington, D.C., Paris, and Tokyo. Some country offices also opened PICs, adding them to the internal library or internal records functions. These PICs were intended to serve as passive physical access points for Bank information at a time when many more documents were becoming available to the public and the use of the World Wide Web was more limited than it is today. Around the same time, the Bank began to increase its emphasis on public consultations, participatory processes,⁸⁹ and knowledge sharing.⁹⁰ Over the years, the number of PICs has increased: today some 65 of the Bank’s 89 country offices have PICs. Besides serving as repositories of Bank information, roughly half of the Bank’s country office PICs now actively disseminate information through a variety of

⁸⁹ Whereas in 1992-94 only one Country Assistance Strategy involved significant civil society participation in its preparation, now almost 90 percent do; and unlike 1994, when 40 percent of new projects entailed participatory approaches, in 1998, 70 percent did (see “Participation Process Review,” Operations Evaluation Department, January 2001). To trace the documentation on consultation and participation, see “The World Bank and Participation,” Washington, DC, September 1994; “The Contribution of People’s Participation: Evidence from 121 Rural Water Supply Projects,” Washington, DC, World Bank, 1995; and “Can the Poor Influence Policy? Participatory Poverty Assessments in the Developing World,” *World Bank Directions in Development Series*, 1999. See also *Additions to IDA Resources: Tenth Replenishment* (IDA/R92-168), December 1992, the first IDA replenishment report that contained extensive recommendations on participation. For the shift in the Bank’s collaboration with NGOs, see “NGO Progress Report (FY98),” World Bank, Social Development Department, May 1999; and “Nongovernmental Organizations in World Bank-Supported Projects: A Review,” *OED Précis*, No. 177, Spring 1999, at <http://www.worldbank.org/oed/>.

⁹⁰ The Knowledge Bank includes knowledge gained and shared through the Bank’s activities in economic and sector work, nonlending technical assistance, Development Economics research, OED studies, launch of the Development Gateway, and World Bank Institute training. The Bank endeavors to mobilize and make knowledge about development accessible from inside and outside the organization.

methods and customized packages—such as road shows (India); brochures in English and local languages (Brazil, Burundi, Indonesia, South Africa); weekly or monthly e-mail listings of newly disclosed information and publications (Nigeria, Philippines); monthly or quarterly newsletters or booklets (Burundi, Madagascar, Mali, Philippines); electronic libraries (Pakistan); regularly updated PIC web pages (Indonesia, Vietnam); static informational PIC pages on services (Cameroon, Croatia, Madagascar); and “mini” PICs established throughout the country (Indonesia, Madagascar, Philippines). To help PICs evolve further into publicly accessible centers from which proactive and coordinated outreach and dissemination also take place, the World Bank has launched a program to upgrade them, recruit and train better qualified staff to serve as in-house experts and advisers on disclosure and translation, and facilitate dissemination partnerships within and outside the Bank.

- **Translation Framework.** The disclosure policy provides for the Bank to disclose some 46 types of documents that are equivalent to approximately 95,000 pages of text each year. Many of these document types are likely to be of interest to wide international audiences, while the remainder are country or project materials that are likely to be of primary interest to specific national or local audiences. The World Bank has recently adopted a translation framework that, while vesting responsibility for decisions on translation (including what, when, and how) in each document’s business sponsor, will facilitate the provision of greater numbers of translations at the most reasonable costs and consistent quality.

Strategic Engagement with Civil Society. Making information publicly available—at the global and local levels—helps to create an enabling environment for better aid management and accountability. But enhanced aid effectiveness and accountability also require a willingness to engage in informed dialogue at the global and country levels with stakeholders in the development business, including not only governments but also civil society organizations (CSOs). CSOs contribute directly to poverty reduction by promoting public consensus and local ownership for reforms and for national poverty reduction strategies, giving voice to the concerns of primary and secondary stakeholders, strengthening and leveraging the impact of development assistance through increased local knowledge, providing professional expertise and increasing local capacity, and improving transparency and accountability. Various studies have concluded that quality participation increases the overall quality of development projects and country strategies.⁹¹ The Bank has actively increased its involvement with CSOs since 1981,⁹² engaging with CSOs in three ways: through facilitation, wherein the Bank supports the participation of CSOs in national poverty reduction strategy design and in the implementation of Bank projects; through dialogue and consultation, wherein the Bank seeks the views of CSOs on issues of mutual concern; and through partnership, wherein the Bank works with CSOs on joint initiatives in areas such as biodiversity,

⁹¹ See, for example, “Participation in Development Assistance,” *OED Précis*, No. 209, Operations Evaluation Department, Fall 2001; “World Bank Civil Society Collaboration—Progress Report for Fiscal Years 2000 and 2001,” Environmentally and Socially Sustainable Development, World Bank, Washington, DC, 2001; and *2002 Annual Review of Development Effectiveness: Achieving Development Outcomes: The Millennium Challenge* (Washington, DC: World Bank 2002).

⁹² In 1981 the Bank’s Board of Executive Directors adopted the first Operational Directive on working with NGOs.

education, and health. CSOs are increasingly involved in the delivery of Bank projects,⁹³ and they increasingly affect the development of global and national public policy.⁹⁴

Decentralization of Country Services. The Bank’s focus on improving aid management and accountability at the country level has been supported since 1997 by efforts to strengthen its presence on the ground to enhance its capacity to engage with stakeholders, improve country ownership and partnerships, and produce better operational results. Specifically, the decentralization program includes (a) increasing the role of country management offices in country management services, (b) better integrating global and country knowledge, (c) creating joint teams of internationally recruited staff and locally recruited staff for task execution, and (d) maintaining the cost-effectiveness of Bank Group support by customizing Regional decentralization to facilitate more flexible decisionmaking, strengthened monitoring of progress and management of cost, and better feedback on outcomes. As of FY01, 66 percent of the directors who oversee country programs were located in country offices, compared to 6 percent in FY97, while the number of high-level staff in country offices increased from 28 to 40 percent during this period.

IV. FEEDBACK AND CHALLENGES

The efforts discussed in this paper to enhance aid management and accountability seem to be contributing to a more positive perception of the World Bank by key opinion leaders in developed and developing countries. The Global Poll—A Multinational Survey of Opinion Leaders, conducted by Princeton Survey Research Associates for the World Bank in 2002 and published in June 2003, asked key opinion leaders, “Compared to a few years ago, is the World Bank doing a better job or a worse job helping our country reduce poverty?” More than 50 percent of respondents saw improvements in the Bank’s work, about 30 percent saw no change, and the remainder thought the Bank was doing a worse job. The same poll also found significant improvements in perceptions of the Bank’s responsiveness, commitment to transparency and collaboration, and communications. Similarly, the Global Accountability Study and the Human Development Report have noted the progress made on disclosure of information.⁹⁵ While such findings are encouraging, they do not necessarily correlate to improved operational results. Indeed, the real test of improvements in the Bank’s aid management and accountability will be hard evidence of Bank contribution to sustained reductions in poverty. Such evidence is not yet available. Indeed, significant challenges remain.

2. ***Measurable Goals and Progress Indicators.*** As donor support becomes more closely aligned with the development strategies of recipient countries, and as donors deepen their

⁹³ In 1989 only about 20 percent of World Bank projects had CSO involvement. By 1997, 46 percent of projects had provisions for CSO involvement. See William Jack, “Public Policy Toward Non-Governmental Organizations in Developing Countries,” Georgetown University, Washington, D.C., July 28, 2001, p. 4.

⁹⁴ For example, through participation in extensive consultation and public information campaigns, CSOs directly affected the design of the framework for the delivery of the Enhanced Heavily Indebted Poor Countries’ Initiative (HIPC) adopted by the Boards of the World Bank and International Monetary Fund in 1999. Similarly, in 2000-2001, CSOs actively participated in consultations that helped shape the Bank’s revised Disclosure policy.

⁹⁵ See *Power without Accountability?* op. cit; and *Human Development Report 2002*, United Nations Development Programme (New York, Oxford University Press, 2003), p. 115.

collaboration, attribution becomes increasingly less individual and more about collective results. While development outcomes can no longer be attributable to the actions of any individual donor, it is still possible and imperative for donor agencies to assess their contributions to the larger development outcomes. Similarly, as donors continue to assess recipient country policies and the country's implementation of its own development strategy, it is equally important to have joint evaluations of donor programs in support of those strategies. The independent evaluation process established in Tanzania in 2002 to assess an earlier government-donor action plan for development cooperation offers one useful model for such an approach.⁹⁶ The international development community also recognizes the need to harmonize approaches to results management, monitoring, and measurement, attributable in part to the broader recognition that the myriad of demands on donor countries reduces development impact. In June 2002, the multilateral development banks with the Development Assistance Committee of the OECD sponsored a two-day International Roundtable on Better Measuring, Monitoring, and Managing for Development Results.⁹⁷ The roundtable marked the launch of an international dialogue on the results agenda, to exchange views, share best practice, and facilitate the harmonization of approaches on results across countries and institutions. A follow-up roundtable is scheduled for early 2004 with ongoing follow-up activities also proceeding within the DAC Working Party on Harmonization and Alignment: Managing for Results Task Team.

Efficient Aid Delivery. In operationalizing the harmonization agenda, the World Bank faces three principal challenges: (a) focusing on further internal reforms; (b) increasing the awareness of staff and managers of harmonization opportunities, and motivating and equipping them to respond, and (c) generating early results.

- ***Additional internal reforms.*** The Global Poll reported that key opinion leaders still see the Bank as “too bureaucratic,” notwithstanding recent efforts to harmonize and simplify. This is understandable. Some Bank policies and procedures date back to the Bank's incorporation—when it was primarily financing large, individual infrastructure projects. Some of these policies and their rationales are no longer relevant, and they are being reviewed, revised, and modernized. Important work in this respect includes an attempt to modernize the policies that define the expenditures that the Bank can finance, including local costs and recurrent costs. The Bank is also reviewing its lending instruments, to introduce greater flexibility in responding to the varying needs and capacities of borrowers. These are all challenging issues, and the Bank is committed to staying the course until these challenges are met.
- ***Internal awareness and motivation.*** The modernization/simplification agenda recognizes that simply changing internal policies and procedures will not suffice. Work is also required to change staff behavior, skills, and incentives. If country-level implementation is to be mainstreamed, donors will need to expect continued

⁹⁶ The Independent Monitoring Group in Tanzania was based on several key elements, including a local donor champion to persuade other local donors; sufficiently senior members to provide a balance between government and donors, financing structured to avoid undue influence from the sponsor, flexible terms of reference, and a mechanism through which group recommendations could be considered and acted upon. See Tony Killick, “Monitoring Partnership-Based Aid Relationships,” Overseas Development Institute, 2003.

⁹⁷ See www.worldbankorg/results.

involvement; and, like partner countries, they will need to continue contributing the resources of time, money, intellect, access, and personal and professional goodwill.⁹⁸

Disclosure, Outreach, and Engagement. For the future, the World Bank intends to focus on three areas of challenge: improving staff awareness of the new disclosure requirements (more than 1,500 staff in Washington, DC, and in country offices have attended disclosure training programs, and such efforts are continuing), exploring the scope for extending the policy to cover additional information and documents, including Board minutes (matters that will be addressed in a paper that is expected to be presented to the Bank’s Board of Executive Directors in 2003); and monitoring and evaluating the impact of the policy (the Mexico and Lithuania disclosure pilots, for instance, include provisions to establish baseline data to monitor stakeholder perceptions and satisfaction, and a PIC coordination unit will produce an annual report that evaluates results achieved and lessons learned). Furthermore, in keeping with the development community’s increased focus on results, it will be important to assess the development effectiveness of the policy and the Bank’s disclosure activities. Finally, as CSOs become more influential in development, there are issues such as their own transparency and accountability that remain to be addressed.

Looking Back, Moving Forward. Aid plays a critical role in reducing the imbalances that plague our world, and—along with donor-country partnerships and mutual accountability—it is a central component of efforts to meet the ambitious goals embraced by developing countries and the development community. Enhanced aid effectiveness is crucial to delivering outcomes and results that will alleviate poverty and contribute to a more secure and equitable world. Despite advances in aid effectiveness across a broad front, including important steps in donor-donor and donor-country harmonization around country-driven goals and country processes and systems, progress toward reducing poverty remains an enduring challenge. Both developing countries and the development community remain committed to addressing this challenge, and to establishing targets and indicators against which this commitment can be measured and monitored. The World Bank is a key partner in this endeavor, and is continuing to act on that commitment at the global, corporate, and country levels, so as to enhance aid management and accountability and help empower poor people.

⁹⁸ See “Country-Level Harmonization: Emerging Implementation Issues,” HLF Secretariat, February 22, 2003, which is available at <http://www1.worldbank.org/harmonization/romehlf/Documents/Harmonization%20-%20Country%20Implementation%20Experience.pdf>.

Millennium Development Goals

<i>Goal</i>	<i>Specific Targets for the Year 2015</i>
1. Eradicate extreme poverty and hunger	<ul style="list-style-type: none"> • Halve ^a the proportion of people whose income is less than one dollar a day. • Target 2: Halve ^a the proportion of people who suffer from hunger.
2. Achieve universal primary education	<ul style="list-style-type: none"> • Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
3. Promote gender equality and empower women	<ul style="list-style-type: none"> • Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015.
4. Reduce child mortality	<ul style="list-style-type: none"> • Reduce ^a by two-thirds the under-five mortality rate
5. Improve maternal health	<ul style="list-style-type: none"> • Reduce ^a by three quarters, between 1990 and 2015, the maternal mortality ratio.
6. Combat HIV/Aids, malaria and other diseases	<ul style="list-style-type: none"> • Have halted, and begun to reverse the spread of HIV/AIDS by 2015 • Have halted, and begun to reverse the incidence of malaria and other major diseases by 2015
7. Ensure environmental sustainability	<ul style="list-style-type: none"> • Integrate the principles of sustainable development into country policies and programs and reverse the losses of environmental resources. • Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation. • Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers.

8. Develop a global partnership for development

Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. It Includes a commitment to good governance, development, and poverty reduction - both nationally and internationally Address the special needs of the least developed countries.

Includes: tariff and quota-free access for least-developed countries' exports; enhanced programme of debt relief for HIPC's and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction

Address the special needs of landlocked countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly)

Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term

In cooperation with developing countries, develop and implement strategies for decent and productive work for youth

In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries

In corporation with the private sector, make available the benefits of new technologies, especially information and communication

^a. Between 1990 and 2015.

Action Plan for Implementing the Harmonization Agenda

<i>Outputs/Outcomes</i>	<i>Timeline</i>	<i>Comments</i>	<i>Status as of August 15, 2003</i>
Multilateral Activities			
MDB Financial Management and Analysis^a			
1. Country diagnostic work. Initiate four joint diagnostic country financial management assessments. Adopt good practice guidelines for the joint conduct and dissemination of assessments.	Q4 2001 completed	Country diagnostic work provides basis for building recipient capacity and recipient systems. Joint assessments reduce costs for donors.	Framework for collaboration on financial management diagnostic work issued in February 2003. http://opcs.worldbank.org/FM/documents/Harmonization/MDB%20Diagnostic%20-%20February%2018,%202003.pdf
2. Financial management. Develop options for consideration by the senior management of each participating MDB for harmonized approaches to financial reporting and auditing of projects financed by participating MDBs.	Q2 2002 completed		Framework for collaboration on financial reporting and auditing issued in February 2003. http://opcs.worldbank.org/FM/documents/Harmonization/MDB%20R&A%20-%20February%2018,%202003.pdf
3. Financial analysis. Develop options for consideration by senior management of each participating MDB; harmonize financial analysis approaches to (a) tariffs, subsidies, and affordability; and (b) ratios and loan covenants.	Q2 2002 completed	Coherent approaches to financial analysis would facilitate policy dialogue on infrastructure sector reform, and would support financial sustainability of projects.	Collaboration framework agreed among MDBs in February 2003. http://opcs.worldbank.org/FM/documents/Harmonization/MDB%20Financial%20Analysis%20-%20February%2018,%202003.pdf
4. Accounting standards. Submit joint MDB proposal to the IFAC-Public Sector Committee for the development of accounting standard for development assistance.	Q4 2001 ongoing	International accounting standards provide common benchmarks for donors and recipients.	IFAC-PSC has started work. Standard to be issued in 2004.
MDB Heads of Procurement Group^b			
1. Standardized master documents for international competitive bidding. Supply of goods	Completed	Standardized documentation eases administrative burden on recipients.	In use in AfDB, AsDB, IDB, and World Bank (WB). http://www1.worldbank.org/harmonization/romehlf/Background/harmonized%20master%20bidding.pdf
Civil works contracts	Q4 2002 completed		http://www1.worldbank.org/harmonization/romehlf/Background/harmonized%20master%20prequalification.pdf
Request for proposals for consultants	Q4 2003		Draft prepared by Working Group completed. For discussion and approval by Heads of Procurement by December 2003.
Prequalification for civil works	Q4 2002 completed		Approved at the October 2002 meeting.
2. Country diagnostic work. Common instructions to carry out CPARs.	Q3 2002 completed		
Conduct eight joint country procurement reviews.	Q4 2002 completed	Country diagnostic work provides basis for building recipient capacity and recipient systems. Joint assessments reduce costs for donors.	Joint CPARs: Guinea with AfDB; Philippines and Uzbekistan with AsDB; Costa Rica, El Salvador, and Paraguay with IDB; Yugoslavia with EBRD; Azerbaijan with EU.

