

**DEVELOPMENT CO-OPERATION DIRECTORATE  
DEVELOPMENT ASSISTANCE COMMITTEE**

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**DAC/DCD WORK ON AID EFFECTIVENESS**

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Mr Hans Lundgren (Tel: 01 45 24 90 59; Email: [hans.lundgren@oecd.org](mailto:hans.lundgren@oecd.org))

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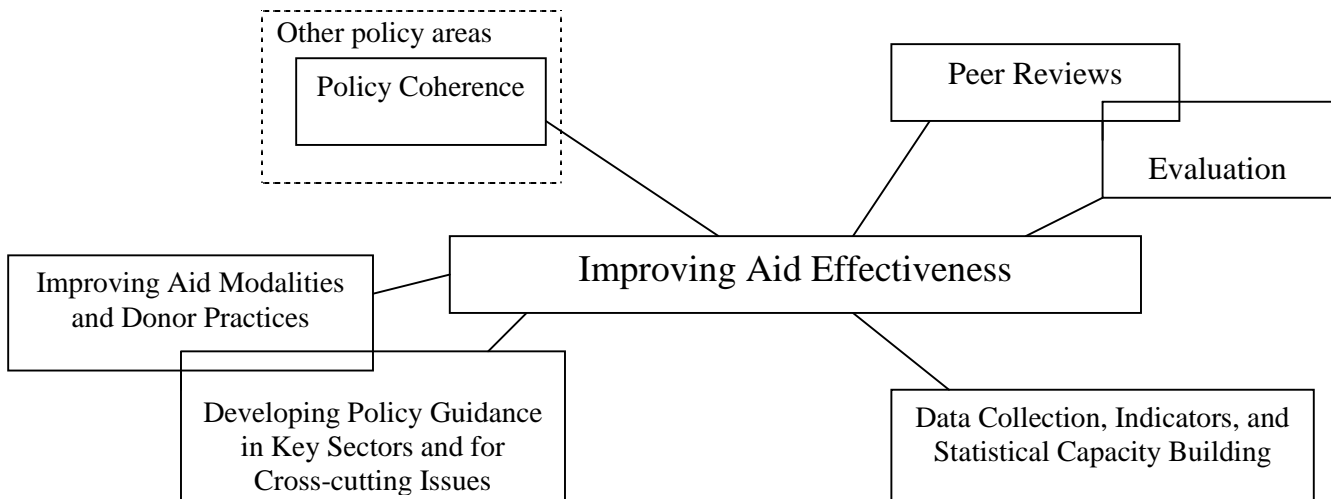
## DAC/DCD WORK ON AID EFFECTIVENESS

### INTRODUCTION

1. Improving aid effectiveness is an underlying fundamental concern of DAC/DCD work. The objective is to improve the content, management and delivery of development co-operation activities to ensure best value of the limited available resources.
2. The main features of DCD work on aid effectiveness are described in the overall draft DAC programme of work and budget for 2003-2004 [DCD/DAC(2002)15/REV1]. This paper, therefore, will not detail each individual activity of DCD work. Rather, it will:
  - a. Illustrate some of the primary linkages between the DCD work clusters and aid effectiveness (see Section I below).
  - b. Outline some main dimensions of the DAC/DCD work on aid effectiveness.
  - c. Provide a background to discussions on the DAC's future work on aid effectiveness.
3. Section II provides an overview of current work. Section III provides possible directions for future work, and Section IV highlights issues for further discussion.

### SECTION I: LINKAGES - AID EFFECTIVENESS

4. The figure below provides a graphical illustration of the linkages between various current work clusters and aid effectiveness.



## SECTION II: CURRENT DAC/DCD WORK ON AID EFFECTIVENESS

5. DAC/DCD activities with a specific relationship to the current main issues on the effectiveness agenda are described briefly below:

### i. Peer Review and evaluation of donors policies and programmes:

- a) DAC Members' development co-operation policies and programmes are monitored and assessed in the Peer Reviews. Donor policies and performance are analysed on the basis of agreed principles and guidelines. The peer reviews bring in real time information on donor policies and experience to inform DAC processes and work in other areas.
- b) In evaluation work, the effectiveness of aid programmes and aid delivery modalities is assessed. The work results in synthesis studies on themes or sectors, and in improved practices and methodology for assessing effectiveness.

### ii. Data collection, indicators and statistical capacity building:

- a) Current work includes collaboration with the UN Expert Group on MDG indicators to provide analysis and data for the seven MDG indicators for which OECD is the source. It also entails work with international agencies and bilateral donors to aim for consistency in indicators of aid effectiveness, linked to intermediate and outcome indicators for the MDGs.
- b) Statistical capacity building in developing countries is promoted through PARIS 21, including via task teams on indicators of capacity, co-ordinating the strengthening of statistical sources for indicators for the MDGs, and on indicators of governance.
- c) Collection of data on official and private flows analyse the contribution of aid inputs to development outcomes.

