Effective Aid Management

TWELVE LESSONS FROM DAC PEER REVIEWS

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Effective Aid Management: Twelve Lessons from DAC Peer Reviews

Peer reviews have brought many issues to the attention of the Development Assistance Committee over the last five years. This chapter retains twelve of the more prominent examples of the lessons learned or reconfirmed over the period concerning effective aid management to achieve development results. Lessons at the level of strategy are: i) find the appropriate legal and political foundation; ii) manage competing national interests; iii) achieve greater policy coherence for development and iv) invest in delivering, measuring and transmitting results of aid-financed activity. Organisational management lessons are: v) identify a leadership structure that works; vi) deal with institutional dispersion, vii) manage contributions to multilateral institutions and viii) decentralize management to the field. Lessons concerning management of delivery are: ix) manage the scaling-up of development aid; x) maintain a focused approach towards countries and sectors; xi) emphasise performance-based management, evaluation and quality control; and xii) make human resource management a priority.

Introduction

In 2006, the 23 members of the DAC disbursed over USD 100 billion of public funds for the purposes of development. This represents an estimated 90% of total ODA spent worldwide. How effectively do they manage these funds? As DAC Chair since June 2003, I[1] have presided over peer reviews of the development co-operation systems for 22 members of the Committee, and visited all of them.[2] This has been a unique experience for learning about the characteristics of effective systems.

Collectively, these system reviews cover the full range of aid management issues[3] confronted by our members, from policy to delivery, and draw objectively from the unique DAC data bank on ODA flows. They attempt to offer "critical, helpful and respectful" commentary on current member practice and are substantially enhanced at the end of each review by a full day of open discussion between the DAC and the leadership of the reviewed member. The peer reviews greatly help the DAC member countries to foster a more common understanding of today's bilateral aid practice and to provide them with regular feedback on donor innovations and achievements in support of more effective aid management. Two Secretariat reports issued in 1999 and 2005 summarised the management practices of DAC membership.[4] Another update is planned for 2008.

While the peer review process has brought many issues to the attention of the DAC over this period, I have retained here twelve of the more prominent examples of lessons learned or reconfirmed about the factors that encourage effective management of aid funds to achieve development results. They can be subsumed into the broad categories of: *i)* strategy; *ii)* organisational management; and *iii)* management of delivery.

Strategy

Finding the appropriate legal and political foundation

Lesson 1: Have a clear, top-level statement of the purpose of development co-operation, whether in legislation or another form, that has wide ownership and can remain relevant for a sufficient period

Recent DAC peer reviews demonstrate the importance of obtaining clarity at the highest political level on the overall aim of the national aid programme. Development co-operation generally operates in a complex political environment, with multiple relationships and actors whose purposes are not

limited to development or may be quite different. The newer, emerging donors who interact with the DAC also affirm that high-level clarity is a central topic of interest for them as they seek to shape the foundations of their own approach. Anchoring development policy unambiguously in legislation has provided an effective framework for governments that have a strong interest in development. However legislation, if not regularly updated, also can restrain system efficiency in the fast evolving world of development co-operation, so too much detail can be counter-productive.

Currently, slightly more than one-third of DAC members have comprehensive development legislation. More commonly, DAC members use some form of high-level development policy to guide their operations. Slightly over two-thirds of DAC members use this approach which, in a number of cases, complements legislation. While easier to introduce and change over time, such policy statements may not be strongly binding across government and do not normally convey the same sense of national priority as an act of law. Peer reviews also note the importance of a clear high-level mandate for downstream aid management and for delivery approaches that are internally efficient and that can adjust to evolving international agendas, such as that of aid effectiveness.

Box 1. **Seeking high-level clarity in the United Kingdom**

The UK's International Development Act 2002 provides a clear legislative mandate around poverty reduction and gives national development co-operation its current strategic orientation on issues of development, not only aid. For the first time in the UK, it reflects in law the centrality of poverty elimination and forbids the use of development assistance for other purposes, including the tying of bilateral aid to procurement contracts for British companies. As it has been designated the lead ministry for carrying out this legal mandate, the Department for International Development (DfID) enjoys an unambiguous relationship with other ministries, which allows it to influence cross-government thinking on development policy. This clarity of purpose also permits DfID's downstream operations to be more efficiently managed and evaluated. The Act has been a cornerstone in the substantial improvement of the UK's approach to international development since 1997.