<i>Outputs/Outcomes</i>	<i>Timeline</i>	<i>Comments</i>	<i>Status as of August 15, 2003</i>
3. Procurement policies and procedures. Achieve greater policy convergence.	Q4 2002 (first step completed)	Policy differences hamper harmonization efforts.	Draft stocktaking paper prepared by WB and EBRD. Approved by other MDBs in March 2002.
4. Adopt common procurement, implementation, monitoring approaches for cofinanced sector programs and projects.	Q2 2002 ongoing	Cofinancing of programs and projects will be facilitated for borrowers and transaction costs will be reduced. Capacity building will be jointly supported by donors. Joint work is finished; however, completion will depend on actions from each bank. On July 17, 2003 World Bank began discussions with Board to modify WB guidelines.	Draft diagnostics approved in March 2002. Meeting in October 2002 discussed how to harmonize policies for procurement of goods and works and for hiring consultants. Recommendations on best practice for harmonization of policy approved in October 2003. Now each bank will need to modify its own policies and guidelines.
MFI Environment Working Group on Environment^c			
1. Common Principles of Environmental Assessment. Develop common principles for the environmental assessment process and scope of report.	Q2 2003 completed	Document completed and available in English and French. Harmonization pilots involving EIA have been initiated in Ethiopia, Jamaica, Philippines, Sri Lanka, and Vietnam; and are under consideration in countries in the Europe and Central Asia and Middle East and North Africa Regions.	Multilateral Financial Institutions – Working Group on Environment has prepared A Common Framework for EIA. Common framework laying out converging requirements of MFIs for environmental impact assessment distributed at High-Level Forum in February 2003. Complementary work is under way. http://www1.worldbank.org/harmonization/romehlf/Background/MFI%20Final%20Jan17%202003-Eng.pdf
2. Common Issues in Environmental Assessment. Provide statement on principles in addressing common issues in environmental assessment	Q4 2002 completed	Document completed.	
3. Terms of Reference for Environmental Assessment. Provide a common framework for Terms of Reference for environmental assessments.	Q4 2002 draft	Draft document under review, to be completed Q2 2004.	Draft document being reviewed by members of MFI-WGE.
4. Environmental Management Plans. Guidance on the preparation of environmental management plans.	Q4 2002 draft	Draft document under review, to be completed Q2 2004.	Draft document being reviewed by members of MFI-WGE.
5. Environmental Audits. Common principles for the preparation of environmental audits.	Q4 2002 draft	Draft document under review, to be completed Q2 2004	Draft document being reviewed by members of MFI-WGE.
6. Update Pollution Prevention and Abatement Handbook. A proposed cooperative work program for updating the Pollution Prevention and Abatement Handbook used by MDBs, development organizations, private banks, and private sector	Q4 2002 draft work plan	Work plan to be completed Q2 2004, will require a multiyear work plan with significant funding.	Work plan being prepared by members of MFI-WGE, under leadership of IFC.

<i>Outputs/Outcomes</i>	<i>Timeline</i>	<i>Comments</i>	<i>Status as of August 15, 2003</i>
Bilateral Activities			
DAC-OECD Task Force on Donor Practices (all 23 DAC-OECD members)^d			
1. Good practices. Develop good practice reference papers on (a) financial accountability; (b) preimplementation stages of the project cycle; and (c) reporting and monitoring requirements.	Q4 2002 completed	Good practice reference papers provide benchmark principles for donors to rely on and recipients to pursue.	Good practice papers available at: http://www.oecd.org/dataoecd/60/28/2632982.pdf
2. Recipient engagement. Consult recipients on harmonization priorities and engage recipient experts in technical dialogue in each thematic area.	Q4 2001 completed		Actively engaged – partner countries will also be invited to participate in the work of the successor Working Party.
DAC-OECD Task Force Subgroup on Financial Management and Accountability^e			
1. Conceptual paper. Develop an overall conceptual framework for financial management harmonization, based on financial accountability, rules to govern use of resources, reporting arrangements, and ex-post verification.	Q4 2001 completed	Provides a vision and guiding framework for the overall harmonization effort.	Endorsed by Task Force in November 2001. Framework available on donor practices Internet site, http://www.oecd.org/dac/donorpractices
2. Fiduciary standards. Prepare an inventory of the relevant international standards and limitations in standards. Identify minimum standards in the management of public finance. Identify models for developing country capacity.	Q4 2002 completed	The extensive and growing body of current international standards in financial accountability provides a solid foundation for the development of a common standards framework on which donors can rely.	“Financial Reporting and Auditing” – DAC-OECD Good Practice paper http://www.oecd.org/dataoecd/39/6/2069996.pdf
3. Donor accountability. Report of bilateral donor accountability requirements in seven DAC member countries.	Q2 2001 completed		Reports available. http://www.oecd.org/dataoecd/24/44/2670977.pdf
4. Financial reporting and auditing. Good Practice reference paper on donor reporting arrangements; assess cost of donor reporting requirements on partner countries; identify scope for single reporting frameworks and single audit frameworks.	Q4 2002 completed	The multiple financial reporting and auditing requirements of individual donors have been identified as one of the main contributors to high transaction costs for aid recipients.	“Financial Reporting and Auditing” – DAC-OECD Good Practice paper
Diagnostic tools. Good Practice reference paper. Establish an inventory of diagnostic tools; map each tool to determine coverage of the principal dimensions of financial accountability; propose ways in which the findings of diagnostic work could be implemented.	Q4 2002 completed	Greater collaboration in diagnostic work has been identified as a quick-win/high-impact area in which there are few policy or procedural obstacles to greater donor collaboration.	“Measuring Performance in Public Financial Management” – DAC-OECD Good Practice paper.
OECD-DAC Task Force Subgroup on Preimplementation Phase of Project Cycle^f			
1. Analytic work at sectoral level. Good Practice reference paper to identify potential for harmonizing analytic work undertaken by donors to support country strategy plans.	Q4 2002 completed	Joint sectoral analytic work would improve coordination of project identification.	Integrated within “Country Analytic Work and Preparation of Projects and Programmes” – DAC-OECD Good Practice paper.

<i>Outputs/Outcomes</i>	<i>Timeline</i>	<i>Comments</i>	<i>Status as of August 15, 2003</i>
2. Risk analysis. identify and analyze best practices in risk analyses and management of multidonor development assistance.	Q4 2002	Common risk analyses reduce transaction costs and increase development effectiveness.	Integrated within “Country Analytic Work and Preparation of Projects and Programmes” – DAC-OECD Good Practice paper.
3. Logical framework and results assessment. Review good practice in the use of results frameworks, and develop a common integrated approach to logical framework assessment and results-based assessment, working closely with DAC Working Party on Aid Evaluation.	Q4 2002 completed as part of 1		Integrated within “Country Analytic Work and Preparation of Projects and Programmes” – DAC-OECD Good Practice paper.
4. Cofinancing. Identify best practice principles and review practices where one donor agrees to be represented by another in some or all respects of the project cycle	Q4 2002 completed	Improving cofinancing will leverage development impact.	“Delegated Cooperation” – DAC-OECD Good Practice paper.

OECD-DAC Task Force Subgroup on Reporting and Monitoring^g

1. Scoping reporting and monitoring systems. Identify different systems and requirements (at donor and country level) and burden placed on recipient partners; use case studies to identify reasons for stagnation in system improvement.	Q3 2002 completed		“Reporting and Monitoring” – DAC-OECD Good Practice paper.
2. Best practices. Identify success factors for common reporting and monitoring arrangements; explore mechanisms for cooperation procedures.	Q3 2002 completed		“Reporting and Monitoring” – DAC-OECD Good Practice paper.
3. Good practice reference paper. Foster harmonization of reporting and monitoring practices.	Q3 2002 completed		“Reporting and Monitoring” – DAC-OECD Good Practice paper.
4. Consultation process. Examine political will to change existing reporting and monitoring procedures and scope for acceptance of recommendations by donors, countries, and NGOs.	Q4 2002- Q1 2003 ongoing		

^a AfDB, AsDB, EBRD, IDB, and WB.

^b AfDB, AsDB, BSTDB, CDB, EBRD, EC, EIB, IDB, NADB, NDF, UNDP, and WB.

^c AfDB, AsDB, BSTDB, CAF, CDB, DBSA, DFID (observer), EBRD, EIB, IDB, IFAD, IFC, IIC, IsDB, JBIC (observer), NEFCO, NIB, DAC-OECD (observer), UNDP (observer), UNEP (observer), and WB Group (IBRD/IDA, IFC, MIGA).

^d The OECD-DAC regroups the bilateral development arms of the European Commission and the following countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and United States.

^e CIDA, EC, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Spain, Sweden, Switzerland, United Kingdom, UNDP, United States, and World Bank.

^f Australia, EC, Finland, France, Germany, Italy, Japan, Netherlands, Norway, United Kingdom, UNDP, and United States.

^g Australia, CIDA, Denmark, EC, Finland, France, Germany, Italy, Switzerland, United Kingdom, and United States.

Rome Declaration: Aid Agency and Partner Country Commitments

Aid Agency Commitments

Individual activities

<i>Internal rules:</i>	Identify ways to amend internal procedures in order to facilitate harmonization (§5.2)
<i>Incentives:</i>	Develop incentives that foster staff recognition of the benefits of harmonization (§5.5)
<i>Dissemination:</i>	Disseminate good practices to staff at headquarters and at country offices (§5.3)

Coordinated activities

<i>Alignment:</i>	Deliver aid in accordance with partner country priorities and systems (§5.1 & §5.7)
<i>Common arrangements:</i>	Implement common arrangements for delivering aid (§5.7)
<i>Transparency:</i>	Share relevant information on development activities (§5.6 & §6 & 8)
<i>Rationalization:</i>	Rationalize activities and missions where appropriate (§5.1)
<i>Delegated cooperation:</i>	Intensify delegated cooperation (§5.4)
<i>Peer reviews:</i>	Use peer review mechanisms to support harmonization (§5.6)
<i>Program support:</i>	Provide budget, sector, and balance of payment support when appropriate (§5.8)
<i>Regional level:</i>	Promote harmonization in global and regional programs (§5.9)

Partner Country Commitments

<i>Partner leadership:</i>	Partner countries take the lead on coordination activities (§5.6)
<i>Action plans:</i>	Design and implement country-based action plans for harmonization (§9)

Source: Proposal for a Framework of Indicators on Harmonization and Alignment, Working Party on Aid Effectiveness and Donor Practices, Task Team on Harmonization and Alignment, First Meeting. Development Co-operation Directorate, Development Assistance Committee, OECD. DCD/DAC/EFF (2003), June 23, 2003, p.4; see also High-Level Forum on Harmonization (SecM2003-0088), February 28, 2003.

Note: The Declaration is available at <http://www1.worldbank.org/harmonization/romehlf/Documents/RomeDeclaration.pdf>.

World Bank Disclosure: Information Available to the Public

TYPE	TIMING OF DISCLOSURE
Economic and Sector Work (ESW)	
• Gray cover reports	Disclosed after distribution to EDs
• Other ESW products	May be disclosed after consulting borrower
Strategy Documents	
• Country Assistance Strategies (including CAS progress reports, and transitional support strategies)	IBRD: At the borrower's request IDA: Unless, in exceptional circumstances, the borrower objects and the EDs agree to such objection
• Poverty Reduction Strategy Papers (PRSPs)	After in-country disclosure and officially received by the Bank, but before the Bank Board discussion
• Joint Staff Assessments of PRSPs (JSAs)	After discussion by both the Boards of the Bank and the Fund
• Sector Strategy Papers (SSPs)	After discussion by EDs and finalized
• Draft SSPs, draft Concept Notes and Consultation Plans for SSPs	After notifying EDs about proposed disclosure
Lending Documents	
• Project Information Document	After concept review meeting
• Factual Technical Documents	After consulting with the borrower
• Monthly Operational Summaries	When a project enters the lending pipeline
• Project Appraisal Documents	After Board approval of operation
• Program Documents (for PRSCs)	After Board approval of operation
• Tranche Release Documents (for PRSCs)	After release of tranche
• Program Document (Other adjustment lending)	After Board approval of operation; requires country's consent to disclose
• Tranche Release Documents (Other adjustment)	After release of tranche; requires country's consent to disclose
• <i>Status of IBRD/IDA Projects in Execution</i>	After distribution to EDs for information
• HIPC Preliminary, Decision-Point and Completion-Point documents	After consideration by both the Boards of the Bank and the Fund unless the country objects
• Integrated Safeguards Data Sheets	After project concept review
• Environmental Assessments, Resettlement Instruments, Indigenous People's Development Plans	Before formal appraisal begins (report could be in draft acceptable to Bank)
Evaluation Documents	
• Implementation Completion Reports	After distribution to the EDs
• Project Performance Assessment Reports & Impact Evaluations by OED	After distribution to the EDs
• Country Assistance Evaluations	After discussion by EDs unless the country objects to disclosure

TYPE	TIMING OF DISCLOSURE
by OED	and the EDs agree to such objection
• Sector, thematic, and Corporate Evaluations by OED	After discussion by EDs unless the EDs decide not to disclose
• Annual synthesis reports by QAG	After discussion by EDs
• Other synthesis reports by QAG	After distribution to EDs for information
Board Information	
• Board calendar for the current month	Updated twice a month to reflect changes
• Executive Directors' Work Program Overview	After approval by the EDs
• Chairman's Concluding Remarks on CAS discussions	Disclosed if the underlying CAS is disclosed
• Chairman's Concluding Remarks on SSP discussions	Disclosed unless the EDs decide otherwise
• Chairman's Summing-Up of PRSP discussions	Routinely disclosed
• Chairman's Summing-Up of HIPC discussions	Disclosed if the underlying document is disclosed
• Chairman's Concluding Remarks on discussions of other policy, strategy and topical issues	Disclosed if the EDs decide to do so
Legal Information	
• Loan, guarantee development credit agreements	After they are signed, declared effective and registered with the U.N.
• Framework Agreements, Administrative Agreements, and Grant Agreements relating to trust funds	After they are signed; requires the consent of parties to the agreement
Other	
• Information on procurement opportunities and contract awards	Publicly available in the Monthly Operational Summaries, appraisal documents and <i>Development Business</i> published by the U.N.
• Information on activities financed by trust funds (funding proposals; aggregate financial information on contributions and disbursements; annual financial statements on trust funds prepared by Bank)	Publicly available subject to agreements with the donors concerned
• GEF Project Documents for Full-Sized projects	After GEF CEO notifies the GEF Council about endorsing the project, but before final approval by the Bank
• GEF Project Briefs for Medium-Sized projects	Prior to endorsement by GEF CEO
• Country Policy and Institutional Assessments (CPIA) ratings	Relative ratings for IDA countries disclosed; CPIA ratings for IBRD countries (relative or absolute) not disclosed
• Historical information	Subject to safeguards to protect confidential, proprietary and other sensitive information

II.

Monitoring and Evaluation for Cost-Effectiveness in Development Management

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Abstract

Recent efforts to focus aid on countries with favorable economic policies have been motivated in part by the fact that cross-country econometric studies have failed to find a causal relationship between development assistance and economic growth. This can lead to a neglect of many of the neediest, however, as many of the poorest countries also have poor policies. An alternative account of aid's limited impacts can be found in weaknesses in monitoring and evaluation systems. The on average positive findings from project evaluations are hard to reconcile with the macroeconomic evidence, and the structural conditions of development assistance make evaluation vulnerable to positive bias. While much of the evaluation literature focuses on attaining statistically valid impact estimates or on participatory approaches that empower beneficiary populations, this essay presents an approach to monitoring and evaluation that aims to strengthen judgments of cost-effectiveness. The proposed approach involves evaluators achieving independence from project management in a manner similar to that of accountants in the private sector.