### iii. Improving aid modalities and donor practices:

- a) The objective of donor practices and procedures is to reduce transaction costs and make co-ordination function better through more harmonised practices. The effort will produce "**Good Practice Reference Papers**" [DCD/DAC(2002)31 and ANN1] which, if applied by donors with full consideration for the circumstances in each partner country, could significantly reduce transaction costs while sustaining or improving aid performance.
- b) The aim of work untying of aid is to ensure better value for money through enhanced competition and better and locally owned procurement systems.
- c) Results management involves the search for "better results on the ground" and improved outcomes through strengthened focus on results in planning and operations and in daily management practice. Results management in development agencies will be discussed at the DAC Development Partnership Forum on "**Managing for Development Results and Aid Effectiveness**" [DCD(2002)6] on 11-12 December 2002.

**iv. Developing policy guidance and improving co-ordination:**

- a) Specific sectors: In the area of health, for example, POVNET has developed draft guidance on "Poverty and Health". Work is beginning on agriculture and rural poverty as well as on the role of the private sector in poverty reduction.
- b) Cross-cutting areas (gender, conflict, governance, environment etc.). The DAC Network on Conflict Peace and Development Co-operation, for example, is elaborating a policy note on the implications of the "terrorism lens", supplementing the network's previous work on conflict prevention.
- c) Difficult partnership circumstances related to effectiveness: Work focuses on situations in which the "partnership model" does not apply. The results of the October workshop held jointly with the World Bank as well as work on development co-operation responses to terrorism will feed into the SLM discussions in December 2002.
- d) Partner policy environments and institutions: A DAC/DEV expert seminar was held in early 2001 which confirmed the importance of both a conducive policy environment and the incidence and extent of poverty in partner countries as aid allocation criteria for effectively reducing income poverty. Monitoring of the ongoing research and debate among economists continue to be important. Recently, the analysis has broadened to take into account dimensions other than policies and institutions (See e) below)
- e) Aid effectiveness and selectivity: integrating multiple objectives into aid allocations. An expert seminar is being prepared for March 2003. The purpose of the seminar is to provide support for DAC Members in their efforts to increase aid effectiveness by sharing analytical approaches and good practice on aid allocations.
- f) Used in the right way and adapted to local needs, Information and Communication Technology (ICT), has a huge potential to transform societies and thus needs to be seen as critical to the effectiveness of aid by donors. The March 2003 Forum will address how ICT can be integrated into development programmes and how developing countries can be further assisted to take full advantage of ICT in their social and economic development.

**v. Policy coherence and effectiveness:**

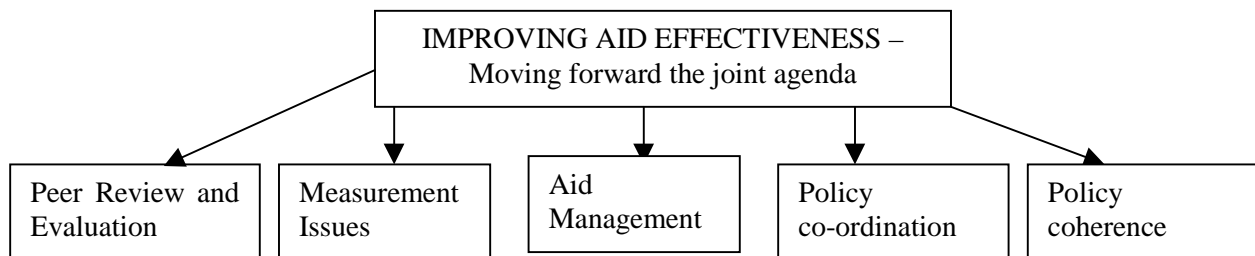
6. Policy coherence is a major determinant of the development effectiveness of aid. Policy coherence involves a broad spectrum of OECD Member policies such as trade, finance, food and agriculture, natural resources and environment, conflict prevention, terrorism, social policies, and arrangements in capitals for addressing coherence issues.

7. Following the MCM 2002 Statement on "**OECD Action for a Shared Development Agenda**" [PAC/COM/NEWS(2002)58] work, in collaboration with the Liaison Network, will enhance understanding of the development dimensions of policies and their impact on developing countries and develop proposals to strengthen policy coherence for development in priority areas.

8. A considerable effort is made in current peer reviews to analyse and bring into the discussion issues related to policy coherence of the donor under review. It should be noted that a specific chapter has been produced in the recent peer reviews on policy coherence to inform the Committee discussion. This is also now generally a specific topic of discussion for the peer review meetings.

### SECTION III: SOME POSSIBLE FUTURE DIRECTIONS

9. The figure below highlights the potential key building blocks of work, based on current work.



#### *Peer Review and Evaluation*

10. The client survey study findings and the outcome of the SLM discussion will be important in framing the future direction of the peer reviews. The client survey confirms the clear value added and benefit that Members draw from the peer reviews. It also points to various possible areas for improvements, notably i) experience-sharing and lesson learning ii) methodology and ii) thematic coverage. A number of other findings are reported in the "**Client Survey on Peer Reviews**" [DCD/DAC(2002)28 and ANN1].

