

# **Issues in the Provision of External Assistance**

# The Drive to Partnership: Aid Co-ordination and the Role of the World Bank<sup>1</sup>

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## Summary

Aid co-ordination is a critical issue for small states. The review conducted by the Operations Evaluation Department (OED) of the World Bank concluded that the aid co-ordination policies of donors and the World Bank have proved ineffective to date, and that increasing aid bombardment has placed burdens on recipient countries and undermined their capacity. Developing countries have to move from being 'recipients of aid' to 'managers of aid'. To do this will require actions by donors and recipients alike:

- ◆ Donors should move to harmonise procedures and policies; stop practices that undermine capacity, such as the setting up of project implementation units separate from normal lines of authority and accountability within governments; and focus on capacity-building for aid co-ordination management within countries.
- ◆ Recipients need to improve financial accountability systems so that donors can relax demanding financial reporting and supervision requirements.

## The review

The OED review was conducted over 1998 and 1999 to examine the constraints involved and progress made in helping countries assume more responsibility for aid co-ordination.<sup>2</sup> The methodology included: Bank surveys of country officials, local donor representatives and Bank country managers and staff; a joint survey with the United Nations Development

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<sup>1</sup>This paper was presented at the Commonwealth Secretariat/World Bank Joint Task Force on Small States conference held in London in February 2000.

<sup>2</sup>This paper is based on the report 'Review of Aid Co-ordination and the Role of the World Bank', Operations Evaluation Department (OED), World Bank, 2000. The task manager for the review was John Eriksson.

Programme (UNDP)<sup>1</sup> of donor and multilateral development bank headquarters; an action learning workshop with senior officials from 19 borrowing countries world-wide; visits to Ethiopia, Ghana and Vietnam; and extensive literature and document reviews.

## Key findings

### **Aid co-ordination policies have proved ineffective**

Since the 1980s, the policy of the World Bank and the broader development community has been that countries should manage the aid flowing to them. The Bank's policies are expressed in the 1989 Operational Directive (OD) 14.30, and those of the broader development community in the 1986 Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) guidelines. However, the review found that there has been little success in putting recipient countries in the driver's seat. In fact, it found that many centrally determined donor and Bank policies and practices have hindered co-ordination and harmonisation efforts at country level:

- ◆ While co-ordination has increased the focus of aid on development priorities and, in the view of Bank staff and governments, has increased the volume of aid, governments see no improvement in the coherence of donor activities, and only a slight change in the exercise of donor selectivity (Figure 1).
- ◆ Respondents perceived that, if anything, aid co-ordination efforts have been associated with a worsening both in the consistency of multilateral development bank/donor procedures and in the efficiency of their practices. They also perceived a worsening of practices in the employment of local staff, and a poor track record in improving in-country capacity (Figure 2).

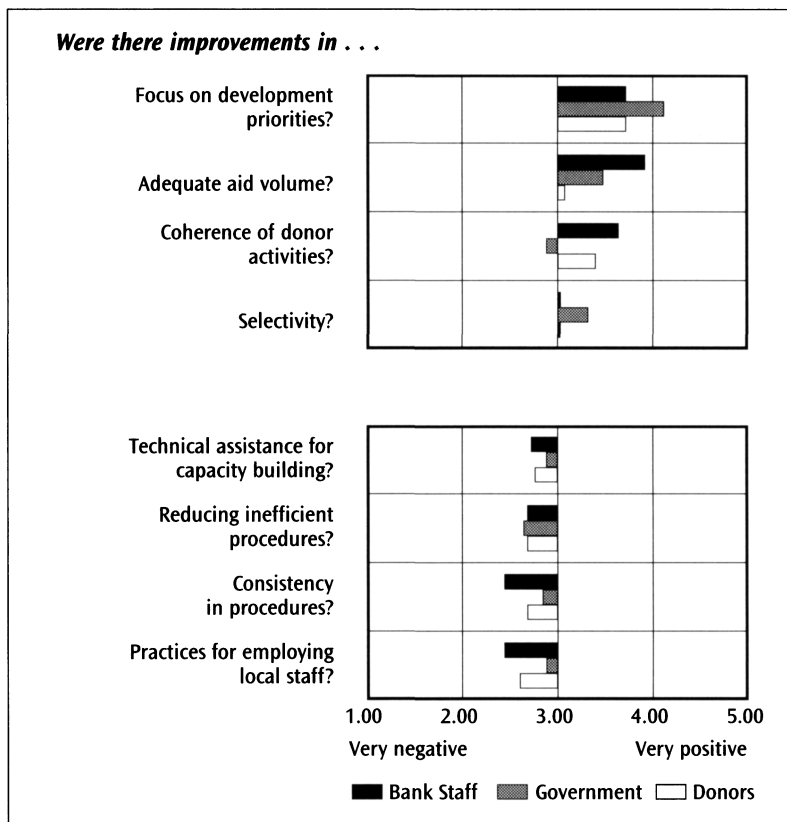
### **Increasing aid bombardment is undermining local capacity and disempowering country leadership**