I. INTRODUCTION

Recent decades' efforts to reform development assistance have been oriented largely (1) to improving the economic incentive environments in developing countries in order to improve resource allocations and to stimulate entrepreneurship or (2) to increasing popular participation in project management or, more broadly, in governance. As important as these reforms have been (and remain), they have tended to locate "the problem" outside the traditional provenance of development assistance. Granted participatory reforms have sought to change the way development assistance is carried out. These reforms have often been conceived, however, as additional to or as displacing mainstream practice. Efforts to improve the incentive environment, such as through structural adjustment, have sometimes been understood as an alternative to supporting government in carrying out development programs. The approach I should like to propose, by contrast, aims to reform traditional development practice, as it were, from the inside out.

The traditional core task of development assistance has been, and largely remains, the implementation of programs and projects that aim to improve economic and social conditions. It has been thought that prior advances of advanced industrial countries indicate a potential for improvements in countries that remain poor. Development management, in this view, involves identifying a promising investment, securing funding, forming an implementation team, taking steps to give material form to the project idea, establishing relationships with beneficiaries and other stakeholders that elicit participation and support, and modifying the plan as necessary in the face of unanticipated events so that the project becomes institutionalized, yielding a flow of benefits more than commensurate with costs, within the social fabric. This unexceptional sequence, it turns out, requires a particular form of consciousness, a way of thinking about the project and its likely consequences, that can be specified in its broad outlines. It involves conceiving of the project and its evolving relation with its environment as a unified, organic whole, with a perspective grounded in an understanding of likely project impacts. Experience suggests that this form of consciousness, although far from universal among development practitioners, is also not uncommon. More importantly, it can be learned and trained. It can provide the orientation for an organizational culture (or organizational culture can be inhospitable or hostile to it). I shall argue that monitoring and evaluation systems provide tools that can establish and maintain this kind of consciousness. The practice of monitoring and evaluation in the development field today, however, falls far short of this ideal.

To see the problem from another perspective, we can say that the structural conditions of international development assistance place an unusually heavy burden on monitoring and evaluation systems. Consider how the pressures and demands on resource allocation decisions (human and financial) in international development organizations compare with those facing managers in other kinds of organizations. A firm in the private sector has an incentive to serve customers because they pay for the product. The desire to maximize profits and the need to compete with other firms present consistent management imperatives. A government agency, at least in a democracy,

typically faces a less direct but nevertheless potentially powerful form of accountability to clients by way of the ballot box. Democracy hopes to produce elected representatives who are good stewards of the public interest, and citizens dissatisfied with the performance of a government agency can seek reforms through the democratic process. The structural accountability of managers in international development organizations to their clients, by contrast, is extraordinarily thin. On the contrary, development agencies are likely to be influenced by the democratic process to support the economic and political interests of the donor countries. We can view monitoring and evaluation systems as filling the resulting gap: as an artifice to establish a form of accountability to beneficiary interests that structural conditions cannot provide.

The essay is organized as follows. Section II addresses the scope of the problem, reviewing evidence that aid's contributions to economic growth have been limited and discussing standards of monitoring and evaluation (M&E) in the development field. Section III presents two prominent approaches to M&E in the development literature, approaches we will call "M&E for empowerment" and "M&E for truth," and introduces M&E for cost-effectiveness as a (friendly) alternative. Section IV gives more details on the steps involved in implementing M&E for cost-effectiveness, and Section V explains why an evaluation association should be established to address the structural problem discussed above. Section VI speculates on results we might expect in the long term from the reforms the essay proposes.

II. ECONOMIC POLICY, PROJECT EVALUATION, AND THE IMPACTS OF AID

Lingering doubts about the effectiveness of development assistance have been exacerbated by disappointing evidence from cross-country econometric studies. Studies by Mosley, et al. (1987) and by Burnside and Dollar (2000) have failed to find statistical evidence that foreign aid contributes to economic growth in the average recipient country. Boone (1996) finds no significant contribution from aid either to economic investments (except in countries that receive more than 15% of GNP in aid) or to basic measures of human development such as infant mortality and primary schooling rates. Burnside and Dollar (2000) look at the relationship between the total grant component of foreign aid (bilateral and multilateral, excluding the loan component) and economic growth in 56 low and middle income countries from 1970 to 1993. After taking account of such factors as assassinations (a measure of political instability), institutional quality, the size of the budget surplus, inflation, openness to foreign trade, and whether a country is in Sub-Saharan Africa (indicating lower growth), Burnside and Dollar find no statistically significant relationship between the aid a country receives as a percentage of its GDP and its economic growth rate.¹ This does not rule out the possibility that aid contributes to growth in some cases, or that aid has other positive impacts such as on health, education, or political stability.

Burnside and Dollar also find, however, that aid does contribute to economic growth in countries with "good" economic policies. They construct a policy index based

on the budget surplus, the inflation rate (with a negative coefficient), and openness to trade, and find that when this index is sufficiently high there is a statistically significant, positive contribution from aid to growth. On this basis they argue that aid allocations should depend on economic policies, so governments that maintain low budget deficits (or some surplus) and a low rate of inflation, and that limit their controls on foreign trade, would get more aid. This would increase aid's contribution to economic growth in recipient countries and give countries that are negatively affected an incentive to adopt good economic policies.

It is worrying that of the 56 countries in their study, only six had governments that maintained good economic policies (Botswana, Indonesia, Korea, Malaysia, Thailand and Turkey; Table A2, p. 866). By the final period of the study, 1990-1993, 15 of the study's 40 poor countries had managed to establish good economic policies, but this was not enough to cause aid to show a positive impact on growth overall. Burnside and Dollar's findings indicate that foreign aid contributed little to economic growth in Latin America or Africa (except in Botswana) during the 1970s and the 1980s.

It is somewhat surprising, in this context, that most bilateral and multilateral development agencies found their own projects in these periods to be overwhelmingly successful. As a long-time observer of foreign assistance, I have never seen a development agency report that finds the agency's projects to have been generally unsuccessful. The most comprehensive study of aid evaluations from this period, *Does Aid Work? Report to an Intergovernmental Task Force* by Cassen and associates (1986; 2nd edition 1994), makes a typical finding.

In the broadest sense, this report finds that most aid does indeed 'work'. It succeeds in achieving its development objectives (where those are primary), contributing positively to the recipient countries' economic performance, and not substituting for activities which would have occurred anyway (1994, p. 7).

Cassen cites a World Bank review of over 1000 projects completed between 1975 and 1983 that found 79% with economic rates of return of 10% or greater, and around 90 percent of total investments

appeared to have achieved their major objectives, or were on the way to doing so. ... The common conclusion [across development agencies] is that some 65-75 per cent of projects are found to be satisfactory or highly satisfactory, and most of the remainder problematic but not irreparably so, with a small percentage (in single figures) completely written off (1994, p. 90).

The only way this would square with Burnside and Dollar's findings would be if most investments did not aim to contribute to economic growth and/or if aid displaced government investments that would have been just as profitable, leading instead to unproductive government spending. But despite the poverty alleviation rhetoric of the 1970s, economic growth remained the dominant aid objective in this period. Most donor-funded development projects are so different from what governments would have done

without the aid that it is hard to see how aid could have been giving governments the opportunity to switch spending from profitable investments to unproductive consumption.

Cassen notes that most donor agencies in the 1970s and '80s did not require estimates of economic rates of return for most of their projects (1994, p. 90). The World Bank imposed the discipline of requiring rate of return calculations because all its projects are funded by loans (at more or less concessional rates compared to what governments would face on the world market). A project would represent a net drain on the economy if it failed to achieve an economic rate of return greater than the value of loan repayments. There is a basic incentive problem, however, in the way economic rates of return are re-estimated at the conclusion of World Bank projects. It is officials who have been responsible for the project who are responsible for having rates of return re-estimated. On one hand this is an advantage. They know the project and are likely to be main consumers of the analysis in the Project Completion Report where economic returns are re-estimated. On the other hand, however, it is typically in the interest of the donor agency, of project management, and of the borrower government for their completed projects to be seen as successful. Even donor agency officials who have no connection with the project have an organizational incentive to report positive results. Most projects have only begun to recoup their investments at the time implementation is completed, so there is usually much ambiguity in rate of return estimates at this time. Instead of other donor projects being so much worse than World Bank projects in the 1970s and 1980s that they dragged down aid's average economic impacts, it is plausible that there may have been positive bias in re-estimated returns for World Bank projects.

Evaluators of donor-funded development projects generally tend to be in a delicate position vis-à-vis the donor and project managers. Many evaluators are independent consultants, while some work for consulting firms that hold evaluation contracts and some are regular employees of a donor agency. In all cases their future employment prospects tend to depend to some extent on the donor. Some evaluations are carried out by teams consisting only of donor agency, government, and/or project employees. Such evaluations may be presumed to be vulnerable to (possibly unintentional) positive bias. Probably the majority of evaluations are led by someone who is not a regular employee of an agency responsible for the project, so evaluations tend at least to provide a fresh overall perspective. When evaluators suspect that their access to future contracts may depend on their presenting the present project in a positive light, however, their independence is likely to be compromised to some extent.

Several factors contribute to the incentive for and vulnerability to bias in program evaluations.ⁱⁱ Most obvious is the desire for one's work to be seen as successful, and the possibility that one's future access to resources may be diminished if one's work is seen as unsuccessful (Cracknell, 2000, p. 184). Another source is disciplinary fragmentation, or the multiplicity of disciplinary perspectives among development professionals. Specialists in agriculture, engineering, health, economics, anthropology, and other areas bring important training and specialized knowledge to development tasks, but to the extent that they each understand development problems in the terms of their own academic disciplines, their perspectives on a particular program are likely to conflict.

One often finds “camps” in a donor agency, with the agricultural extension people, the family planning specialists, the economists and so on defending their own turfs vis-à-vis one another (Cracknell, 2000, p. 184). Anecdotal evidence suggests that in some cases their defense of their own programs leads them to ignore or to hide unfavorable findings.

While the World Bank has estimated economic rates of return for most of its projects, most donor agencies have planned and evaluated projects in terms of (often hierarchical) lists of objectives. Economic analysis may be of limited value when a project’s goals are not in the first instance economic. Economic analysis does, however, have attractive properties for evaluation purposes. An estimated economic rate of return provides a summary statement of all a project’s economic costs and benefits, and there are fairly clear rules for estimating benefits. A project planned on the basis of a list of objectives *may* provide a similarly determinate basis for evaluation if objectives are quantified and the relative weights of different objectives are clear, but most such projects do not. Commonly there are half a dozen objectives, including a few (e.g. “increase incomes,” “strengthen community organizations”) that require significant judgment calls from evaluators. Since the overwhelming majority of projects make some progress on most if not all objectives, it is usually not too hard to present a project as a qualified success.

There are few independent analyses of evaluations of donor-funded projects in the published literature. Carlsson, et al., in *The Political Economy of Evaluation: International Aid Agencies and the Effectiveness of Aid* (1994), review evaluations of development projects in Nicaragua (gold mines), Kenya (soil conservation), and Madagascar (forestry management), and of commodity import support programs. They find little rigorous economic analysis to support the economic rates of return estimated for these projects.

Most appraisal and evaluation manuals convey an image of a structured and rational decision-making process, but it seems as if the reality is something else. It rarely happens that a project idea is subjected to any economic analysis of substance, which then forms the basis of the decision making. ... Even an appraisal system as rigorous as the World Bank’s is in practice continuously being manipulated, because it is subordinated to the individual interests of POs [project officers] (getting projects to the Board) as well as the organization’s own objectives (meeting the disbursement targets). ... Individuals are rational in the sense that they defend their, or their group’s interests (Carlsson, et al., 1994, p. 180).

Clements (1999) reviewed four US Agency for International Development and four World Bank projects in Uganda, Kenya and Malawi. Two of these projects had economic rates of return re-estimated when the project was completed, and both involved glaring methodological errors leading to much higher reported returns than valid analysis would allow.

Out of more than 10 applications of cost-benefit analysis found in project documents (often for individual project components), at the time of the study only that for [one project component in] road maintenance was clearly sustained by outcome information to give a valid conclusion about project results. Final reports were not yet available for five projects ... but none of these was collecting a base of information that would support coherent overall impact analysis. Where there was no determinate evaluation framework such as cost-benefit analysis provides, positive reports were often achieved by identifying positive outcomes and ignoring or underreporting negative outcomes (Clements, 1999, p. 1377).

These studies suggest that rigorous analysis of project impacts is uncommon and positive bias probably the norm.

The repeated failure to find statistical evidence that aid contributes to economic growth is inconsistent with the positive summaries of donor agency project portfolios based on project evaluations. It appears that the statistical evidence is closer to the truth than the evaluation summaries. There are significant incentives and opportunities for positive bias in project evaluations, and the limited available evidence on assessments of project impacts (economic or otherwise) confirms the presence of positive bias. Monitoring and evaluation systems are not providing the kind of accountability that donor agencies need to orient their management systems to serving beneficiary interests. Yet the accountability function is only one function of evaluation. At least as important is the role of evaluation in organizational learning. As things stand donor agencies simply do not know which of their operations are cost-effective.

III. MONITORING AND EVALUATION IN DEVELOPMENT MANAGEMENT: THREE APPROACHES

Two different kinds of reforms are needed for monitoring and evaluation systems to enhance the cost-effectiveness of development assistance. Structural reforms that can address the problem of positive bias are discussed in Section V. Here we discuss an approach to monitoring and evaluation designed to support stakeholders for donor-funded projects in judgments of cost-effectiveness. In “M&E for cost-effectiveness” it is the role of evaluation to reconstruct and articulate the evolving hypotheses implicit in a project design in terms that universalize the project’s unique problems and solutions. Given that development management involves a constant competition for resources, and given the structural condition discussed above in which beneficiary interests are only weakly represented, it is the role of evaluation to make the strongest possible judgments about a project’s cost-effectiveness in terms that facilitate comparisons among projects. These two features – reconstructing the project hypothesis and making strong judgments of cost-effectiveness – together constitute a distinctive approach to monitoring and evaluation that supports the synthetic judgments on which effective development management depends.

To explain M&E for cost-effectiveness it is useful to compare it with other evaluation approaches. The strongest challenge to standard approaches to aid evaluation

in the last two decades has involved the elaboration and application of participatory approaches (see e.g. Cracknell, 2000). These have aimed to involve beneficiary populations in project management, to assist them in taking responsibility for improving their own conditions and to incorporate them in more democratic processes of development decision making. Authors such as Korten (1980) and Chambers (1994a, 1994b, 1994c), whom Bond and Hulme describe as “purists” (1999, p. 1340), have sought to reorient the development enterprise to support the goal of empowerment. They have promoted an approach I call “M&E for empowerment” because it emphasizes learning at the local level, seeking to empower project beneficiaries by involving them in the evaluation process. While M&E for cost-effectiveness appreciates empowerment as an important development goal, it identifies the locus for the learning that evaluation should support among those who are responsible for resource allocation decisions. Donor agency officials are the primary audience for aid evaluation because they exercise primary control over these resources. It turns out, however, that the form of evaluation that can best inform these officials will also best inform officials of developing country governments, project managers, and the overall development community, as well as, with some additional synthesis, the legislatures that appropriate aid budgets. Evaluation and empowerment goals overlap in their management implications, and empowerment was certainly neglected by the development community prior to the mid-1970s. Monitoring and evaluation for empowerment should be viewed as a subsidiary branch of aid evaluation and as a management strategy for empowerment.

It is possible that a great practical barrier to useful evaluation arises from some of those most knowledgeable of and committed to evaluation as a science. It has been common practice to begin discussions of aid evaluation methodology with the experimental method of the natural sciences (e.g. Casley and Lury, 1982; Baker, 2000), and to present the various evaluation methods as, in effect, more or less imperfect approximations to randomized and controlled double-blind experiments. This approach often uses household surveys that measure conditions that a project seeks to influence, so that through appropriate comparisons changes attributable to the intervention can be identified in a statistically rigorous manner. I call it “M&E for truth” because it emphasizes making statistically defensible measurements of project impacts. This approach is right to insist that projects should be assessed primarily on the basis of their impacts, and that impacts should be understood as changes in the conditions of the population compared to what would be expected in the project’s absence (in evaluation jargon, as compared to the counterfactual). It is arguable, however, that in its orientation to statistical rigor it has established a “gold standard” that many evaluators are all too quick to disavow. Only a very small proportion of project evaluations present statistically rigorous impact estimates, and evaluations that do not often use the demanding requirements of statistical rigor as an excuse not to address the question of impacts at all.