Managing competing national interests

Lesson 2: Avoid letting short-term pressures jeopardise the long-term common interest in effective development

As DAC members seek to anchor their aid programmes sustainably within overall national policy, it is important to be clear how development co-operation

can best function within the context of other potentially competing national interests. The DAC recognises that development policy does not operate in a vacuum and that all nations have widespread interests (such as trade, political relationships or security) which respond to national priority concerns. Applied to relations with developing countries, a feature of national interest is that while in the short term they may be (but do not have to be) divergent, in the long term all DAC members (and indeed all countries) have a common interest in developing countries achieving sustainable and broad-based development. Indeed, this common interest is recognised in the Millennium Declaration. DAC counsel has been that, while national interests are legitimate, if they result in ineffective aid they will prove self-defeating. Of course, to sustain this position, it is necessary for development actors to demonstrate that coherent policies and well-considered development co-operation can, and do, contribute to overarching long-term national interests. More attention should be paid to the need to assemble and disseminate sufficiently convincing evidence of this.

Box 2. **Development and national interest in the United States**

Given the nature of its political system, the US has traditionally justified development co-operation policies in terms of both recipient country need and its own foreign policy objectives. This was true of the Marshall Plan (rebuilding Europe while repelling communism and improving US trade) and is in keeping with the 1961 Foreign Assistance Act (helping developing countries while supporting US national security and prosperity). It is at the heart of the special congressional practice of extensively "earmarking" the annual foreign assistance budget based on its own perception of priorities. With the end of the Cold War in 1991, US development co-operation lacked a strong sense of political vision. However, since the events of 9/11 the government has been very successful in boosting the image of development co-operation among Congress and the American public. The 2002 National Security Strategy elevated development to one of the three pillars of national foreign policy, along with diplomacy and defence. While not without its implementation difficulties (for example, over whether other priorities may weaken the development effectiveness of some interventions), this explicit strategic explanation of the need for a more harmonious and integrated national policy on development has permitted the US to open an important debate over the legitimate place of development co-operation within American political priorities.

Achieving greater policy coherence for development

Lesson 3: Set a clear mandate and establish mechanisms to ensure that policies are assessed for their impact on poor countries

DAC members commonly agree that today's global environment requires greater donor attention to ensure that wider policies are coherent with the objective of development. Peer reviews have demonstrated regularly the challenges of maintaining this approach in relation to important national policies that may either promote or work against the needs of poor countries (in fields such as trade, migration or environment). While it is unrealistic to suppose that in every case it will be the interests of poor countries that are given the greatest weight, peer reviews emphasise the importance of national policy formulation that includes full appreciation of the potential impact of these policy decisions on the development of poor countries. They also conclude that development agencies need to pursue strategic alliances with other national and international stakeholders to promote policy coherence for development in priority areas.

Peer review reports note that maintaining development policy at the heart of a national vision requires high-level commitment (parliament, government), preferably structured so that priorities are clear and that expected results are tracked and reported. It also requires specific designation of those parts of government which provide leadership to foster such a policy environment in the context of a "whole-of-government" approach. This mandate should stipulate the formal and informal operational mechanisms required across government to identify, analyse and report on progress in implementing the policy coherence agenda. The human resources required to address these tasks may be placed in a range of locations. Some donors deal with policy coherence issues primarily through official means such as a dedicated unit inside government; others favour recourse to *ad hoc* capacities, often outsourced to public or private specialists. In 2008, the OECD Secretariat will use the 2003-07 peer review series to produce a special synthesis report which analyses the impact of different institutional mechanisms on the promotion of policy coherence for development. Evaluation evidence, such as that provided by the recent evaluation of the "Triple C" policies of the European Union (Complementarity, Co-ordination and Coherence) will be useful in this regard.

DAC members increasingly recognise the need to seek collective action and to better identify good practice in this area: what is effective and what is not. For example, the European Commission now has a short list of priority development coherence issues common to all 27 EU Member States, for which it is testing common operational approaches to identification, analysis and reporting.

> ## Box 3. **Promoting policy coherence for development in Sweden**
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> Sweden has long recognised both the need for national policy to address trans-boundary issues and the fact that national decisions have international impact. At the level of domestic policy, a set of guidelines called "Sweden's Policy for Global Development" was adopted by parliament in 2003. These ambitious guidelines mandate an integrated policy for global development, affecting all policy areas of government. It requests a government role in support of policy action in multilateral contexts, such as the European Union or other specialised forums (*e.g.* Doha, Monterrey, Johannesburg) and promotes candid international examination of industrialised country policy choices and of fulfilment of international commitments towards the developing world. Following its recognition of the challenges inherent in implementing this vision, parliament requested an annual report on the status of its implementation. This report can be used administratively as an annual trigger for attention to, and action on, issues of policy coherence.