Official development assistance has been decreasing. At the same time the number of the players has been multiplying. For example, donor participation in Consultative Groups grew from seven in 1960 to over 50 in the 1990s; international non-governmental organisations (NGOs) registered in OECD countries grew from 1,600 in 1980 to 2,970 in 1993. The

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<sup>1</sup>The United Nations Development Programme (UNDP) conducted a parallel evaluation of the Round Table aid co-ordination mechanism; the Bank and the UNDP collaborated on the joint survey, participated in each other's workshops and consulted periodically.

**Figure 1. Improvements in Aid Co-ordination Activities, Procedures and Practices**

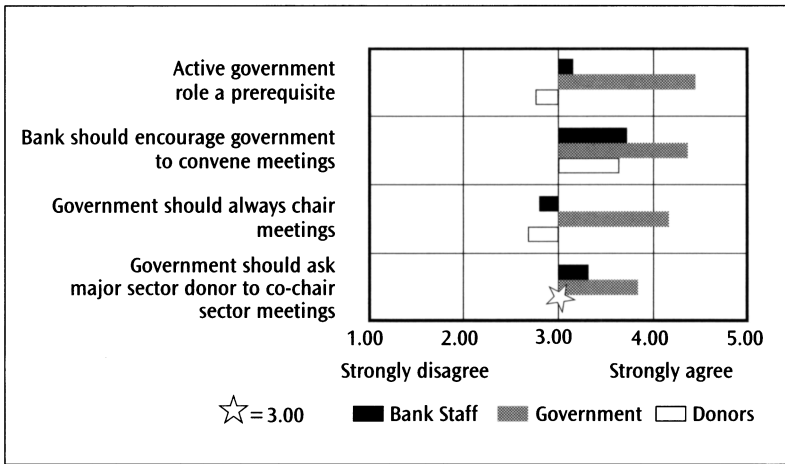


impact on some countries has been enormous – in the early 1990s Tanzania had more than 2,000 projects supported by 40 donors and all major donors were active in all major sectors. In Nepal the number of NGOs increased from 220 to 1,210 between 1990 and 1993. Each of these players has their own increasingly stringent supervision and reporting mechanisms for their constituencies. The lack of harmonisation between donors means countries have had to deal with complex and divergent reporting systems, and to deal with many different missions. Divergent donor procurement regulations, and budget and disbursement cycles further increase the transaction costs of delivering aid. Thus government capacity to plan, based on country goals, and to manage and measure for performance, has been overwhelmed by the multiplicity of procedural requirements. This has reduced country responsibility, disempowered

leaders and jeopardised the sustainability of results. In addition, the different reporting requirements have made the benchmarking of donor performance impossible, thus impeding country capacity to select donors according to comparative advantage.

For small states the problem is exacerbated. In general they have higher aid dependency; for example, average aid is 18 per cent of GNP (1996) compared to 8 per cent for other developing countries and aid per capita is \$192 compared to \$35 for other developing countries. On average each small state has 16 donors – fewer than larger states with 27 – but still a lot to manage.

**Figure 2. In-country Aid Co-ordination Processes**



### Tensions and barriers

Regarding the responsibility for aid co-ordination, a central tension is the disconnection between World Bank staff and donors on the one hand, and the countries on the other. Aid-dependent governments see their role as crucial, but at the time of the surveys undertaken for the review more than half of surveyed Bank staff and local donor representatives did not see an active government role as a prerequisite for effective in-country aid co-ordination. Governments generally believed that they should chair aid co-ordination meetings (a view not generally supported by Bank staff or donors) and there was only slightly more support from Bank and donors for the major donor chairing sector meetings (Figure 3).

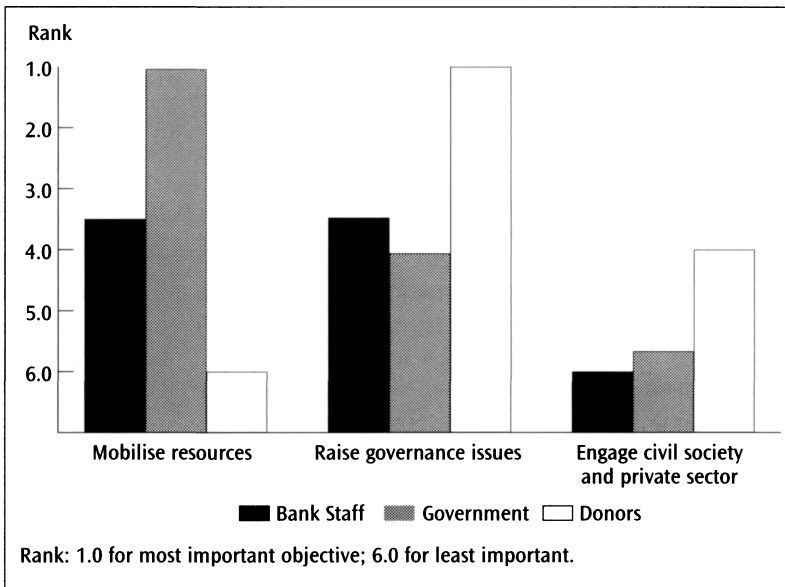
Such different perceptions and expectations of donors, governments and Bank staff have created impediments to country-led aid co-ordination.