Monitoring and evaluation for cost-effectiveness differs from M&E for truth in its view of the role of evaluation and in its methodology. Managers allocating resources for development assistance, which involves investment choices in many sectors and in dozens of countries, must come to terms with staggeringly complicated and difficult

problems. To maintain a working understanding of the strategic outlook even for a few projects in one country is an enormous challenge. To support the judgments these managers have to make, M&E for cost-effectiveness first has evaluators not only estimate impacts but also make judgments of cost-effectiveness. Second, this approach aims as much to achieve a clear and succinct account of a project's strategic developments, or cause and effect relations, as to enumerate its impacts. A great challenge to making judgments of cost-effectiveness lies in the weighting of different kinds of impacts. Evaluation of cost-effectiveness has generally been understood to involve assessing whether a particular, usually non-economic objective has been achieved at the least cost or at a reasonable cost (e.g. Gittinger, 1982, pp. 280-284). Problems in development management, however, routinely require choices among unlike goods. The distinctive feature of judgments of cost-effectiveness (as understood here) is that they are highly synthetic. They involve summarizing over a range of outcomes and impacts in terms of a standard imposed by the cost constraint. If the problem of weighting can be adequately addressed (see Section IV), the justification and defense of judgments of cost-effectiveness can be expected to contribute substantially to bureaucratic learning in development management.

To know that project X has achieved impacts Y, even if Y is a complete and accurate summary of impacts, is not necessarily very helpful to subsequent resource allocation decisions. One also needs a textured understanding of the overall features of the project design, of relevant features of the beneficiary population, and of management challenges that have been faced and their disposition (as well as information on costs). The lessons from a project are in its dynamics, not in its results. Information on impacts is needed to mark the nature of the lessons to be learned (e.g. of success or failure) and to ground and buttress the analysis of management strategy. Therefore M&E for cost-effectiveness places as much importance on analyzing a project's unfolding hypothesis as on analyzing its impacts and cost-effectiveness. It aims to explain the unique features of the project's experience as a development intervention in terms that support the application of lessons learned to other possible projects. A final evaluation, under this approach, should include a reconstruction, beginning with the project design and relevant features of the beneficiary population and of the project environment, discussing the main components and features of project implementation, any changes in assumptions or design, problems that have been faced, and so on.

Besides taking this holistic approach to evaluation, M&E for cost-effectiveness also adopts an integrative methodology. This methodology starts from the kinds of judgments managers are required to make. It views the particularly strong forms of evidence that statistical methods can generate as planks to be used in constructing judgments of impacts. Household (and other) surveys, however, although they should not be disparaged, are not the only defensible basis for impact estimates. A project design itself presents an analytic framework from which the question of impacts can be approached, and project records and opinions from project managers provide a starting point for developing a composite picture of changes due to a project. The propositions of a project design can be probed and its picture of results elaborated through surveys, interviews, direct measurements, case studies, comparisons with other projects, and other

investigative techniques to test how far the changes intended in the project design have taken place. Under M&E for cost-effectiveness, impact estimates are based on many forms of quantitative and qualitative information. Scenarios can be developed, for example, of “high,” “medium,” and “low” impacts, and it may be possible to determine with no ambiguity that actual results are incompatible with all but one of the scenarios. This approach is better described as logical and integrativeⁱⁱⁱ than as scientific, because we judge the strength of its conclusions not by standards of statistical validity (although statistical data that it employs should be judged by these standards) but with our normal (trained) human reason. The test of an evaluation here lies in how cohesively it analyzes the intervention as an intervention of its type, how it marshals evidence, how it assesses problems presented in the implementation of the project, how coherently the judgment of cost-effectiveness summarizes the project experience, and how consistent this judgment is with appropriate standards of judgment, possibly represented by how similar judgments have been made for similar projects.

Monitoring and evaluation for empowerment emphasizes participatory methods whereby beneficiary populations can reach, or contribute to, evaluative judgments. Monitoring and evaluation for truth emphasizes statistical methods whereby conclusions about project results can be defended when they have been reached by steps consistent with statistical rules. Monitoring and evaluation for cost-effectiveness emphasizes assessments of project designs and unfolding strategies grounded in judgments of cost-effectiveness. It is no mistake that M&E for cost-effectiveness places so much emphasis on broadly integrative judgments, as there is much scope for foreign assistance to be improved if these can be strengthened. Various ways in which this can be accomplished are discussed in the remaining three sections.

IV. MONITORING AND EVALUATION FOR COST-EFFECTIVENESS

Over the last ten or fifteen years there has been a trend among United Nations and bilateral development agencies and the private contractors and non-governmental organizations (NGOs) they fund to increase the extent to which program assessments are based on outcomes rather than on outputs. Agencies that require estimates of economic returns for most of their projects are not part of this trend, as such estimates require a summary at least of economic outcomes. Indeed it is ironic that the World Bank and other multilateral development banks seem to have de-emphasized the economic analysis of projects during this period. Monitoring and evaluation for cost-effectiveness can be seen as continuing and intensifying the emphasis on outcome-based assessment. It adds a comparative dimension, as judgments of cost-effectiveness imply a comparative perspective and can be supported by actual or implicit comparisons with similar projects. Consistently with the trend, it aims to strengthen the focus on impacts in project plans, and it favors tightly constructed, outcome-oriented monitoring systems. Monitoring and evaluation for cost-effectiveness has the additional ambition, however, to place economic cost-benefit analysis and other approaches to outcome-based planning and evaluation (such as the logical framework) under a unified framework.

The motivating idea is that project managers and other management stakeholders are in a better position to make resource allocation decisions when they have a model of the project and its likely impacts in their minds. Also, they will be better able to orient management decisions to cost-effectiveness when their mental map of the project is oriented in this way. A credible estimate of likely project impacts requires an analysis of the project design, the changes it expects to bring about in beneficiary behavior, the relevant features of the environment, and the conditions that must be maintained for the anticipated improvements in beneficiary conditions to be realized. Estimating impacts requires individuals to think through project dynamics in a particularly thorough way, and it allows management stakeholders collectively to build a strong foundation for resolving conflicts and justifying choices. Management stakeholders are collectively responsible for the project's long term results, and to estimate impacts is to engage in the central form of deliberation that is essential to discharging this responsibility.

It is not to be expected that impact estimates will generally be accurate. We should not think of managers' organic conception of the project even ideally as the true conception, but, ideally, as a very sound conception (for management purposes) in light of available information and experience. One way to see the significance of M&E for cost-effectiveness is to imagine what happens when management stakeholders discover that part of their model is false. If they have an organic analysis of the project in their minds they will be drawn to see which features of the project design are called into question. They will think through changes in the project design that could accommodate the newly perceived condition. If their analysis is oriented to cost-effectiveness, then if the situation is so drastic that plans for the unspent portion of the project budget are no longer likely to be cost-effective, they will consider halting the project. Perhaps they will revise the entire strategy. An analysis grounded in the idea of cost-effectiveness provides a background against which we can rightly say that new information "calls for" specific changes in strategy.

The most important steps are (1) for project plans to be constructed around an estimate of project impacts and cost-effectiveness, and (2) for an evaluation to be carried out at the conclusion of each project that updates these estimates. Also a monitoring system that tracks parameters in these estimates should be implemented during the life of the project. Every project plan begins with some idea about how actions X can lead to changes Y. To build a plan around impact estimates is to project forward, as the details of the plan are worked out, the changes in beneficiary conditions (as relevant to development) that can be anticipated due to project activities.

An estimate of project impacts is made through some combination of internal logical construction and application of lessons from other contexts. It normally takes the form of a list of conditions, and for each condition a quantitative and/or qualitative estimate of the extent of change. Although there can be much uncertainty in impact estimates, particularly regarding the duration for which benefits should be attributed to a project, the more controversial matter involves the judgment of cost-effectiveness. The difficulty is that there is no consensus on how changes in different conditions can be weighted, or compared, and combined or summed together for a single judgment of cost-

effectiveness. The answer I propose involves a mixture of legislative guidance, professional discretion, and a long-term collective consensus-building process.

The problem of weighting benefits is not new to the development community. In the 1970s the World Bank adopted the goal to reduce poverty, but in standard economic analysis whether benefits accrue to rich or poor individuals is irrelevant. All that is counted is the sum of benefits.^{iv} Therefore the Bank developed distributionally sensitive cost-benefit analysis, where economic benefits accruing to individuals with lower incomes count for more according to a distribution weighting factor (Squire and Van Der Tak, 1975). Although it was not widely used, in this system it was the government taking the development loan that would set the rate of distributional sensitivity (p. 63). Clements argues that when loans are highly subsidized, as most World Bank loans to low income countries are, it should be the governing body of the lending agency that makes this judgment, as this would support a consistent focus on poverty across countries (1995, p. 582). Also, if different evaluations apply greatly different weights to the same kinds of benefits it makes it harder to generalize across evaluations and to learn from their conclusions.

For these reasons it is advisable for governing bodies such as the World Bank's board of governors, or, for bilateral agencies, the donor country legislature, to set guidelines for comparing, for example, income gains to poor and rich households, gains in life expectancy,^v and the attainment of literacy. If the legislature can identify the sums it approves spending for different kinds of impacts then comparisons can be made in monetary terms. For many projects, however, there are significant impacts that cannot be expressed in standard units. In order that these should not be excluded from the analysis of cost-effectiveness there should be some scope for planners and evaluators to assign values to project impacts.

Under M&E for cost-effectiveness the initial estimate of cost-effectiveness is made when the project is planned. Planners are to specify not only the impacts they expect the project to yield, but also, given expected costs, how cost-effective they expect the project to be. We can use the rating system employed by economic analysis as a conceptual anchor for a scale of cost-effectiveness (see Figure 1). An economic cost-benefit analysis yields an economic rate of return (ERR) that expresses the value of a project's economic benefits as a return on the investment.^{vi} The World Bank has traditionally set a benchmark of 10%, expecting projects in the economic sectors to achieve ERRs at least this high. An ERR above 20% is very good, while returns below 5% are disappointing. A scale of cost-effectiveness based on this system is presented in Figure 1. Here a rating of 6, corresponding to an ERR above 30%, is excellent, and a rating of 1, corresponding to an ERR below 0%, is disastrous.^{vii} Planners list type, quantity (and/or quality) and weight for the impacts they expect the project to yield, with weights either supplied by the legislature or drawn from their professional judgment. Taking costs into account, they locate the project on the scale of cost-effectiveness (from 1 to 6). Then they identify plausible or near-plausible variations in impacts which, given the same costs, would move the project up and down one unit on the scale (assuming it is

not already a 6). In this way they establish an evaluative framework that applies directly to the project's conditions.

Figure 1: Scale of Cost-Effectiveness

Economic Rate of Return	Degree of Cost-Effectiveness	Interpretation
30% and above	6	Excellent
20% - 29.9%	5	Very good
10% - 19.9%	4	Good
5% - 9.9%	3	Acceptable
0% - 4.9%	2	Disappointing
Below 0%	1	Disastrous

When the project is completed these estimates are updated based on actual results. If project managers have been maintaining their own ongoing analysis of project impacts and cost-effectiveness, then the evaluation at project completion should hold no surprises for them. It is important, however, for final evaluations to support learning not only by those involved with the project, but also by the funding agencies, the host country government, and the development community at large. The main requirement for this purpose is that estimates of impacts and of cost-effectiveness should be methodologically consistent across evaluations. Indeed, one of the main innovations proposed under M&E for cost-effectiveness is the establishment of an evaluation association that, among other functions, could support its members in employing consistent methods and approaches in the conduct of their evaluations (see Section V). The evaluation provides a summary of the initial project design and an account of how the hypotheses implicit in this design unfolded over the life of the project. The overall justification for the project, however, and for development assistance overall, rests on project impacts. The lessons to be learned from the analysis of project dynamics depend on the assessment of impacts and of cost-effectiveness. Impact estimates provide the main anchor not only for project evaluations, but also, due to structurally weak accountability to beneficiaries, for development assistance as a professional venture. We can say that the lack of methodologically consistent impact estimates in evaluations heretofore has undermined the professionalism and integrity of the development assistance community.

The need for methodological consistency can be seen from experience with economic cost-benefit analysis. The estimation of an ERR when a project is completed typically depends largely on benefit streams that continue well into the future. Such long term projections, however, can be very sensitive to fairly minor changes in assumptions. For example, it may be that established organizational capabilities and institutional arrangements are not yet strong enough to ensure the maintenance of new infrastructure, but a follow-on project that aims to improve these capabilities and arrangements has been designed. If a final evaluation assumes that the follow-on project will succeed, it may

give a much higher ERR than one based on the present situation. For estimates of cost-effectiveness to be useful they must be comparable across projects, and for this they must be consistent in the way they resolve this kind of question.

Even if methodological consistency can be achieved, given the current state of the evaluation art and the limited resources available for evaluation there will be many cases in which impact estimates and therefore judgments of cost-effectiveness cannot be very precise. In light of the structural burden on evaluation in development assistance, however, as well as the need, given the difficulty and complexity of development assistance, for learning between projects, it is important for evaluators to make the strongest judgment of cost-effectiveness that they consider justifiable. In cases where available information does not permit a confident judgment, they should still make their best guess. They should indicate their level of confidence in the guess (e.g. high, medium, low), and the range on the scale in which they are confident that the project's likely degree of cost-effectiveness lies. For example, evaluators may conclude that they have medium confidence that Project X has a degree of cost-effectiveness of 3, but they are highly confident that it is either a 3 or a 4 (acceptable or good). In this case they should indicate the factors which, if known, would allow them to make a confident decision, and show how plausible values of these factors affect impact estimates and the judgment of cost-effectiveness.

It would serve the development enterprise in various ways if final evaluations like this were carried out routinely. It would provide a basis for holding project planners and managers accountable for making proper use of the resources under their control, making up, to some extent, for the structural constraints to beneficiaries holding them accountable. It would provide donor agencies and the development community with ongoing feedback not only on which kinds of projects are more cost-effective, but also on strategic and environmental factors that contribute to cost-effectiveness. In this way it would support ongoing improvements in project portfolios. We could expect that project planners would read evaluations of recently completed projects similar to the one they have in mind, as this would aid in project design and in estimating likely cost-effectiveness. We could also expect that project managers would read them, and, before accepting responsibility for a particular project, determine to their own satisfaction that impact estimates in the project plan are plausible. It would support the entire development community in constructing and maintaining a background orientation to cost-effectiveness. This would enhance the rationality of development assistance as an enterprise in pursuit of development goals.

V. AN ASSOCIATION FOR INDEPENDENCE, CONSISTENCY, AND METHODOLOGICAL ADVANCES IN THE EVALUATION OF DEVELOPMENT ASSISTANCE

It is unlikely that M&E for cost-effectiveness can be established simply from a specification of its steps and an explanation of its advantages. Positive bias in contemporary practice stems not primarily from methodological shortcomings among evaluators, but from a conflict of interest inherent in the structural conditions of

development assistance. Short term interests of management stakeholders in their individual and organizational reputations conflict with long term interests of the development community in accountability and in learning from experience. Comparing the situation of the intended beneficiaries of foreign assistance with that of the clients of most organizations in the public and private sectors (see Section I), the weakness of development “clients” is the other side of the coin to the vulnerability of development project evaluations to biases arising from management interests. The apparent prevalence of positive bias suggests that organizational cultures and procedures for evaluations have evolved to accommodate the interests of management stakeholders.

When evaluators are paid from funds originating from donor agencies, (an apparently permanent condition,) there tends to be an incentive for evaluators to present their findings in a positive light. One way for evaluators to achieve a significant degree of independence from the interests of management stakeholders, and to establish an independent frame of reference, is to establish an evaluation association with its own rules and standards. The structural problem facing evaluators in development assistance parallels the situation of accountants and auditors in publicly traded corporations. The interest of corporate managers in using corporate resources for private purposes conflicts with shareholders’ interest in managers promoting profits. Yet the accountants who keep the managers’ books and the auditors who check that the books are kept properly are employed by the managers. Accountants and auditors are protected from the private interests of management by the rules of their professions, as codified, for example, in Generally Accepted Accounting Principles (GAAP), and as interpreted by associations of their peers. These structural devices are not always effective, as recent ENRON and WorldCom scandals demonstrate, but such scandals are the more remarkable because the controls usually do work. A professional association of development project evaluators would not eliminate incentives for positive bias, but it would provide a counterweight, while also promoting technical improvements in the way evaluations are conducted.

The independence that a professional association could provide would be grounded in the rules and professional standards that it maintains. Monitoring and evaluation for cost-effectiveness could hardly be sustained without a professional association (or something similar), as it requires basic guidelines and a repository of evaluations to support consistency in impact estimates and in judgments of cost-effectiveness. Indeed there is no need to wait until projects planned according to the requirements of this approach are reaching completion. Many of the gains from M&E for cost-effectiveness would begin to accrue as soon as significant numbers of completed projects are evaluated according to its specifications.^{viii} It may be timely, therefore, to sketch out how a professional association dedicated to this approach might function.