Public awareness

Lesson 4: Invest in delivering, measuring and communicating results of aid-financed activity

Public awareness of, and support for, development co-operation is fundamental. Peer reviews demonstrate that strong public support is the best guarantee of political and legislative support for strong and dynamic national development programmes. DAC members whose aid systems have weak public or political support are obliged to work in a far more difficult domestic environment, which can include excessive levels of scrutiny and multiple external controls. The level of public support for development co-operation often is pre-conditioned by domestic cultural tradition (*e.g.* past religious engagement in poor countries, the donor country's own context of past underdevelopment, national values concerning public solidarity) or by humanitarian compassion provoked by a recent natural disaster. But it also requires pro-active and targeted forms of public education and awareness building. Most recently, DAC members have linked national approaches to international campaigns which emphasise specific results (*e.g.* the Millennium Development Goals, or the objectives of special purpose "vertical" funds) as an effective way of raising public understanding of their development co-operation and national interest in it.

While sustaining public and political support for development co-operation is most difficult for DAC members during periods of economic adversity, obtaining public engagement and public support is always a challenge. Even where, as often, the public recognises that the degree of

poverty and inequality in the world is both a humanitarian issue and a risk to all our futures, there is widespread scepticism about whether official aid is effective in tackling it and whether scarce public funds should be devoted on more than a token scale to purposes outside the country of origin. In response, donors are increasingly seeking to engage domestic constituencies in regular public debates on aid effectiveness. In response to public scepticism on the effectiveness of aid, donors increasingly focus on reporting how the impact of aid is improving the lives of poor people.

> ### Box 4. **Public awareness in Ireland**
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> Averaging 90%, public support for development assistance in Ireland has been high and stable for several decades. A 2004 survey of Irish attitudes to aid found that 66% of the population think it is very important and a further 28% fairly important to help people in poor countries. Ireland's own history of poverty contributes to strong Irish solidarity with poor people worldwide. Indeed this sense of solidarity – nurtured by development education by Irish NGOs and the national effort to build public awareness – helped sustain high support for aid during challenging economic times in the 1980s and early 1990s. It also translates into cross-party political support for Ireland's growing ODA budget towards 0.7% of GNI by 2012. Still, a key challenge persists: the depth of knowledge about the national aid effort remains shallow. Building knowledge to sustain support remains a high priority for Irish Aid which is striving for greater transparency and accountability to Irish taxpayers for effective aid. The 2006 White Paper on Irish Aid – which was prepared in consultation with Irish citizens – stresses the centrality of public information, development education and work with the media for public ownership and awareness of the development programme. Concrete steps to achieve this are demonstrated by a recently opened Volunteering and Information Centre in Dublin's city centre and increased support and funding for development education.

Organisational management

Peer reviews reveal that the institutional shape of bilateral systems can vary substantially depending on the national political environment, the system of government and civil service practice. Recent peer reviews have noted that organisational reforms seem increasingly linked to the international aid effectiveness agenda. This is particularly true in relation to today's tendency to tackle organisational "fragmentation" at the level of headquarters, while operational authority is often decentralised to the field.

Identify a leadership structure that works

Lesson 5: Task a sufficiently senior and publicly accountable figure with clear responsibility at the political level for the delivery of effective development co-operation

The choice of leadership structure used by DAC member systems tends to depend on the political priority attributed to development. National systems for promoting international development that have the highest level political priority tend to be led by a minister or deputy minister with a strong government position. Unless a donor has its own development ministry (only two DAC members currently have ministries dedicated to development alone, but five more have development ministers in a combined ministry), highest level administrative responsibility for development co-operation is most frequently attributed to the ministry for foreign affairs, often led by a deputy minister or state secretary (although variations are significant). The DAC position in peer review discussions has been to favour systems which best strengthen delivery of effective support for development at the political level.

Box 5. **The development leadership structure in the Netherlands**

The Netherlands' Ministry of Foreign Affairs has a "two-headed" structure with a cabinet-level minister for foreign affairs and another for development co-operation. Together, they oversee an integrated administrative structure. The approach is based on a 1994 review of Dutch foreign policy which aimed to improve the ability of the government to "speak with one voice". The review resulted in a "de-compartmentalisation" of the ministry: the departments were restructured along integrated lines, with regional and thematic departments that worked for both ministers. The new ministry personnel system now rotates all staff every three to four years between the developmental and political sides of Dutch foreign policy so as to reinforce the integration of functions.

Bilateral aid: Dealing with institutional dispersion

Lesson 6: Rationalise bilateral aid structures to facilitate coherent action at country level

DAC members use a number of different structures for the management of bilateral aid. As Table 1 shows, some combine most policy and operational work in one place and others divide overall policy from delivery. Each structure operates in a local context that is unique, and no table can fully capture the subtleties of, for example, the role of government-wide co-ordination systems, or the extent to which agencies – whose main business is delivery – in fact also contribute importantly to policy.