Other impediments arise through the different objectives of aid co-ordination activities, for example:

- ◆ Donors place great emphasis on governance issues, while governments look to aid co-ordination as the way to mobilise resources;
- ◆ Most donors strongly favour greater involvement of civil society, but governments express a range of views, from cautious to critical (Figure 3).

The Bank has gained stature through its role in managing Consultative Groups, but a notable criticism in the survey (offered in writing and volunteered in interviews) was the perception of arrogance and insensitivity on the part of visiting Bank missions.

**Figure 3. Objectives of Aid Co-ordination Meetings**



### Actions needed

While the record of aid co-ordination policies has not been good to date, the OED review concluded that there are actions that can be taken by the developing countries, by the donors, and by the Bank.

Actions that can be taken by the *recipient country*:

- ◆ **Improving financial accountability.** To release the pressure of donor demands, and to establish the trust that aid dollars are being well

spent, the country must demonstrate a commitment to adopt international standards of transparency and accountability. (Botswana has already done this.)

- ◆ **Investing in developing management capacity.** To further build confidence, governments must demonstrate institutional capacity to effectively formulate sound policy and allocate resources. (Bolivia, Ghana, Tanzania and Uganda are moving in this direction.)
- ◆ **Promoting partnership agreements at the country-level** between the country and its development agency partners to delineate mutual responsibility, distinct accountabilities, and reciprocal obligations to reach shared goals.

Actions to be taken by *donors and development agencies*:

- ◆ **Active support for country-led partnerships.** To support a shift to goal-oriented and capacity-building aid co-ordination partnerships, donors need to build support from their authorising environments to:
  - adhere to country-led efforts to achieve coherence and selectivity in the application of aid resources;
  - accommodate a mutually agreed, country-led reporting system.
- ◆ **Support for countries' capacity-building efforts.** In particular, given their leadership roles, the Bank and UNDP could explore a common fund for aid co-ordination capacity-building. Donors should also stop practices that undermine capacity, such as the setting up of project implementation units separate from normal lines of authority and accountability within country governments.
- ◆ **Taking concrete steps to harmonise aid policies and procedures.** The Bank, the UNDP and DAC should work on the global-level impediments posed by onerous aid procedures and reporting systems. While gains have been made, particularly among the multilateral development banks, steadfast commitment is needed to address the global issues of proliferation of players, procedures and processes.
- ◆ Phase out Bank-led Consultative Groups while giving adequate time and resources to nurture a commitment to reform, and to build capacity.

## Instruments and approaches

A number of instruments and approaches are emerging to facilitate the development of country-led aid co-ordination. One is sector-wide approaches, which are being used increasingly to promote country leader-

ship and donor participation in a sector strategy for a country. Examples include agriculture, education, health and transport sectors in several African countries (Ethiopia, Ghana, Mozambique, Tanzania and Zambia), health in Bangladesh, and, more recently, several sectors in Cambodia and Vietnam. There are Bank lending instruments that enable country leadership, such as sector investment loans and credits and the new Poverty Reduction Support Credit being implemented under the Poverty Reduction Strategy Paper framework (in, for example, Uganda). The Comprehensive Development Framework, which is being piloted in 13 countries through the World Bank, has as its centrepiece a country's own vision of its development and the commitment of development partners to work together to achieve that vision. The Poverty Reduction Strategy Papers (written by the country with the help of the IMF and the Bank) bring in the contributions of civil society and the private sector and also provide important vehicles for development partnership and aid co-ordination improvement.

## The climate is ripe for change

There is significant increase in the concern and commitment to action by the international development community, indicating the climate is ripe for change. A forum on Development Partnership jointly sponsored by the Bank, UNDP and OECD/DAC in December 1999 agreed the need for an acceleration of progress on such issues as harmonisation of donors' operational policies and procedures; capacity-building of developing countries to manage aid resources; joint monitoring and evaluation based on development progress indicators agreed with recipient countries; and improved information sharing on promising and innovative approaches to partnership. Since that Forum an OECD-DAC Task Force on Harmonisation of Donor Practices has been formed. There has also been progress on harmonisation among the multilateral development banks, particularly in procurement procedures.