The association would have to have a guide book, criteria for membership, a stamp, a repository, and a standards committee. The guide book lays out the evaluation approach, stating that each evaluation reconstructs the unfolding of the hypotheses implicit in the project design and estimates project impacts and cost-effectiveness. It would present approaches to estimating impacts and degrees of cost-effectiveness. Any member conducting an evaluation under the association’s stamp would be bound to

follow the approach laid out in the guide book or risk losing membership. This rule is the source of the evaluator's independence from project management. Each evaluation completed under the association's stamp would be indexed and included in a database in the repository. The standards committee would be responsible for determining if evaluations comply with the association's standards.

Monitoring and evaluation for cost-effectiveness aims to increase methodological consistency in order to increase the comparability of impact estimates and judgments of cost-effectiveness, but this should not come at the expense of the rich and valuable methodological pluralism that characterizes the development assistance field. The guide book should specify the questions to be asked without restricting the approaches that can be taken in answering them. It should give examples of appropriate methodologies and links to evaluations in the database that have used them without restricting evaluators from employing and defending alternatives. Inevitably there would be disagreements on what constitutes an adequate basis for estimates and judgments. Much of the work in establishing the association would come in reaching a working consensus on these matters, and conflicts would inevitably persist. This kind of conflict is not without costs, but it does support the establishment and maintenance of important powers of judgment among the development community.

Besides supporting an orientation to cost-effectiveness within the development community, such an association would also support methodological advances in evaluation practice. Impact estimates and judgments of cost-effectiveness for which evaluators indicate low or medium confidence would point to areas that could benefit from methodological advances. Within the universe of evaluations carried out by members of the association it would become apparent where assessments of outcomes are relatively secure and where ambiguity persists. This could help researchers or more experimental practitioners to see where their efforts could productively be applied. It is not unreasonable to expect that the association would create conditions for self-motivated and decentralized improvements in evaluation practice, enhancing methodological consistency as evaluators identify the more effective approaches to impact assessment problems.

There is also no need to wait for the governing bodies of donor agencies to establish weights for combining different kinds of impacts in judgments of cost-effectiveness. An evaluation association could establish these on a provisional basis, and the experience gained through their establishment and application could inform the governing bodies. Just as we would anticipate a decentralized learning process among evaluators on impact assessment methodology, we would anticipate a similar process in regard to judgments of cost-effectiveness. As evaluators observe one another identifying different kinds of impacts as significant for development and presenting different justifications for their valuation, we probably should not expect to see consensus, but we could anticipate the emergence of schools associated with different principles.

VI. LONG TERM GAINS FROM MONITORING AND EVALUATION FOR COST-EFFECTIVENESS

Long term gains from M&E for cost-effectiveness arise from three sources: enhanced accountability, increased learning, and reductions in costs. At present there are some small proportion of projects that from the beginning fail to establish a viable implementation of the project idea. Once funds have been allocated and a team established, management stakeholders have strong interests in the project moving forward. A very small percentage of projects harbor corruption and fraud. Independent and comprehensive evaluations are more likely to identify these so the authorities responsible for criminal investigations can be alerted. More commonly there is a general failure to take the major steps needed to completely redesign or to halt a lame project. If management stakeholders took for granted that the project would eventually be subject to an independent and comprehensive evaluation grounded in the idea of cost-effectiveness, it is much more likely that they would recognize and take account of such shortcomings, and, if necessary, take drastic action. Some project managers and donor agency and government officials responsible for the disposition of donor funds have never learned to construct an organic conception of a development project and its likely impacts. Monitoring and evaluation for cost-effectiveness would lead either to these officials learning to do this or to their being identified by their colleagues and their management responsibilities reduced.

The proposed evaluation approach would also lead more consistently to the recognition of exceptional projects, and to clearer distinctions being made between merely adequate projects and those that are very strong. This would increase the extent to which those professional rewards available to development agencies can be allocated on the basis of contributions to beneficiary well-being.

Monitoring and evaluation for cost-effectiveness increases learning by requiring more broadly synthetic judgments (particularly of cost-effectiveness), by establishing reasons and supports for development professionals to refer to completed evaluations, and by increasing the extent to which evaluations can be compared to one another and provide useful lessons for new programs. I have argued that the act of constructing a mental model of a project, including its evolving relations with beneficiary populations and its interactions with its environment, and of working through the dynamics of the model to make estimates of likely impacts and cost-effectiveness, itself constitutes one of the central forms of learning required for development assistance. To give just one example, for projects that build new institutions this can help managers to anticipate from the start the new responsibilities beneficiary populations will need to undertake. While such projects have often tended to focus initially on more concrete tasks like delivering services and constructing infrastructure, the forward thinking required for estimates of cost-effectiveness can help managers from the start to establish relationships with beneficiaries based on an expectation of the roles beneficiaries will have to play if the project is to succeed. Also, while many managers may have a clear view of the steps that must be taken to carry out the project plan, by grounding their mental model in the idea of cost-effectiveness they can gain a view of appropriate proportions between inputs and

outputs. Donor agency and government officials, likewise, can be expected through M&E for cost-effectiveness to gain a better understanding of their strategic choices.

Under the proposed approach impact estimates are likely to be of considerable interest to all management stakeholders. It gives them reason to go to the evaluation association's database to see what kinds of impacts projects similar to theirs have achieved, and to compare their own strategic situation with those of similar projects. In this way it supports learning between projects. Also, even if evaluations of these similar projects have employed outcome measures and monitoring and evaluation methodologies different from those from their own projects, management stakeholders should still be able to make meaningful comparisons. As long as judgments of cost-effectiveness are made on the same scale, (and assuming that justifications for these judgments are clear and grounded in impact data, and that impact estimates are grounded in an analysis of project strategy,) they should be able to make useful strategic comparisons. The same holds for the development community at large. Whatever the diversity of program strategies and impact assessment methodologies, if judgments of cost-effectiveness are made on the same scale, and assuming that these judgments are properly defended, the development community will be placed in a stronger position to learn from experience and thereby to strengthen program and project portfolios.

Many development professionals are inclined to consider a project successful when it has significant impacts, or when it achieves most of its objectives. It may be that a particular agency has hiring and procurement practices that ensure that costs are reasonable. Perhaps in the absence of cost-benefit benchmarks, professional norms have evolved that simply pay little heed to the cost side. It is clear, however, that in the context of donor agency operations the proportion to costs is a critical factor in interpreting impacts. Otherwise there will be an incentive to pad budgets in one way or another, or simply to pick easy objectives. An important source of gains from M&E for cost-effectiveness is in establishing an orientation to cost-effectiveness that is sensitive to the cost side. Since donor agencies support operations in countries beset by poverty, and given that their operations are widely observed, it is appropriate for them to err on the side of frugality. Nevertheless when they establish programs that clearly are cost-effective, opportunities for expansion and replication should be aggressively pursued, and the proposed approach encourages this. It should be noted that close attention to costs also tends to favor local hiring and procurement and participatory management approaches that elicit cost-sharing by beneficiaries.

It may be that some of the greatest gains from M&E for cost-effectiveness could come from supporting the more rapid identification of cost-effective investments. By the mid-1990s the basic shapes of trajectories for infections with the HIV/AIDS virus were known, and countries such as Uganda had demonstrated effective containment strategies. Likely mortality and social and economic costs from an AIDS epidemic were, to a broad approximation, understood. Nevertheless, many governments and the donor agencies that supported them continued to promote their established investment strategies. If at that time an orientation to cost-effectiveness had been taken for granted among development professionals, countries such as Botswana, Malawi, Zambia and South

Africa, (to name only a few,) might not face the terrible and wrenching crises that the AIDS pandemic is causing today.

Notes

ⁱ The coefficients for the Aid/GDP variable are very small, negative in one case, and with very low t-statistics (0.13 and 0.19 in two different regressions) (Burnside and Dollar, 2000, Table 3, p. 854).

ⁱⁱ Carlsson et al. state categorically in this regard that, “The use of economic analysis in the assessment of aid is subordinate to the organization of the agency, its objectives, decision processes, and incentive structure” (1994, p. 176).

ⁱⁱⁱ Or “apodictic,” the term used by Immanuel Kant.

^{iv} The interesting and important work on valuation in standard economic analysis involves the calculation and use of shadow prices, so that analysis is based on the economic value of costs and benefits rather than the nominal value.

^v Or disability adjusted life years (DALYs), to use the more standard unit.

^{vi} Specifically, the ERR is the discount rate at which the discounted sum of benefits minus costs is equal to zero.

^{vii} An ERR below 0 means that costs exceed benefits in nominal (undiscounted) terms.

^{viii} In this case rather than updating impact estimates and judgments of cost-effectiveness, evaluators would make original estimates.

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III.
Challenges and Opportunities of
Foreign Aid in a Post-Conflict Situation:
The Case of Rwanda
Mr. Protais MUSONI

Contents

1.0	INTRODUCTION	3
1.1	What is Aid.....	3
2.0	AID IN RWANDA	5
2.1	Conflict in the Rwandan Context.....	5
2.2	Pre-war levels of aid	6
2.3	Post-war levels of aid.....	7
2.4	Current levels of aid	9
3.0	CHALLENGES	10
3.1	Coordination and Partnership.....	11
3.2	Quantity and Quality of Aid.....	12
4.0	OPPORTUNITIES	14
4.1	Debt Relief	15
4.2	Programme Aid and SWAps	15
4.3	Budget Support	
4.4	Ubudehe	17
4.5	Memorandum of Understanding	17
4.6	Common Development Fund	18
4.7	Poverty Reduction Strategy Paper	20
4.8	Rwanda Harmonisation and Alignment Initiative	21
5.0	CONCLUSION	21
	REFERENCES	24

INTRODUCTION

This paper concentrates on the case of Rwanda, a nation which has been characterised by vast amounts of aid, and a bloody and violent conflict. The Republic of Rwanda is a classic post-conflict aid setting. After the 1994 genocide, a transitional period was ushered in that culminated in the elections of August/September 2003 and the nation is currently making remarkable strides in its social development, democratisation and economic growth.

This paper seeks to examine the role foreign aid can play in Rwanda's future, but in doing this, the role of aid in the build up to the genocide cannot be ignored. The structure of the paper is as follows; foreign aid is defined, and a brief description is given of the Rwandan conflict, and the history of aid in Rwanda. The core of the paper then looks at current aid levels now and the challenges and opportunities of foreign aid in the future.

1.1 What is Aid?

Official development assistance is all financing that flows from developed country governments and multilateral agencies to the developing world. Some of this financing is at interest rates close to commercial rates. 'Foreign aid' is usually associated with official development assistance and normally targeted to the poorest countries. *It is a transfer of concessional resources, usually from a foreign government or international institution, to a government or non-governmental organisation in a recipient country.* (Lancaster 1999: 490) Both types of aid can be divided into bilateral and multilateral components. Bilateral assistance is administered by agencies of donor governments. Multilateral assistance is funded by contributions from wealthy countries and administered by agencies, such as the United Nations Development Programme (UNDP) and the World Bank.

The current thinking behind foreign assistance to developing nations is to reduce poverty. However, the above idea that aid is solely intended to reduce poverty and therefore allocated predominantly to the poorest nations is misleading. There are several other political and strategic reasons affecting which countries each donor supports and in what capacity. At this stage it is necessary to underline the fact that the last fifty years have seen the transfer of trillions of dollars from developed countries in the West to less developed countries across the world, in the name of development. Yet development indicators in the majority of these less developed nations have actually declined.

There is much debate about whether the reasons for this failure in aid amounts to bad policy by recipient governments, can be blamed solely on corruption by an elite, or instead the result of badly-thought out projects and programmes by the donors themselves.

Although individual development projects have no doubt had successes, and humanitarian aid can help alleviate the effects of crises, there is little evidence that cash transfers do much to advance growth or stability in the developing world. Previously, aid usually came in the form of project support, which were directly executed by the donors themselves. The recipient government had little control over where the money was spent, and there was little coordination among the donors themselves. However there has recently been a shift towards budget support and national execution of programme funding. This gives the recipient government a much larger role in the managing of aid flows, and should ensure that money is directed in a harmonised and coordinated fashion to where it is most needed.

2.0 AID IN RWANDA

2.1 Conflict in the Rwandan Context

Rwanda's history since the advent of colonialism has been characterised by bloodshed, prejudice and manipulation along ethnic lines by those in power. Firstly the Belgian colonists and then the national post-independence governments. The years 1990 – 1994 were characterised by a civil war between, the incumbent government and the rebel Rwandan Patriotic Front. The culmination of this conflict was the genocide of 1994. On the 6th April 1994, while returning from discussions in Tanzania, President Habyarimana and President Ntaryamira of Burundi were killed in a plane crash over Kigali. His death was the trigger that set off the organised massacres that in three months killed over one million people.^{viii} The Rwandan Patriotic Front (RPF) reacted by launching an offensive on the 8th of April and quickly taking Kigali by the 18th of July. The advance caused the defeated genocidal forces (army and political leadership) to mobilise the population out of the country - around 2 million crossed into Zaire, Tanzania and Burundi where they were hastily housed in refugee camps.

The immediate post-conflict years were characterised by high levels of relief oriented assistance and a large number of donors, international non-governmental organisations and faith based organisations arrived in the country. While this was necessary it led to skewing the aid budget away from capital investment towards a more short term oriented expenditure regime. In more recent years development cooperation has been more medium and long-term oriented. A defining characteristic of government policy has been its emphasis on decentralisation and delivering of pro-poor services through decentralised structures. This has netted Rwanda a high degree of commendation and the development community has continued to show a keen interest in the country and its development. *'Rwanda is also increasingly being perceived as among the dynamic reformers in Africa, and may well become an exemplar for other post-conflict donor interventions'* (UNDP 2003: 8) However, the country remains highly aid dependent and aid finances most public sector investment programmes.

The role of aid is understandably specific to each nation. In the case of Rwanda – the volume and function of aid needs to be understood in the context of the 1990-1994 war and genocide. The visible mass exodus of this refugee movement broadcast across

the world, saw those aid agencies who had stood by and let the genocide take place, flocking to Goma, and Western Tanzania to provide one of the largest humanitarian aid operations ever. At the same time the new Government in place trying to restore peace and security to the war-torn Rwanda was neglected.

2.2 Pre- War Levels of Aid

Until the genocide, Rwanda was one of the most aided countries in the world. Development aid to Rwanda was vastly larger than private investment and commercial exports combined – although the data include money for technical assistance, much of which never reaches the country (Voyame and others 1996, 51) According to the Organisation for Economic Cooperation and Development official development aid accounted for 11.4% of Rwanda’s gross national product in 1989-90 – above the average for Africa and the least developed countries.

Development Aid, 1987-93

Donor	1987-89 Average	1990	1991	1992	1993
Belgium					
Total aid (Million \$)	30	43	56	48	41
Programme aid (%)		15	42	17	4
Emergency aid (%)	4		4	0.5	11
Switzerland					
Total aid (million \$)	10	10	17	14	20
Programme aid (%)		6.1	44.6		
Emergency aid (%)					
Germany					
Total aid (million \$)	25	33	45	46	42
Programme aid (%)		30		35	
Emergency aid (%)					
United States					
Total aid (million \$)	13	13	40	22	35
Programme aid (%)			50+		
Emergency aid (%)		1	0	0	81
OECD					
Total aid (million \$)	235	287.9	366.4	351.5	352
Programme aid (%)		8	335	29	8
Emergency aid (%)		3	2	14	12

Sources: Compiled from OECD online data and Uvin (1998)

The aid system was omnipresent in Rwanda. At the end of the 1980s Rwanda was the largest recipient of aid from both Belgium and Switzerland. This development aid supplied the fuel on which the machinery of the state ran. According to the World Bank, ‘foreign-assistance financed over 70% of public investment’ in the 1982-87 period (World Bank 1989b, 11) and the figure rose afterward.

2.3 Post-war Levels of Aid

From April 1994 through the end of the year, the international community focused largely on saving lives by providing food, shelter and medical and sanitary services to refugees and internally displaced persons. *The vast majority of assistance was expended to maintain refugee populations in Zaire, Tanzania and Burundi^{viii}*. Attention began to shift towards the rehabilitation and reconstruction of the nation in late September 1994, when the international community realised the severity of devastation bought about by the civil war and genocide.

The most critical post-emergency event in international assistance to Rwanda was the ‘Round Table Pledging Conference for Rwanda Reconstruction’ held at the initiative of the new Government of Rwanda in January 1995.

The table below presents the amount of assistance requested by the government in January 1995, the amount pledged (as revised in May) and amounts committed and disbursed as of September 1995.