Table 1. **Who is responsible for bilateral aid policy and management?**

Responsibility resides with a single body	Responsibility for policy mainly resides in ministry and for management in agency
a) Ministry of Foreign Affairs	a) Ministry of Foreign Affairs
Denmark	Austria
Finland	Belgium
Greece	Luxembourg
Ireland	Portugal
Italy (reform under consideration)	Sweden
Netherlands	
Norway	
b) Specialised ministry	b) Specialised ministry
United Kingdom	Germany
c) Specialised agency	c) Specialised responsibility for bilateral loan aid policy
Australia	France
Canada	Japan
New Zealand	Spain
Switzerland (two agencies)	
United States (several agencies)	

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It is unclear whether any one of these systems is unambiguously linked with more effective aid. Indeed, peer reviews show that effectiveness may vary considerably among countries which operate superficially similar models. What can be said is that clarity of responsibility and accountability, professionalism and effective co-ordination are essential to the proper functioning of any system.

Take the case of co-ordination: peer reviews show that many types of institution may deliver development aid, whether they be at the national, regional or municipal level. All bilateral institutions which are responsible for reporting ODA are considered to be part of the national system in a peer review. Classified in this manner, larger national systems can include as many as 30 different official development actors. Especially since donors have officially recognised the importance of aid effectiveness (notably at the high-level forums in Rome in 2003 and Paris in 2005) several DAC members have either undertaken to consolidate their national system or are studying this option. Current developmental thinking suggests that better integrated national development co-operation systems will foster complementary relationships and synergy by integrating, or at least better co-ordinating, fragmented systems under one strategic umbrella. The DAC has favoured approaches which make it easy to bring together all forms of assistance at country level, rather than having two separate approaches for loans, grants

and technical co-operation, or for programmes of a "vertical" kind. Similarly, greater effort is now being made to better link government and other development groups (think tanks, universities, foundations, NGOs) or sub-national authorities (regions, districts or municipalities within the donor country). These closer ties maximise the comparative advantages of different actors within the national context and avoid unnecessary duplication of effort.

Box 6. **Institutional consolidation in Japan**

Japan is the world's third largest bilateral donor with USD 11.6 billion of ODA in 2006. Debate within the Japanese Diet has highlighted the improvement of structure in the management of the nation's large development co-operation programme which has moved from a system managed by multiple development actors to a more integrated one. The Diet also pointed to Japan's historically compartmentalised approach towards different ODA instruments (loans, grants, technical co-operation), carried out by separate parts of the national administration. Substantial management reform was initiated in 2006 which *i)* created a top-level, cross-ministerial body (the Overseas Economic Co-operation Council) chaired by the Prime Minister to deliberate on important development matters; *ii)* reorganised the Ministry of Foreign Affairs' bilateral and multilateral aid responsibilities into one bureau; and *iii)* will merge the ODA loan function of the Japan Bank for International Co-operation (JBIC) and a part of the grant aid function of the Ministry of Foreign Affairs into an empowered Japanese International Co-operation Agency (JICA). The immediate result of this consolidation is a more strategic and integrated national approach which will strengthen the effectiveness of the Japanese system in delivering the national policies determined by the Overseas Economic Co-operation Council.

Managing contributions to the multilateral institutions

Lesson 7: Promote greater coherence between those responsible for different aspects of multilateral aid

DAC members have tended to contribute a fairly large percentage of their national ODA to multilateral institutions, particularly to the European Community, the World Bank and the UN family. In 2005, the DAC average was 23% for all members (30% without bilateral debt relief) although the range was from 9% to 55% (10% to 83% without debt relief). A recurrent theme for many of the peer reviews is the extent to which there is a need for stronger strategic and operational connections between the bilateral and multilateral portions of the national aid system. The lead actors of the development system – usually

the Ministry of Foreign Affairs in association with a lead implementation agency – are generally directly responsible for the bilateral portfolio and for the UN family, which usually constitutes a minority aspect of the multilateral one. In contrast, the major part of the multilateral portfolio (usually the development banks) is handled in a majority of DAC member countries by the Ministry of Finance (Box 7), which also typically handles bilateral as well as multilateral debt relief. Vertical funds are supported in some cases by foreign ministries and in others by ministries of finance, both of which have also played a leading role in looking at innovative ways of financing development. In addition, in some countries line ministries are also significant actors in multilateral finance. An effort to co-ordinate these various parts of the system is sometimes made but it is not always very effective. DAC peer reviews increasingly call for all facets of the national system which affect the multilateral development system to be better linked, in the interest both of more efficient world-wide aid architecture and of more effective national and international aid impacts in the field.