11. In the medium term, analytical assessment frameworks and outcome oriented standards could be developed to help assess the effectiveness of donor agencies. This will be both analytically and politically difficult and should probably relate to the multilateral development institutions as well as to bilateral donor aid programmes. The argument for this is straightforward: with limited resources we need to have efficient aid institutions and donors should welcome a collective search for performance standards in the development co-operation field as is the case in other areas of public policy.

12. Further work is needed to promote and implement more joint evaluations to meet the demands for accountability on higher levels and for "combined" donor outcomes. This would require considerable changes in the way evaluation is currently operating in aid agencies.

#### *Measurement Issues*

13. Most MDGs are long-term outcome goals. Developing more intermediate measures of development progress on the global and country level may be needed to demonstrate, in more "real time", the progress (or not) towards the realisation of the MDG outcomes. This involves also work on indicators on how effectively ODA is contributing to sustainable development.

14. The measurement dimension of governance, including governance indicators and assessment methodology, poses particular challenges that need to be further considered and developed (drawing on the GOVNET and PARIS 21 work in this area).

### *Aid Management*

15. The next phase of donor practices and procedures could focus on the implementation and monitoring by members and partners of agreed good practice. This could be a major new strand of work and a main challenge as it will imply considerable changes in both donor and partner behaviour.

16. The focus for work on untying of aid need to be on the effective implementation of the Recommendation (e.g. untying of agreed activities, ex ante notification of untied offers, and promoting effort sharing). It also includes major work on strengthening developing country capacities for procurement and to assess the implications of this for improved donor co-ordination.

17. As RBM systems mature and new experimentation takes place, it will be important to continue to keep close watch on the area of results management systems and to analyse and assess emerging key lessons and promote collective learning. The Partnership Forum in December will help define the future work- path.

### *Policy co-ordination*

18. Enhanced co-ordination of donor efforts within PRSP processes can contribute to considerable improvements in aid effectiveness. The role of the DAC work here could be to monitor the implementation of the PRSP process and to ensure that donor support is aligned with partner country needs and priorities and contributes to co-ordinated and streamlined development co-operation programmes. A proposal for future DAC Work is contained in "**Implementing Poverty Reduction Strategies: Strengthening Donor Alignment and Development Effectiveness**" [DCD/DAC(2002)33].

19. Improving development outcomes through a more systematic integration of the gender perspective into the mainstream of government activities is a continuing challenge. Further analytical work would be needed to deepen as well as build on evidence gathered on the efficiency and effectiveness of various approaches, methodologies and instruments, e.g. gender sensitive budgeting in national budgets, gender auditing to promote organisation learning. Further solid findings and lessons would be useful in order to both demonstrate and replicate those approaches that are positively working.

20. Improving aid effectiveness in countries with poor governance, including those prone to conflict or in a fragile situation, are major policy and operational concerns in many Member capitals. The joint World Bank/DAC/EC/UNDP workshop on 28-29 October 2002 and work on conflict prevention will help advance knowledge in this area. (It would seem highly likely, however, that further assessment work is needed for refining our delivery content, methods and instruments for working as effectively as possible in such environments. See "**Working for Development in Difficult Partnerships**" [DCD/DAC(2002)32].)

21. Enhancing co-ordinated donor approaches in support of public sector reform, the rule of law, and in the fight against corruption are other key governance areas.

### *Policy coherence*

22. Further work could be considered on how development assistance and "positive" policy coherence measures can contribute to increase the development effectiveness of aid. On the substantive side, attention is expected to focus on areas such as trade (Doha Development Agenda), investment (Monterrey Consensus) and agriculture. Future work could also include strengthening ODA/FDI linkages (e.g. in promoting public-private partnerships in certain areas such as water) and strengthening corporate and financial governance. The objective is to work with other policy communities to get better results,

either by avoiding/limiting policy incoherence (different policies pulling in different directions) and, preferably, to identify and develop synergies between development co-operation and other policies (e.g. in the trade and investment areas). On the procedural side, DAC should consider how it will best engage with other policy communities for exchanges in such areas and/or respond to their requests for more collaborative work.

#### **SECTION IV: ISSUES FOR DISCUSSION**

23. As outlined above, the aid effectiveness “umbrella” extends to many areas and topics. The DAC SLM is invited to provide guidance to the future direction of work building on earlier discussions and the results of the DAC Development Partnership Forum.

- i) Are there other aspects of the aid effectiveness agenda that Members would wish the DAC to address?
- ii) Do Members see opportunities for synergy between their own planned efforts to improve the effectiveness of their aid programmes and the joint agenda of effectiveness that the DAC needs to pursue? How can collaboration between Members be expanded to more fully bring out and make use of each other's experience? Are there particular collaborative arrangements that need to be put in place to complement current DCD approaches and resources?
- iii) In view of the limited resources available, it seems necessary to concentrate efforts on a few areas over the next work programme cycle and to build on current work. What should be the focus of future efforts?