January 1995 Round Table Conference: Financial Tracking (millions US\$)

	Requested*	Pledged**	Committed	Disbursed
		May 1995	Sep 1995	Sep 1995
Financial Support	189.6	186.2	111.2	50.1
Repatriation and Reintegration	273.7	65.6	42.7	25.5
Rehabilitation and Reconstruction	300.9	314.2	284.5	94.1
Outside Round Table Process and	0.0	141.3	84.6	75.3
Unallocated***				
Total	764.2	707.3	523.1	245.1

* Requested in Jan 1995 by the Government through the Rwanda Recovery Programme

** Pledged amounts as revised after the conference

*** Funds not matching Rwanda recovery Programme or unallocated within the sub-programmes.

Source: 1996 Joint Evaluation of Emergency Assistance to Rwanda

The delay in the disbursement of funds was caused by many factors. One impediment was the lengthy process for designing, assessing and approving development projects, which can take from one to two years. Furthermore some donors placed implicit and explicit conditions on assistance that have influenced the pace at which certain types of funds are released.

2.4 Current Role of Aid

The table below presents the amounts of foreign assistance which Rwanda has received over the last several years.

	1990	1995	1996	1997	1998	1999	2000	2001 (est)
Total Official Assistance (millions US\$)	198.7	363.6	345.7	379.0	371.6	356.4	430.0	225.0
Bilateral	150.3	254.2	90.8	116.7	107.7	162.3	150.0	91.0
Multilateral	43.4	104.1	228.2	224.5	232.1	164.1	251.0	120.0
NGOs	5.0	5.3	26.7	37.8	31.8	30.0	29.0	14.0
Grants and Loan Disbursements (millions of US\$)								
Official Grants	131.6	145.5	15.2	251.3	262.7	274.6	335.7	153.1
Bilateral	109.9	249.4	90.8	115.8	100.6	160.5	150.0	91.0
Multilateral	21.7	50.2	173.4	135.5	162.1	114.1	185.8	48.2
Loan Disbursement	62.1	87.5	2.2	89.9	77.1	51.8	65.3	71.9
Bilateral	40.4	4.8		0.9	7.1	1.8	0.2	0.1
Multilateral	21.7	54.0	54.8	89.0	70.0	50.0	65.2	71.8
Total Official Assistance as a % share of GDP (gross domestic product)	7.8	31.3	24.9	20.3	18.5	18.8	24.6	13.7
Of which: Bilateral	5.9	413.1	11.4	6.2	5.4	8.5	8.6	5.5
Multilateral	1.7	9.0	16.4	12.0	11.5	8.6	14.4	7.3
NGOs	0.2	33.4	5.6	2.0	1.6	1.6	1.7	0.9
Total Official Assistance as % share of GDI (gross domestic investment)	55.8	231.8	173.8	148.3	126.1	108.8	136.7	78.4
Bilateral	42.2	10.8		45.7	36.6	49.5	47.7	31.7
Multilateral	12.2	66.4	114.8	87.9	78.8	50.1	79.8	41.8
NGOs	1.4	7.5	2.6	14.8	10.8	9.2	9.2	4.9
Total Official Assistance per capita (in US\$)	28.9	51.4	47.5	49.4	47.1	44.0	51.5	26.2

Source: Republic of Rwanda, '2002 Rwanda Development Indicators'

The donor community has always provided external assistance to Rwanda, and the government is highly dependent on donor funding. By comparing Rwanda's statistics with other developing countries in the region it is evident that the nation relies on vast amounts of aid to finance required socio-economic development programmes and the functioning of its public administration. This was worsened by the war and then the 1994 genocide.

Country	Aid per capita (\$)	Aid as a % of imports and goods and services	
		1996	2001
	1999		
Rwanda	44.0	120.6	62.0
Kenya	10.0	16.1	10.8
Uganda	27.0	40.5	48.3
Tanzania	30.0	38.6	53.5
Malawi	41.0	42.8	38.3

Source: Aid Dependency, World Development Indicators (www.worldbank.org)

3.0 CHALLENGES

Given Rwanda's history and the difficult tasks ahead to develop the nation, the challenges regarding development aid are numerous. Below, this paper outlines some of the current concerns and then looks in detail at the major challenges.

The Government of Rwanda has mentioned strong concerns about current aid arrangements including:

- 1) A tendency of donors to be excessively prescriptive
- 2) The 'crowding-in' of aid to sectors and regions that are in fashion (e.g. governance in Rwanda's case)
- 3) A lack of clarity within the donor community about their accountability requirements
- 4) A lack of coherence in policies and practices between, and among donors
- 5) Donor-government policies and practices restricting trade access for exporters in low-income countries
- 6) IMF hegemony in setting macro programmes
- 7) An ineffective and inappropriate supply of technical assistance, and/or insufficient attention given to capacity building
- 8) A preference of most donors to set up separate procedures rather than to work jointly
- 9) The unpredictability of assistance, in particular disbursements by donors
- 10) An excessive number of conditions accompanying aid programmes
- 11) The tendency to fill gaps and write more detailed 'action plans' for government with insufficient attention to capacity building
- 12) Donors' preference for discrete project support

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- 13) Long delays in disbursements and implementation due to the rigidity of donor procedures
 - 14) Non-transparency of donors and their inability to share information more actively.

The above list of issues can be grouped under the following areas of ‘coordination and partnership’ and ‘quality and quantity of aid’. This paper will now take a closer look at the above points.

3.1 Coordination and Partnership

The concept of aid coordination must be understood in relation to what it is ultimately meant to achieve. The objectives of reducing transaction costs around aid delivery and reducing the demands on government capacity remain legitimate and powerful arguments driving the need for aid coordination. To that end, aid coordination must be understood first and foremost as the harmonisation of donor systems and procedures to bring them in line with the government’s existing systems and practices. Where these do not exist or are inadequate, concerted efforts must be directed to develop or enhance capacities that address these gaps.

The concept of development coordination has changed in the last ten years. With the document from the new DAC agenda for cooperation in the 21st century leading the way, a serious review of donor practices and delivery of external cooperation has been undertaken. Some of the key outcomes of this decade long ongoing exercise, have been (UNDP 2003):

- Shift from project aid to programme support and budgetary support
- Recognition of the notion that government is the key driver of development and change and should therefore lead and own the process.
- Recognition that national leadership means that donor systems and processes align with national systems and processes rather than the other way around.
- An emphasis on capacity development as opposed to conventional technical cooperation practices based on expert-counterpart arrangements.

Reflecting the shift from project to programme support, aid coordination has also taken on a new connotation. In the project approach, aid coordination was understood to mean a balanced portfolio of donor funded projects – balanced in terms of sector and region. It also means that no single sector or group of projects attracted too many donors leaving gaps in other areas.

The shift to sector wide approaches (SWAs) and eventually budgetary support has called for a modification in this concept of coordination. Under the new regime it is the national government that determines priorities and designs budget lines accordingly. Also the concept of SWAs or budget support implies that the national government, within justifiable limits, can shift allocations around within a predetermined framework. It stands to reason therefore, that the task of maintaining a balance of donors in different activities and sectors falls upon the government.

Rwanda and its development partners have taken several steps to build sustainable partnerships and improve the coordination of foreign aid. Examples of these will be looked at further on in the paper, when opportunities for the future are examined.

3.2 Quality and Quantity of Aid

The important issue is not only the amount of aid allocated to a particular project or programme but the predictability of the financing given. In a worse case scenario a programme commences, the offices are set up, advocacy and training is underway, but the finances for actual implementation are delayed. The beneficiaries' expectations and hopes have been raised and then there is no resulting action. This undermines the population's faith in both government and donors, and the process of poverty reduction.

Similar issues arise with regard to the flexibility of aid. Rwandan experience has seen donors allocate aid on a geographical basis. For example, each donor focusing on a particular region or province. Although this may seem sensible in order to prevent overlaps and such like, in reality it means that each province has different systems implemented at differing levels of capacity and experiences differing projects and programmes, and there is an inequity in the geographical distribution of projects in the country. There are diverse approaches by different donors in the implementation of projects in the same development sector and diverse financial management and reporting systems. If government wishes to roll out an initiative nationwide they are constrained unless all donors wish to participate, on the same terms.

As a result of the war and the genocide, Rwanda lost a vast amount of its skilled and educated population. One of the largest constraints which Rwanda has to deal with is weak capacity; not only in financial terms, but also the lack of a nationwide skilled human resource base and supporting personnel and equipment. There are no clear mechanisms by which technical assistance can build local capacity and pass on the knowledge and know how needed to ensure sustainability of projects and programmes.

With regard to the quantity of aid, several issues arise. Firstly it is not always clear what percentages of total budgets are reserved for administrative costs and what percentages go on development expenditure. The following table gives an idea of how financing is spread between administration and development from a selection of projects in Rwanda.

Project	Administrative Costs (%)	Development Investment (%)
Social Infrastructure	32	68
Social, Economic and Technical Initiatives programme	49	51
Community Reintegration and Development Project	32	68
Support to Decentralisation and Participatory Economic Development in Ruhengeri	35	65
Micro enterprise Programme	24	76

Decentralisation and Democratisation Project	52	48
Fiscal Decentralisation Project	94	6
Project to Support Decentralisation and Local Governance	47	53

Source: Ministry of Information, Local Government and Social Affairs, Rwanda 2003

4.0 OPPORTUNITIES

In spite of the above challenges, several efforts have been made by the Government of Rwanda and the donor community to try and overcome these hurdles and resolve the current concerns and constraints. On the part of the Government, there is a high level of ownership of the development initiative in the country; donors are committed solidly to the development of the country, and there is agreement between the Government and donors on the key strategic framework around which the harmonisation of development cooperation is to take place. The Rwanda PRS is a robust document developed through broad-ranging consultations. It identifies clear priorities and strategies for achieving its objectives. There is an MTEF which essentially guides the allocation policy of the government. There has been the designation of a key focal point for harmonisation – the Ministry of Finance and Economic Planning and within that, the CEPEX, is designated and agreed as the key agency for aid coordination. Similarly, UNDP is the point of interface on behalf of donors with the national government.

To ensure stronger integration and coordination of assistance from various sources eight dialogue clusters have been created. Each cluster has been placed under a lead ministry for coordination. The lead ministry will collaborate with a lead donor identified by the government as being in charge of the facilitation of the donors involved in the sector. Each cluster is a framework for exchange on the evolution and integration of the sector policies for the group as well as a framework for dialogue and mobilisation of resources.

Composition of Sector Groups (Clusters)

Cluster	Ministry Facilitator	Donor Facilitator
Agriculture, Rural Development, Lands, Environment	Ministry of Agriculture (MINAGRI)	World Bank
Infrastructure and ICT	Ministry of Infrastructure (MININFRA)	European Union
Social Sector	Ministry of Education (MINEDUC)	DFID
Human resources and Capacity Building	Ministry of Labour (MIFOTRA)	SIDA
Private sector, industry	Ministry of Commerce (MINICOM)	UNDP

Governance	Ministry of Local Government (MINALOC)	UNDP
CDF/Decentralisation	Ministry of Local Government (MINALOC)	Netherlands
HIV/AIDS	Ministry of Health (MINISANTE)	USAID

In addition to the steps mentioned above, opportunities for the effective use of aid in Rwanda lie in the following initiatives:

4.1 Debt Relief

The debt situation of Rwanda has a certain peculiarity because of the destruction of its productive potential in the war and the 1994 genocide. The limited export revenues highly affect the level of debt service, although the importance of the debt to multilateral organisations gives some advantages through the HIPC initiative to facilitate the Rwandan government in the reduction of its debt.

While Rwanda continues to receive substantial aid flows, these are insufficient to fulfil the basic rights of Rwanda's children, women and men to healthcare, education and security. While on the medium term, Rwanda will remain heavily dependent on aid even with debt relief, reducing the country's debt would lay an important foundation for greater fiscal autonomy, as well as releasing further finance for other activities.

Rwanda's debt problems pose a formidable barrier to development. The diversion of resources to external creditors, equivalent to one quarter of public expenditure, seriously undermines the Government's ability to fill the financial resource gap and achieve greater fiscal independence.

The debt problem, left unresolved, will contribute to wider pressures endangering Rwanda's development prospects. Rwanda's debt burden is a fundamental obstacle to the reconstruction and rehabilitation efforts of the Rwandan government and members of the international community. It is diverting scarce resources away from priority social sectors and the infrastructure and hampering economic recovery. An Oxfam International Paper states that the *HIPC framework has proven inadequate in tackling the problems of sustainable debt in a country emerging from conflict*. The creditor community must develop more flexible mechanisms for substantial, and fast, debt relief as a matter of priority.

4.2 Programme Aid and Sector Wide Approaches

Project aid is relatively distinct and limited, with beneficiaries that are generally well defined. The increased specificity of project aid allows a donor government to target more clearly both its domestic and recipient country beneficiaries, which will stimulate both to seek participation. Programme aid in broad comparison, focuses on the recipient country's overall policy objectives and macroeconomic goals. It may be privileged over project aid since it can distribute far greater allocations of an aid agencies budget. A recipient might also prefer the broad nature of programme aid, to the extent that it

provides greater discretion over a large amount of resources. Sector Programme Support (SPS) attempts to coordinate sector-wide, long term support. SPS is an example of the Sector Wide Approach (SWAp), which has been adopted by various bilateral and multilateral donor agencies. SWAPs attempt to integrate a sector strategy, a government expenditure programme, and a management framework for implementation with a secure funding basis. Though initiated to overcome many of the ownership problems of traditional aid, SWAPs also confront perverse incentives that arise in the context of coordinating multiple donors, varying levels of aid, and meeting the dictates of donor's disbursement schedules. *In fact the consistent long term support by donors can actually exacerbate moral hazard problems and recipients' own institutional development.* (Ostrom et al 2001: 18)

The Sector Strategic Planning adopted by the Government of Rwanda within the framework of the implementation of the Poverty Reduction Strategy aims at meeting more effectively and efficiently various development needs vis-à-vis ever limited resources. It focuses on the synergy of efforts and on a clear articulation of objectives and results to be attained thanks to a more relevant and coherent allocation of resources.

4.3 Budget Support

Direct budget support refers to channelling of donor funds to a partner government using the government's own allocation, procurement and accounting systems. The shift towards general budget support is largely due to two problems associated with more traditional forms of aid provision. These relate to problems with projects and the failure of policy conditionality.

By working outside government systems, in particular the systems of budget planning and execution, accounting, procurement and performance management, aid projects not only missed the opportunity to assist in strengthening government systems, but actually undermined them. It has been argued that general budget support has the following advantages:

It can increase ownership by focusing on locally identified priorities. This can strengthen local democratic processes. Poverty-reducing spending can be reduced by the better coordination of donors' resources that emerges from priorities set at the level of the country concerned. This also helps reduce the duplication of projects that emerges when many foreign donors fund individual projects directly. Budget support enables governments to get a comprehensive picture of all aid flows. In the case of projects, donors may be unable to provide the necessary financial information. As such, budget support may assist government financial programming and contribute to better economic management. Budget support demands that donors and local governments work together in partnership in order to strengthen local budget management systems. *(Paper by Tim Ruffer and Andrew Lawson of Oxford Policy Management, Presented to the DFID NR Advisers Conference, July 2002)*

4.4 Ubudehe

An additional opportunity for Rwanda lies in using a model which delivers aid directly to the community/grass-root organisations with the government playing only a facilitating role. ‘Ubudehe to fight poverty’ is an initiative in Rwanda which seeks to bring together communities at the lowest decentralised level to identify the causes of poverty and prioritise their needs. In response they receive a sum to implement their priority project. This process is the beginning of the planning process which feeds into the district development plans and finally the national development plans. This initiative carries aid directly to the community and central government only assists the process. In this model, the local governments or the Community itself assumes the management, co-ordination and ownership of aid revenues.

4.5 Memorandum of Understanding

Another opportunity to increase aid effectiveness lies in following the approach that the UK Government initiated. The Government of Rwanda has developed with the Government of the United Kingdom a unique relationship whereby the two nations have signed a Memorandum of Understanding. The government of the United Kingdom recognises that without substantial, sustained and flexible support from the donor community it will not be possible for the Government to manage the difficult transition from conflict to peace and stability and to attain the sustainable growth necessary to reduce the extreme poverty of the Rwandan people. The Government of the United Kingdom is prepared to make a long term commitment on the basis of continued adherence by the Government of Rwanda to the following commitments: National Unity and Reconciliation, Conflict Resolution, Good Governance, Poverty reduction, Sustainable Macro-Economic Stability and Human Resource Development. The commitments made by each side are reviewed annually by independent Consultants. (DFID Country Strategy Paper 1999) In addition they are planning to include a self-evaluation by each party which will be reviewed by an independent third party. This relationship has proved to be successful and DFID is now seeking to implement such partnerships in other developing countries. Within Rwanda the Government of Sweden has followed suit and adopted such an agreement and the Netherlands Government and Government of Switzerland are in the process of negotiating similar Memorandum of Understanding.