Box 7. **Different lead responsibilities for managing multilateral relationships with the Multilateral Development Banks**

Ministry of Finance/Economy	Ministry/agency with lead responsibility on most other forms of multilateral (and usually also bilateral) aid
Austria	Australia
Belgium	Denmark
Canada	Finland
France	Greece
Italy	Germany
Japan	Ireland
Luxembourg	Netherlands
New Zealand	Norway
Portugal	Sweden
Spain	United Kingdom
Switzerland	
United States	

Decentralising management to the field

Lesson 8: The decentralisation of responsibility to the field level can be beneficial, but it needs high-quality, lean supporting systems

Almost all DAC members use country-level strategies with linkages to partner country planning, particularly the local national poverty strategy, if there is one. A donor mandate at the country level which is both clear and strategic provides a reliable basis for delegated decision making and a decentralised approach permits the donor to be more adaptive and responsive to locally expressed needs and to co-ordinate more readily with other partners.

Most members have therefore increased the decentralisation of management authority to the donor field office. With special attention given to field delivery and poverty impact, DAC members now widely acknowledge that a decentralised approach better places decision making where delivery realities lie and where more operationally efficient donor co-ordination and harmonisation take place, while respecting the need for local ownership.

As donor decentralisation becomes increasingly widespread, peer reviews note common challenges such as higher field operational costs (notably for expatriate staff) and the need for coherent and co-ordinated communications both between headquarters and the field and among partners at both levels. One result of donor decentralisation is a growing realisation that bilaterally funded

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Box 8. **The European Commission's decision to operate from the field**

A key component of the European Commission reform process has been the devolution of management responsibility to field delegations. Devolution began in 2000 guided by the statement that "Anything that can be better managed and decided on the spot, close to what is happening on the ground, should not be managed and decided in Brussels." The Commission made a major effort, particularly through EuropeAid, to transform its centralised bureaucracy into one that was substantially devolved to 81 field delegations by 2004.

Now, committee management, financing decisions and global commitments are the responsibility of Brussels, while individual commitments, tendering, contracting and payments are made by the delegations. Delegations identify activities, assess feasibility, implement and evaluate them, while Brussels is responsible for programming and for general, thematic and quality support. By 2005, EuropeAid estimated that more than 80% of geographic funds and 66% of thematic funds were managed primarily by the delegations. A total of 1 559 staff posts were relocated to the field over this period, giving delegations a different staffing profile as they were joined by financial, contracting or legal experts and engineers.

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development specialists in country often overlap with each other. This is now giving rise to an interest among donors to explore joint strategies, implementation and evaluation approaches, as well as a better division of labour among them.

Management of delivery

Managing the scaling up of development aid

Lesson 9: Radical reforms in aid delivery will be vital as donors are forced to deliver more aid per head of agency staff, while increasing the effectiveness of this aid

Since 2003, individual donor information provided by peer reviews has offered insight into the significant operational challenges represented by the international scaling up agenda and the time frames to which donors are politically committed. While ODA has increased in recent years, much of the increase was due to a temporary spurt of debt relief. It has become apparent that further discussion of organisational capacity, including instruments and channels, is needed to scale up programmable aid quickly and to improve the medium-term predictability of aid as called for in the Paris Declaration. Many peer reviews have underscored the need for well thought-out scaling-up plans at the national level to be able to anticipate the future management needs of the system. Most DAC members do not appear yet to have developed such plans. At the global level, there is a need for advance information on where agencies are planning to spend their increased budgets. Projections of future flows will help identify resource gaps and opportunities for scaling up in individual countries.

A current preoccupation for most major donors is how to do "more with less". Individual DAC members with growing aid levels are commonly confronted with parallel issues of restraining or downsizing the staff of national government departments. For donor management this means that national organisations will need to change ways of doing business if they are to handle substantially greater resources and still use them effectively. But in at least some cases, a moderate increase in staff numbers may also be necessary in order to cope with the increasing workload that comes with scaling up.

Across DAC members the scaling-up debate appears to have stimulated a growing spirit of innovation. Approaches found in peer reviews to date have included "wholesaling" through greater investment in multilateral systems, much greater interest in using budget support mechanisms (general and sector) and longer-term interest in expanding the use of "delegated partnerships" for downstream implementation. The results remain to be seen.