4.6 Common Development Fund

Within the Government of Rwanda’s policy of decentralisation the Common Development Fund was conceived in 2002 wherein at least 10% of annual domestic revenue would be paid. The purpose of the Common Development Fund is:

- *To finance development projects; to share out among districts, towns and cities, the funds allocated to these projects and to ensure harmonisation among such entities;*
- *To ensure the follow-up of the utilisation of funds allocated to development projects in districts, towns and Kigali City Council;*

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- *To act as an intermediary between districts, towns and cities on one hand and the donors on the other hand who finance development projects in these entities.*

(CDF Operational Procedures Manual 2002)

The CDF was designed in response to the shortcomings presently found in the funding and implementation of projects at a decentralised level. There were three main problems;

- Inequity in Funding

Different donors release different amounts of funds for their chosen provinces. The range varied between US\$500,000 and US\$12 million. Such differences can create a danger of unequal, fragmented development among different parts of the country.

- Undermining of National Management Systems

Donor funding come with its own preferences in financial management. The tendency is for each project to recruit, train and facilitate a Project Management Unit that is outside the mainstream of public administration. Due to the fact that the duration of such projects is for a limited period only, there are no adequate mechanisms in place to link with the public administration personnel that would sustain the started development process and activities once the projects had expired. For poor countries this state of affairs is aggravated by the fact that the personnel of Project Management Units are normally better paid and therefore find it difficult to be absorbed into the public administration. As these qualified personnel seek better paying opportunities they take the experience and training with them and the institutional memory gets washed away. Therefore institutions have to start all over again.

- The problems of equity in funding and that of unsustainable institutional frameworks can easily develop into a political problem. Governments are often accused of providing more donor funds to their areas of preference. It has also been observed that even if the assistance is in the form of loans, projects are labelled – ‘World Bank project’, IFAD etc thus sponsoring the dependency syndrome in the minds of the population and government officials. A high level of dependence reduces ownership, lowers participation levels and suppresses innovative energies that are the basis of development.

By the CDF collecting Government and donor funds, channelling these funds to local government, which would use the same management systems and tools of management, such problems are avoided. Moreover the government input affords the CDF the flexibility necessary for levelling out inequalities that may exist between district development funds.

4.7 Poverty Reduction Strategy Paper (PRSP)

Due to limited resources of aid it is important to use it wisely. This requires establishing appropriate systems to manage aid funds with a view to avoiding corruption and mismanagement and designing aggregate fiscal policy to take proper account of the macroeconomic implications of aid-financed spending. A key requirement for facilitating support and implementation of the PRSP and the MTEF (medium term expenditure framework) is the establishment of a well managed and productive aid coordination process and vice versa. The PRSP is treated as the principal policy and planning tool for the Government of Rwanda. All donors should now seek to focus effort and resources in support of PRSP implementation to achieve significant poverty reduction, and the PRSP and MTEF are the principal means of donor coordination, with the government taking the lead in this regard.

The Government of Rwanda prefers to receive resources on the most flexible terms. However, many donors prefer to provide project support rather than budget support. The Government will discuss with donors the best way to integrate projects into the overall strategy. As outlined in the Poverty Reduction Strategy Paper (2002) three principles are central:

- Projects should be conceived within a sector strategy and consistent with the priorities of the sector.
- Projects should have cost structures appropriate to the Rwandese economy. For instance, tendering procedures should not exclude local contractors by imposing unrealistic requirements.
- Development partners should consult the Government's Proposal Guidelines document for donor implementation of the PRSP, soon to be finalised, and the joint donor and Government document, 'Guidelines for Productive Aid Coordination in Rwanda'

A fast exit strategy for donor assistance would imply severe contractions of public services. The focus in the medium term must be on ensuring that the Government manages resource flows in an integrated way.

4.8 Rwanda Harmonisation and Alignment Initiative

The Government of Rwanda, alongside her development partners has set up the initial stages of a process known as the Rwanda Poverty Reduction Strategy Harmonisation and Alignment Initiative (RHAI) The first steps have been taken of a structured process by which development partners can increasingly align their aid and practice in support of the Rwanda Poverty Reduction Strategy, and through harmonisation, increase the extent of commonality in donor policies, procedures and practices at national level.

The immediate aim of the RHAI is to develop an action plan, with clearly demarcated responsibilities, for achieving progress on alignment, harmonisation and streamlining.

Key tenets of harmonisation are as follows:

- Donors align the individual programmes to which their budget support is linked with the priorities set out in the PRSP
- Donors coordinate their individual programmes in support of the implementation of the PRS in such a way as to achieve consistency in setting benchmarks for progress and to harmonise procedures and documentation requirements.

5.0 CONCLUSION

After the horrific events of 1994, Rwanda has made remarkable progress as it has moved from the emergency and humanitarian phase through to medium and long term development planning. This paper has given an overview of some of the key challenges facing Rwanda today and the steps being taken to overcome these challenges and ensure that the foreign aid of the future has a far larger impact than the money that Rwanda has received in the past.

Overall there are four main areas where change needs to take place, for aid to be at its most effective. The first of these is sustainability. Donors need to sponsor nationally developed programmes and specifically endeavour to target and improve on aspects that ensure sustainability. The main aspect is capacity building of individuals and institutions, in terms of technologies, skills, processes and procedures. Government and donors need to encourage local practitioners to use their deep knowledge of the country and their environment to develop best practices and procedures. Financing needs to focus on income generating processes, and aid should be invested in productive ventures with the aim that one day aid will no longer be needed.

The second area concerns the policy environment. It is up to the recipient country to do all that it can to create their own development space. Aid should not be used to buy or force policies rather recipient governments should look at their own unique conditions and be innovative and courageous in creating and implementing local-specific policies.

Thirdly, the existing aid structure which uses non-governmental organisations and in-country offices to liaise with the recipient government can create not only unnecessary bureaucracy but also result in the personal opinions and decisions of individuals on the ground contradicting larger policy level decisions. A suggestion would be to move away from a heavy in-country presence by donors and agencies to a system whereby governments deal directly with their donor government counterparts such as with the current Memorandum of Understanding with the United Kingdom. With such a system it also needs to be ensured that feedback and information is passed to the recipient country beneficiaries as well as the donor nations tax-payers and that the expectations of both are voiced and heard.

Lastly, there is the need for increased coordination of aid. As illustrated in the paper, there are powerful base conditions for a successful aid coordination process in Rwanda. Initiatives such as the Common Development Fund and Ubudehe, pool aid and take it down to the lowest levels, directly to the beneficiaries. CEPEX and the UNDP are working to coordinate and align donor programmes and support, and the PRSP serves as the guiding document for Rwanda's development. The mechanism of clusters, complemented by initiatives like the RHAI, provides an adequate constellation of actors and mechanisms to build on the mandate for aid coordination.

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IV.

New Partnerships in Development Assistance

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Summary

Partnerships for development are not new. What has emerged in the past few years at the United Nations is a focus on building *innovative* partnerships to achieve peace and broad development goals. Two key trends have driven this enhanced partnership agenda: the increasingly complex and interconnected nature of today's global challenges, and the growing influence and engagement of non-State actors. With numerous successful innovative partnerships underway, the United Nations is now working to scale up promising approaches and to learn from acquired experience. The United Nations Fund for International Partnerships (UNFIP) plays a lead role in forging new partnerships in development assistance. Building partnerships for development with the private sector and civil society, UNFIP mobilizes intellectual capital, technology, expertise, delivery systems and other resources in addition to funding to advance global causes.

Introduction

The United Nations has been building partnerships since it was established in 1945. The complex and interlinked nature of today's global challenges, combined with the growing influence and engagement of non-State actors, call for innovative approaches to partnerships for development. Led by UN Secretary-General Kofi Annan, the "new" United Nations is forging innovative partnerships in development assistance with the business world, foundations and non-governmental organizations (NGOs) to improve the quality of life of the underprivileged, promote peace, and protect the environment. As the UN Secretary-General remarked: "*Peace and Prosperity cannot be achieved without partnerships involving governments, international organizations, the business community and civil society. In today's world we depend on each other.*" Working to achieve common objectives, partners all bring their strengths to the partnership. Together they can create powerful synergies and overcome many barriers to sustainable development.

The United Nations is forming innovative partnerships on many levels, to address different issues and to serve many purposes. UN partnerships range from global-level,

multistakeholder, multi-issue initiatives to local projects between two partners. UN partnerships can build short-term humanitarian projects or long-term development projects. Some partnerships take a holistic approach to social, environmental and economic issues, while others focus on specific issues or areas. UN partnerships have one or more of the following purposes: policy dialogue; advocacy; mobilizing private funds; information and learning; and operational delivery. Partnership projects, which often involve a limited number of partners, have well-defined goals and are usually time-bound, can achieve success in a targeted area. Strategic global partnerships, in contrast, have the potential for multistakeholders to create broad and sustainable progress by working simultaneously on different types of activity such as advocacy, leveraging private investment with public funds, and using private sector and civil society expertise to deliver new approaches to operational delivery. This paper highlights examples of both innovative partnership projects and strategic global partnerships.

The United Nations is a truly global partner with an established network in most countries in the world. When one partners with the UN, composed of 191 member states, one immediately enters into a truly global partnership. No other organization has the combination of reach, experience and expertise. For instance, the United Nations Development Programme (UNDP) alone has a presence in 166 countries.

There is no model for partnerships between the United Nations and non-State actors. Each agency of the UN system makes its own unique contribution to achieving UN goals and objectives. The partnerships that any particular agency may enter into with non-State actors are determined by the agency's mandate, its mode of operations and its immediate objectives. Some of these partnerships are described in this paper. At the same time, there is a recognized need to implement a more coherent and systematic approach to developing and supporting partnerships across the UN system. As described below, UNFIP is playing a key role in that work.

Complexity and Interdependence of Global Issues

Many issues that once were treated as national or regional are now global in scope and impossible for any one State or even the United Nations to address on its own. At the same time, the causes and impacts of these issues are increasingly linked, and so require integrated approaches to problem-solving. Finding solutions to problems like HIV/AIDS, environmentally sustainable economic development, poverty eradication, peace and security, human rights, good governance and the digital divide, for example, are too vast and complex to be tackled by the public sector or private sector alone. Peace and poverty eradication are unlikely to occur in the absence of good governance or respect for human rights. Environmental degradation is due in part to poverty and industrial overdevelopment, and is exacerbated in areas of conflict; in turn, environmental degradation often deepens poverty. Tackling global issues more holistically requires new skills, competencies and resources: achievable through innovative partnerships.

In September 2000, world leaders at the United Nations Millennium Summit agreed to a set of measurable goals and targets for combating hunger, disease, illiteracy, environmental degradation, and gender discrimination. These Millennium Development Goals (MDGs) were endorsed by 189 countries and now lie at the heart of the global development agenda. UNDP Administrator Mark Malloch Brown indicates that “*the real power of the MDGs – what makes them different from previous development initiatives – is political not programmatic. [W]e in the UN, and our partners from the World Bank and other development agencies can – and are – aligning our main policy instruments and operational work ... behind the MDGs.*” In fact, MDG #8 “Develop a Global Partnership for Development” is the key to achieving all of the other MDGs. Mark Malloch Brown identifies the value of multistakeholder partnerships: “*if we can build on the real momentum of the past year, and the exciting new partnerships emerging between the UN system, civil society, governments, and others that are now opening up around the Millennium Development Goals - then I think we have every chance of harnessing this new global commitment for change ... to build a safer and more prosperous world for everybody.*”

Rising Influence and Engagement of Non-State Actors

Over the past ten years, political transition, economic liberalization and technological transformation have led to a dramatic growth in the number, diversity and influence of private sector and civil society actors. Private companies, foundations, NGOs, and other non-State actors are involved increasingly in the many challenges facing the world today. These actors are not a substitute for government, but can be effective partners for development.

Private Sector. As the dominant engine of economic growth in today’s globalized world, private sector involvement is key to achieving poverty eradication and development goals. Many businesses now recognize their responsibility to deal with broader societal concerns. Success in facing social, economic and environmental challenges has implications for long-term business success and survival. Conflict and refugee crises, for example, destabilize trade and market access. Corruption and poor governance increase the cost and uncertainty of doing business. Global companies in particular face pressure from a growing number of consumers, investors, employees, and society at large to show good corporate citizenship by going beyond paying taxes to acting responsibly, being accountable and contributing to broader societal goals. These stakeholders have been challenging companies to align their core business activities in a socially responsible way and help to shape national and international frameworks and institutions, in addition to supporting community projects through corporate philanthropy.

The United Nations is harnessing the experience, infrastructure and intellectual capital of the private sector, not only its money. Outmoded notions of public-private partnerships too often meant “you give us your money and we’ll spend it.” Today,

partnerships are taking on a whole new meaning. The public benefits not only from the financial resources but infrastructure, expertise, technology, products and management skills of the private sector.

The **United Nations Global Compact** (www.unglobalcompact.org) is a multistakeholder partnership that engages business in an innovative way to achieve development objectives. The Global Compact is a global corporate citizenship platform that aims to introduce universal principles in the areas of human rights, labor and the environment to make markets more stable and inclusive. The UN Secretary-General launched the Global Compact in 2000 to fill a perceived void between regulatory structures and existing codes of conduct and standards. The Global Compact is a multistakeholder global network that has grown to more than 1,000 companies, trade unions, NGOs, academic institutions, and five United Nations agencies (the Office of the United Nations High Commissioner for Human Rights, the United Nations Environment Programme (UNEP), the International Labour Organization (ILO), UNDP and the United Nations Industrial Development Organization (UNIDO)). The Global Compact seeks to integrate its principles into business activities through a range of modalities that include dialogue, learning forums, outreach and projects on the ground. Recognizing the importance of local and country-level engagement, the Global Compact involves small and medium-scale enterprises, foundations and NGOs from developing countries and countries in economic transition.

The **Equator Initiative** (www.equatorinitiative.org), funded by the United Nations Foundation (UN Foundation) and implemented by UNDP, is another global, multistakeholder partnership that innovatively leverages private sector resources to achieve development goals. This partnership among the United Nations, governments, civil society, businesses and foundations links economic improvement and job creation to protection of the environment by building the capacity and raising the profile of community enterprises in the tropics. The Equator Initiative shows how conserving biological diversity has become a part of the business bottom-line for these thriving local enterprises, ranging from sustainable forestry and fishing to organic agriculture and ecotourism. In addition to providing awards, the Equator Initiative plans to develop local capacity through community-to-community learning exchanges and contribute to the creating and sharing of knowledge to make an impact on policy and public awareness.

The private sector is an invaluable partner in fighting HIV/AIDS, which is now recognized as a global epidemic that defies solution by any one government or sector acting in isolation. *“Governments and civil society must recognize and place greater emphasis on the valuable contribution business can make, if we are to stop the spread of this virus,”* warns Richard Holbrooke, President and Chief Executive Officer of the Global Business Council on HIV/AIDS, and former U.S. Ambassador to the United Nations. For their part, companies, especially those operating in heavily affected regions such as Africa, Asia and Latin America, increasingly view HIV/AIDS as a core business issue. The **Global Business Council on HIV and AIDS** (www.business-fightsaids.org) is a multistakeholder initiative that was established in 1997 to frame the epidemic as a

core business issue and to advocate for greater business action against it. Over thirty major corporations now participate on the Council, which works in partnership with UNAIDS, the UN Foundation, the Business Exchange on AIDS and Development, the Bill and Melinda Gates Foundation, the International Business Leaders Forum, the International HIV/AIDS Alliance, the Open Society Institute and numerous others.

Civil Society. Civil society organizations, including foundations, NGOs, community-based organizations (CBOs) and others, also are a source of vital competencies and resources, ranging from experience, expertise, information and networks.

Foundations bring their intellectual capital, expertise and other resources to partnerships, in addition to critical funding. *“Foundations can be an increasingly important source of talent and resources for the UN system. They can be catalysts for long-term change. ... Our commitment is collaborating with the UN in making a difference,”* confirms Gordon Conway, President of the Rockefeller Foundation.