Box 9. **The challenges of scaling up in Spain**

Spain is significantly increasing its ODA volumes (+20.1% from 2005 to 2006, or +32.2% without debt relief) and ambitiously aspires to attain a 0.7% ODA/GNI ratio by 2012, fully three years before the European Union deadline. Spain undertook a nationwide consultation exercise to set overall priorities for its aid and to sustain public support. This resulted in the Master Plan for Spanish Co-operation 2005-08, in which several delivery reforms are specified in order to attain the 0.7% target. They include use of new instruments, further concentration in geographic and sector terms, greater use of the multilateral channel, organisational reforms of the Spanish Agency for International Development (AECI), specific aid management improvements and special attention to the country strategic planning process, including multi-annual funding envelopes. At the same time, Spain's human resource capacity to implement this scaling-up target is constrained by government-wide legal and recruitment requirements; this will affect in particular the forthcoming increase of capacity of field operations. The current AECI reform proposal attempts to address these constraints in its human resources plan.

Maintaining a focused approach: Countries, sectors

Lesson 10: Most DAC members should focus their assistance on fewer countries, fewer sectors and, in particular, fewer activities

Most DAC members understand and agree that it is both more efficient and developmentally desirable to limit the range of countries and sectors in which they work over the longer term while paying due attention to the comparative advantage of each donor. Maintaining this more focused approach in practice is a challenge for bilateral donors whose aid allocation is shaped around both country needs and special agendas at the national or international level. Many donors find their geographic and sector aid allocations frequently driven by domestic political leadership or legislative initiatives, which are often short term and *ad hoc*. Even where donors establish clear allocation priorities, it may be difficult to convince domestic decision makers of the importance of maintaining such a disciplined and longer-term approach.

There appears to be some modest progress on concentration at country level. Admittedly, DAC statistics reveal that in 2005 donors on average provided some form of aid to 109 countries, the same spread as ten years earlier. But many of these recipients receive only "micro" portfolios, such as a few training places or small amounts of charitable aid. More significantly, the proportion of ODA going to the top 10 recipient countries rose on average from 52% in 1995 to 66% in 2005. The very large flows, including debt forgiveness, to Iraq are of

course one element in this increase, which is therefore rather less impressive than it appears at first sight.

At sector level, there is little change in the *relative* concentration of donors' aid to their preferred sectors, even though these sectors themselves have changed over the period. Over the past 20 years, the shares of aid accounted for by the social sectors (especially governance and humanitarian aid) have risen substantially, while the shares of agriculture, commodity aid and economic infrastructure have fallen.

DAC members continue to put in place each year an extraordinary number of activities. In the *Development Co-operation 2003 Report*, my first as Chair, I noted that over 1999-2001 DAC members reported undertaking an average of some 35 000 transactions per year, representing an average transaction value of USD 1.5 million. While comparison with more recent data poses methodological issues, it is disconcerting that this situation does not appear to have improved. The preliminary data from 2005 suggests that the number of transactions reported has continued to grow in the intervening four years. Whatever the number, its size is significant and represents transaction costs for aid agencies and governments alike.

In its peer reviews the DAC regularly encourages members to focus their bilateral geographic and sector contributions to international development even further. They are also encouraged to work even more collaboratively within broader donor frameworks to enhance the complementarity of donors' efforts. One important effort in this sense was recently launched between the European Commission and European Union Member States. Both bodies now seek a more efficient division of labour among the European Union States around a common code of conduct and statement of vision agreed by the EU Council in May 2007. It will be interesting to see how this is followed through in practice.

Performance-based management, evaluation and quality control

Lesson 11: Develop a stronger culture of managing for results and align incentives accordingly, but in ways that promote, not weaken, local structures of accountability

Peer reviews show that most donors are under increasing pressure from parliaments, government and civil society to use performance-based management approaches as a means of improving system efficiency and to achieve greater aid effectiveness and accountability. Attempts at performance-based management often initially include the traditional feedback areas of monitoring, evaluation and audit, and are usually more effective when linked also to the assessment of performance by individual units and members of staff. The resulting "corporate performance framework" concept put in place by

some has been applauded by the DAC, although all efforts to date merit further integration and simplification. Agencies also need to be alive to the danger that such frameworks can lead to perverse incentives or to excessive aversion to risk. There is also a potential conflict between the performance information that helps managers "run the business" and what is needed for external political or public audiences, where it may be more important to "tell the story" rather than simply provide an array of technical data.

Evaluation is one tool for performance management but, more broadly, it is also about development agency accountability and independent reporting of results to the public, parliament and the media. As such, development evaluation systems have evolved substantially in recent years. In some donor programmes, persistent budget constraints and new development programming demands – paradoxically – have reduced evaluation system capacity while requiring evaluation departments to engage in a broader range of activities and deliver new types of products. In other donor programmes increased attention and resources are now devoted to evaluation, often related to growing demands for aid agency accountability. Peer reviews emphasise the important role that evaluation can play in the context of internal performance-based management systems, while also pointing out the need to maintain the independence of the evaluation function to ensure the objectivity and reliability of findings. In several cases this has led to the use of new, independent structures. Evaluations and the assessment expertise associated with them can be central to the broader evolution of development co-operation system learning and knowledge management. Equally, evaluations conducted jointly with recipient countries can help build more evidence-based policies locally: strengthening the evaluation capacity of recipient countries is a key step in improving accountability and effective management for results. The establishment of a readily searchable repository of evaluation reports in the DAC Evaluation Resource Centre (DEReC) should greatly facilitate mutual learning. Box 10 gives a taste of what is available.

As donors regularly reform their policies and operations, some have come to realise the importance of setting up quality control mechanisms that typically use internal peer review processes to enhance the quality of new activities ("quality at entry"). These mechanisms can be both light and comprehensive so as to minimise additional bureaucracy while creatively reviewing the overall functioning of the aid system.

Donors are increasingly conscious that their bilateral, parallel results monitoring and reporting efforts reflect their own perspective and corporate needs and that there is need for some form of common approach to overall results in any one sector or country setting. The Millennium Development Goals provide an international template within which there are country-specific yardsticks. These can measure the kind of development that countries wish to see and the objectives they wish to attain. Some donors are proactively

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Box 10. **DEReC: Disseminating lessons**

Did you know?

- One of the biggest weaknesses of the support operation during the 2004 Indian Ocean tsunami relief efforts was its lack of understanding of the local context and its reluctance and/or inability to consult with and work through local communities, groups and organisations. Humanitarian aid was found to work best when local communities and authorities had been consulted and involved in the planning and management of programmes. More information can be found in the *Joint evaluation of the international response to the Indian Ocean tsunami: Synthesis Report* (Tsunami Evaluation Coalition, 2006).

- Poverty targeting has been used widely in development projects to channel funds to poor regions or deliver benefits to poor households. However, the approach is based on easy assumptions; poor people live in poor regions, public investment in poor regions leads to poverty reduction, and the solution to poverty reduction in a poor region lies within that region. Findings are that the bulk of the poor live in less poor regions, the location of projects in poor regions does not guarantee significant poverty reduction, and the solution to persistent rural poverty in remote and poorly endowed regions lies largely outside them. More information can be found in "Pathways out of Rural Poverty and the Effectiveness of Poverty Targeting" (Asian Development Bank, 2006).

- Security and justice sector reform programming in Africa often lacks a rigorous political analysis and risk mitigation strategy. A more coherent strategic approach by donors can help determine the most appropriate reform interventions in difficult political environments. More information can be found in "Security and Justice Sector Reform Programming in Africa" (DFID, 2007).

These and many other evaluations can be found on the DAC Evaluation Resource Centre (DEReC); *www.oecd.org/dac/evaluationnetwork/derec*.

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working to build capacity at the level of the partner country's monitoring and reporting systems, usually located in the national government structure, to set the basis for a future common results reporting system. (The possible roles for civil society and local legislative bodies are also important, as argued in last year's Report.) While this is a long-term solution and is still fraught with local capacity and methodological issues, many DAC members believe that this approach merits greater attention from the international community as it pursues the harmonisation and alignment agenda. The Hanoi Roundtable on Managing for Development Results of February 2007 provided some

encouraging information on good practice by a growing number of aid recipient countries. These are building national systems for evidence-based policy, developing evaluation and placing greater focus on the real results of national programmes, including those supported by aid. In the long term, effective local systems will give donors greater assurance than the stand-alone donor-led systems that have multiplied over the past 40 years.

Box 11. **Performance based management in Canadian aid**

The Canadian International Development Agency (CIDA) integrates the functions of results-based management, evaluation, internal audit and knowledge management into the same administrative division. A Results, Risk Management and Accountability Framework sets out the current approach to monitoring and provides the basis for evaluation and risk assessments. In 2007, as part of its rolling reform process, the government announced additional changes to its evaluation policy which will strengthen the evaluation function and make it independent from operations.

Human resource management priorities

Lesson 12: Securing and developing well-qualified, well-motivated local and expatriate staff is essential for any agency to function effectively. The good news is that quality agencies attract quality staff

Peer reviews often emphasise the critical importance of appropriate numbers of skilled and experienced personnel for effective development co-operation. Of course, peer reviews also recognise that broader issues (civil service regimes or government budget austerity) can create complex management situations.

Peer reviews have identified a variety of effective human resource management issues and constraints: the downsizing of government personnel; inadequate staffing levels; the imminent retirement of significant numbers of senior officials; changing skill needs; rapid turnover in staff. Peer reviews regularly call for advance development resource planning to place such issues in a context of organised change over time. They also suggest that individual donors need to address these issues more broadly and recognise the potential for development staff sharing or secondments, either within the national system of co-operation or with other donors, in a context of delegated partnerships or shared responsibility for activities.