UNFIP helped to facilitate a partnership between the UN, numerous foundations and other civil society actors to tackle HIV/AIDS, **MTCT-Plus** (www.mtctplus.org). UNFIP brought together leaders of foundations to meet with the UN Secretary-General in 2001 to announce that they and the larger global community of foundations expected to commit US\$ 100 million in new funding for this five-year HIV care and treatment initiative. MTCT-Plus is designed to link prevention with care and treatment for HIV-infected women and their families in the poorest countries. Coordinated by the Mailman School of Public Health at Columbia University and supported by a coalition of foundations, MTCT-Plus will add HIV care and treatment to existing programs to prevent mother-to-child transmission (MTCT) of HIV. A coalition of nine foundations support this initiative: Bill and Melinda Gates, William and Flora Hewlett, Robert Wood Johnson, Henry J. Kaiser Family, John D. and Catherine T. MacArthur, David and Lucille Packard, Rockefeller, Starr and the UN Foundation. MTCT-Plus will focus initially on sub-Saharan Africa and will work through partners already engaged in the prevention of mother-to-child transmission of HIV, including the Elizabeth Glaser Pediatric AIDS Foundation, JSI Research and Training Institute, Médecins Sans Frontières, the United States Agency for International Development (USAID), UNAIDS, United Nations Children’s Fund (UNICEF), United Nations Population Fund (UNFPA) and the World Health Organisation (WHO).

In recent years, a major expansion of citizen action, NGOs and CBOs has been magnified by unprecedented communications capacity via the Internet and global media. These stakeholders undertake a wide variety of activities at the community, national, regional and global levels, ranging from the operational delivery of humanitarian and development services to conflict resolution, mediation, facilitation, capacity-building, awareness raising and advocacy. Most importantly, civil society organizations voice the concerns of the poor and the marginalized. To take account of these voices, partnerships must include these key stakeholders.

Some of these organizations have extensive global networks and outreach capability to local communities, which can help the United Nations in its field operations, especially in humanitarian crises. The close linkages between certain NGOs, local communities and citizens also enable NGOs to act as intermediaries and mediators, building trust and understanding between the State and the people, and between international policy-making and national or local implementation. Some of these actors also play an important monitoring, advocacy and communications role, helping to make the work of the UN better known, more transparent and more accountable to a wider public.

UN Fund for International Partnerships (UNFIP)

UNFIP itself is an innovative partnership. UN Secretary-General Kofi Annan established UNFIP in 1998 in connection with Mr. Ted Turner's pledge of US\$ 1 billion in 1997 to channel his global commitment through the United Nations. Mr. Turner set up the UN Foundation (www.unfoundation.org), a public charity, to administer this gift. Mr. Turner, Founder and Chairman of the UN Foundation, explains his vision: *"We have focused on creating partnerships that magnify the power that people, Governments and organizations, public or private, have – working together – to effect change and promote a world of good."*

UNFIP plays a lead role in forging new partnerships in development assistance. Working with companies, foundations and civil society organizations, UNFIP takes the partnership to the next level: it engages partners not only on a financial level, but also on an intellectual level. UNFIP team members are the "conversion people", turning policies into practice, and principles into action.

As the interface between the UN system and the UN Foundation, UNFIP works directly with the Office of the UN Secretary-General and Deputy Secretary-General. This successful partnership completed its fifth year of operation in October 2003, with a portfolio of over 270 projects amounting to US\$ 530 million in four areas: children's health, population and women, the environment, and human rights.

In addition, UNFIP helps to implement a more coherent and systematic approach to developing and supporting partnerships across the UN system. UNFIP facilitates partnerships by providing one-stop shopping for partnership opportunities with numerous UN agencies, offices and initiatives. UNFIP advises the private sector and foundations on strategic ways to support global causes, including the MDGs. UNFIP helps UN colleagues to develop new relationships with the private sector and foundations, and to create innovative partnership modalities such as networks, collaboration on project development, in-kind contributions, and corporate talent contributions to development projects on the ground, in addition to financial support.

Innovative Partnerships

Private-Public Innovative Investment Mechanisms

Public-private investment mechanisms enable the UN system to cooperate with companies, business associations and foundations to leverage private capital for projects with long-term potential, but which cannot get sufficient start-up financing or technical expertise through the market. The private capital may range from mainstream commercial investments to social venture capital. The **Global Environment Facility (GEF)** (www.gefweb.org) is a successful example of a multilateral financial mechanism that has facilitated cross-sector dialogue and partnerships on a local and global scale without requiring a large bureaucratic structure. Strengthened after the Rio Earth Summit in 1992 to become more strategic, effective, transparent and participatory, GEF's mission is to facilitate international cooperation and to finance practical actions in biodiversity, climate change, ozone depletion, international waters and land degradation. GEF brings together 166 governments, leading development institutions, the scientific community and a wide spectrum of private sector and civil society organizations in support of over 650 projects across more than 140 developing nations and countries with economies in transition. GEF has allocated nearly US\$ 3 billion to these initiatives, leveraging nearly US\$ 8 billion in co-financing from bilateral agencies, multilateral development banks and the private sector.

Philanthropic Resource Mobilization

Partnerships between the United Nations and the private sector also aim to mobilize philanthropic funds, product donations and volunteers from businesses and foundations to support UN programs and activities. The accumulation of private wealth over the past ten years has led to an increase in philanthropy and the emergence of major new foundations, including the UN Foundation. For example, donations by the Bill and Melinda Gates Foundation have helped to leverage millions of dollars of public and private funding in the area of health. The Vaccine Fund, supported by a US\$ 750 million grant from this foundation, supports the work of the **Global Alliance for Vaccines and Immunizations (GAVI)**. Launched in 2000 at the World Economic Forum in Davos, GAVI was created to increase support for immunization activities dedicated to ensuring that all children, however poor, have equal access to vaccines. GAVI is a coalition of national governments, UN bodies such as WHO, UNICEF and the World Bank, foundations such as the Bill and Melinda Gates Foundation and the Rockefeller Foundation, the International Federation of Pharmaceutical Manufacturers Associations, and technical and research institutes.

Information and communications technology (ICT) companies are deploying resources to support digital divide projects and humanitarian programs, often combining product donations and volunteer expertise with money. For example, UNFIP facilitated the **Cisco Networking Academy Program**

(http://cisco.netacad.net/public/digital_divide/ldc/index.html) at the G-8 Summit in July 2000, which was launched jointly by Cisco Systems, Inc. and UNDP. Cisco Systems, UNDP, the United Nations Volunteer program (UNV), the United Nations Information Technology Service (UNITeS) and USAID have been working together to train students and trainers for the Internet economy by establishing the Cisco Networking Academy Program in economic institutions. The Program is a comprehensive 560-hour course designed to provide students with skills to design, build and maintain computer networks. By the end of 2002, almost 3,500 students were enrolled in 83 different Cisco Networking Academies in 33 least developed countries (LDCs). UNDP consulted country offices, governments and academic institutions of LDCs using its expertise in economic and social development and familiarity with the local and regional situations in 132 different countries, while Cisco Systems established a deployment strategy for each country.

UNFIP has facilitated the creation of a network to bring together the digital diaspora for bridging the digital divide in Africa. The Digital Bridge to Africa meeting was held in July 2002 in partnership with the United Nations Information and Communication Technologies (UN ICT) Task Force, Digital Partners, Gruppo Cerfe and the United Nations Development Fund for Women (UNIFEM). Over 100 participants attended including leading members of the African diaspora and representatives from technology corporations, foundations and non-profit organizations. Results included the official launch of the **Digital Diaspora Network – Africa (DDN-A)** (www.ddn-africa.org), a non-profit organization that seeks to promote development in Africa. In addition, AfricShare was established as a resource and knowledge-sharing facility to match innovative projects with mentors from the DDN-A network. The Social Fund for Africa was also inaugurated to provide financial support for ICT entrepreneurial activities in the region.

Promoting UN Values and Activities

Advocacy relationships include partnerships between the United Nations and non-State actors to raise public awareness and support (which may also include the mobilization of funds, products or volunteers) to advance UN values, goals and programs through activities such as joint communications campaigns, product licensing and social marketing. One such partnership is between **UNAIDS** (www.unaids.org) and MTV to raise awareness of HIV/AIDS among youth. Another partnership to raise public awareness and support is **NetAid** (www.netaid.org), launched as a collaboration between UNDP and Cisco Systems in 1999. NetAid awareness and mobilizes resources from the private sector, foundations and individuals worldwide, while avoiding creation of a new bureaucratic structure. NetAid operates as an online community, whose mission is to inform people about poverty issues and empower them to take actions on these issues through online volunteering or donations. NetAid aspires to make the Internet a major catalyst for efforts to tackle extreme poverty worldwide. Since its launch, over 12,000

contributions have given nearly US\$ 1.3 million to NetAid to support projects in 22 countries. NetAid's operating costs are supported by its partners such as UNDP, Cisco Systems, UNICEF, UNV and the Listwin Family Foundation.

Project Design and Operational Delivery

Operational delivery partnerships directly support UN operations in the field. They involve joint program or project design, implementation and/or evaluation, in addition to the mobilization of financial, in-kind technical or managerial resources. A new development is the emergence of relationships between UN bodies and companies or their corporate foundations that mobilize philanthropic or social investment funds from the private sector and also engage business expertise in the actual design, implementation and in some cases governance and evaluation of the projects being funded. These collaborative initiatives are helping to address a growing variety of location-specific development or humanitarian issues.

The **First on the Ground Initiative** (www.reliefweb.int/ocha), a partnership between Ericsson and the United Nations, is an example of the capacity that exists in the private sector to bring the power of technology and resources directly to the service of humanity, and in particular, humanitarian relief operations. Frequently in emergency conditions, communications networks are among the first vital systems to be damaged, rendering it more difficult for rescue missions and relief operations to function effectively. Ericsson's "First on the Ground" concept is designed as an "in-kind" contribution at the disposal of the UN system to provide and maintain effective and consistent mobile communications equipment and expertise for humanitarian relief operations. The partnership includes UN agencies involved in emergency response and mitigation (the Office for the Coordination of Humanitarian Affairs and the Department of Peacekeeping Operations) as well as the International Federation of Red Cross and Red Crescent Societies.

The **Global Polio Eradication Initiative** is another example of a truly global partnership, which includes the United Nations, NGOs and the private sector. This partnership involves two UN agencies, WHO and UNICEF, as well as Rotary International, the Bill and Melinda Gates Foundation, the UN Foundation, DeBeers in Angola and Coca-Cola in Nigeria. Coca-Cola, for example, lent the United Nations its know-how and its almost unparalleled infrastructure of refrigerated trucks in Africa to enable large quantities of polio vaccine to be transported to remote villages in Africa. Thanks to efforts like these, the international community now is in the final stages of its lengthy battle to rid the world of polio.

Challenges and Lessons Learned

Innovative partnerships are a promising avenue (though not a panacea) for tackling global problems, yet they pose a variety of challenges, particularly in the context of UN-business partnerships, such as: avoiding conflicts of interest; preventing unfair advantage; minimizing undue influence; and ensuring accountability and transparency. Operational and management-related challenges include: selecting acceptable partners; dealing with different interests, incentives, time frames, level of resources, and competencies among partners; managing expectations; engaging partners from developing countries and countries with economies in transition; building skills and capacity; improving information and access; overcoming bureaucracy; and learning from experience. Of these, one great challenge lies in the risk of selecting an inappropriate business partner because it may be involved in practices that contradict, or are perceived to contradict, UN principles. This could undermine the credibility, integrity and reputation of the UN body in question or even the entire UN system. Guarding against this risk requires careful due diligence in the initial partner selection, as well as monitoring the development impacts and responsibilities once partners are engaged.

To help manage these challenges and secure the UN's integrity and independence, the United Nations issued **Guidelines for Cooperation between the United Nations and the Business Community** in July 2000. The guidelines indicate that UN partnerships with businesses should be guided by the following general principles: advance development goals; clearly delineate role and responsibilities; accountability; integrity, independence and impartiality; no unfair advantage; and transparency. One specific rule regulates the use of the UN name and emblem in order to protect the UN's integrity and independence. The UN must approve in writing the use of the UN name and emblem by business, and only if the intended use is in support of the purposes, policies and activities of the United Nations.

A Few Characteristics of Successful Partnerships

Experience at the United Nations has shown that successful partnerships share certain characteristics, some of which are:

- A range of partners from different stakeholder groups, with complementary competencies
- Shared vision of and commitment to partnership objectives
- Clear agreements setting forth roles and responsibilities, with targets
- Honest, open and regular communication
- Reporting and evaluation mechanisms that ensure transparency and accountability

This last point is especially important as it relates to aid management and accountability. Internal integrity measures stress transparency and accountability for all UN partnerships with non-State actors. In addition, the United Nations is identifying methodologies for assessing partnerships based on best practices.

Conclusion

Our increasingly globalized world brings more promise than problems. There are opportunities to address critical challenges with new thinking and new approaches through innovative partnerships. By seizing comparative advantages and being careful to avoid pitfalls, there is tremendous opportunity to develop truly global partnerships for development. If we want to be innovative in our partnerships, then we have to be open to new ideas. At the United Nations, serious efforts are underway to scale up promising approaches and to learn from experience gained so far.

Credits

Report of the Secretary-General, A/58/227, *Enhanced Cooperation between the United Nations and all relevant partners, in particular the private sector*, 18 August 2003.

ANNEX I

AD HOC EXPERT GROUP MEETING ON TRACKING THE REFORMS IN AID DELIVERY, MANAGEMENT AND ACCOUNTABILITY

6-7 November, 2003

Sheraton Centro Historico Hotel, Don Genaro Room

PROGRAMME

Thursday, 6 November 2003

9:15 - 9:30 **Welcome address**
Mr. Guido Bertucci, Director
Division of Public Administration and Development Management
(DPADM), Department of Economic and Social Affairs

MODULE I: OVERVIEW

9:30 – 10:00 Introduction: **Viewing foreign aid within the framework of stated commitments and emerging challenges: Where are we at?**
Mr. Adil Khan, Chief
Socio-Economic Governance Management Branch (SGMB/DPADM)

10:00-10:45 **Discussion**

10:45 –11:00 Coffee break

MODULE II: INNOVATIONS in AID DELIVERY

11:00 -11:15 **Introduction to Module II: Innovations in aid delivery**
Mr. Jay De Vera, Chief, Public Finance Unit, SGMB, DPADM

11:15 -11:45 **Decentralized modalities in aid delivery: Case study of Spain and Cuba**

**Mr. Cristino Pedraza López, Spanish representative of the
Andaluzian Fund of Municipalities for International Solidarity
(FAMSI), in Cuba**

11:45 -12:15 **Decentralized modalities in aid delivery: Case study of Spain and Cuba**

Mr. Raúl Taladrid, Vice-Minister of Foreign Investment and Economic Co-operation, Cuba

12:15 -12:45 **Technical co-operation through peer partnership: new Japanese approach to aid delivery**

Mr. Hitoshi Yoshida, Researcher
Economic Research Institute for Northeast Asia, Niigata, Japan

12:45 -1:15 **Discussion**

Moderator: Mr. Adil Khan, Chief, SGMB, DESA

1:15 - 3:00 Lunch

3:00 - 3:30 **Changing patterns of aid from concessional to commercial**

Mr. Asoka S. Gunewardena, Chairman of Finance, Sri Lanka

3:30 -4:00 **Direct aid delivery: reaching the hardcore poor, UN/CBO case study in Myanmar**

Paper by Mr. Shaffique Rahman, Consultant
Presentation by Mr. Adil Khan, Chief, SGMB/DPADM

4:00 – 4:15 Coffee break

4:30 -5:00 **Discussion**

End of Day One

Friday, 7 November 2003

MODULE III: AID MANAGEMENT and ACCOUNTABILITY

- 9:00 -9:15 **Summary of the previous day proceedings and Introduction to Module III**
Mr. Jay de Vera, Chief,
Public Finance Unit, SGMB/DPADM
- 9:15 -9:45 **Aid management and accountability, the multilateral organizations prospective**
Ms. Kathryn Hollifield, Senior Economist, Operations Policy and Country Services, World Bank
- 9:45 -10:15 **Monitoring and evaluation for cost-effectiveness in development management**
Mr. Paul Clements, Associate Professor, Western Michigan University
- 10:15-10:45 **Discussion**
- 10:45 - 11:00 Coffee break**
- 11:00-11:15 **Post-conflict partner-country perspective**
Mr. Musoni Protais, Minister of State, Rwanda
- 11:15 -11:45 **New partnerships in development assistance**
Mr. Angel Silva, Chief Financial Officer, United Nations Fund for International Partnership, UNFIP
- 11:45 -12:15 **Report on the proceedings of the Meeting**
Mr. Jay De Vera, Chief
Public Finance Unit, SGMB / DPADM
- 12:15 -1:30 **Discussion and recommendations for plan of action**
Mr. Adil Khan, Chief, SGMB/DPADM and Minister Protais Musoni
- 1:30 - 2:00 **Concluding remarks**
Mr. Adil Khan, Chief, SGMB / DPADM

ANNEX II

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