Peer reviews also point to the benefits, in any system, of maintaining a reasonable level of core staff, recruited with the expectation that they will spend a large portion of their career on development issues. This does not mean that

one should staff agencies with people who just "do development". The insights provided by staff with other backgrounds in both public and private spheres are essential. But systems that assign senior staff with little development background to the majority of senior policy positions risk unnecessary mistakes, limit continuity of purpose, and discourage the entry of high-quality staff who feel a strong commitment to work in international development.

As donors progressively decentralise authority and capacity, one aspect of rapidly growing interest is the use of local expertise in field operations. Most donors have discovered that local professional staff, with their cultural knowledge, technical skills and language abilities, can be vital partners in the design and implementation of local operations. They also provide a form of corporate memory and continuity against a background of regular expatriate

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Box 12. The joint training of development staff among DAC agencies, and with their developing country counterparts: "Train4Dev"

In 2003, the Joint Donors' Competence Development Network (JDCDN, currently known as Train4Dev) was established. This forum for donor agencies includes some 17 bilateral donors and multilateral groups such as the European Commission, the UN and the World Bank. Train4Dev was created to promote aid effectiveness for poverty reduction through enhanced donor co-operation in competence development and training. The network refers in its basic documents to the Rome and Paris Declarations as points of reference. The network operates informally, with a light governance structure under a small "core group", and holds an annual meeting. Much of the substantive work is carried out by specialist subgroups, currently delivering training on poverty reduction strategy papers, sector-wide approaches, public finance management, crisis prevention and peace building, education and promoting pro-poor growth. Some training is carried out jointly in developing countries with participation of local officials. The DAC's Network on Poverty Reduction (POVNET) has already initiated a joint learning event with Train4Dev in order to disseminate its pro-poor growth policy messages to both donor field staff and partner country officials.

This initiative has the potential *i)* to help encourage agencies to align their approaches to common development challenges and help build cross-agency communities of practice and *ii)* to provide development agency staff jointly agreed products, including those developed in the DAC. This effort offers a potential pathway to disseminate and improve the implementation of DAC policy and good practice. An important step in realising this potential was the Pilot Learning Event on Promoting Pro-Poor Growth, a joint initiative between Train4Dev and POVNET which took place in December 2007.

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staff turnover. At present, a majority of donors do not have organised local staff statutes and guidelines, and peer review field visits regularly reveal that local staff may feel underutilised or not fully integrated into the local donor team. The use of local expertise needs to be considered in balance with the concern that donors in the aggregate do not unduly deprive the local labour market of quality local professionals, a particular concern in small countries with limited qualified staff.

Learning for the future

Peer reviews regularly provide important insight into the overall management of bilateral development co-operation systems around the world. They put into perspective the reality of historical and other domestic considerations that may influence *i)* the aid allocations and management style of individual donors and *ii)* the efficiency and effectiveness of bilateral systems.

As the member governments of the DAC afford growing political priority to development co-operation (including official commitments to scale up and increase aid effectiveness), they are collaboratively evolving towards development co-operation concepts which increasingly shift priority attention to the quality and impact of delivery in recipient countries. Recent peer reviews, which now dedicate an entire chapter to aid effectiveness, usefully describe DAC member operational interest in the principles of the Paris Declaration aid effectiveness agenda. A special report, drawing on the insights of the peer reviews, will be prepared on this topic for the third High Level Forum on Aid Effectiveness, to be held in September 2008.

Notes

1. *Effective Aid Management: Twelve Lessons from DAC Peer Reviews* was first published as Chapter 2 of the *Development Co-operation Report 2007*. It was written by Richard Manning, Chair of the Development Assistance Committee from June 2003 to January 2008, with the support of James Hradsky, OECD Development Co-operation Directorate.

2. Finland, Ireland, Japan (2003), France, Italy, Austria, Norway, Australia (2004), New Zealand, Sweden, Switzerland, Belgium, Germany (2005), Portugal, United Kingdom, Netherlands, Greece, United States (2006), Denmark, European Community, Canada, Spain, and again Finland (2007). Only Luxemburg was reviewed outside my mandate, but I had the opportunity to visit in early 2007.

3. The current six-chapter format of Peer Reviews cover policy, policy coherence, ODA flows, organisation and management, aid effectiveness and special issues. The "DAC Peer Review Content Guide" can be accessed on *www.oecd.org/dac/peerreviews*.

4. OECD, *Managing Aid: Practices of DAC Member Countries* (2005) and "A Comparison of Management Systems for Development Co-operation in OECD/DAC Members" (1999).

**The Development Assistance Committee
welcomes your comments and suggestions.**

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