

Increasing Aid Effectiveness Through Co-financing With Multilateral Organisations – Making It Work On The Ground

John Martin
Development Initiatives Pty Ltd

Introduction

The following macro level and micro level issues prompted the preparation of this paper.

Increased attention is being given to the use of co-financing as a means to increase development efficiency and effectiveness, particularly as donors' aid budgets are set to increase. DAC estimates that official development assistance (ODA) is expected to double over the next five years to US\$130bn (Menocal *et al* 2006). Harmonisation of donor actions (see below) which forms part of the Paris declaration on aid effectiveness (OECD 2005) is increasing the impetus for aid agencies to coordinate and streamline their activities, with targets set for increasing the use of common arrangements and procedures and undertaking shared analysis by 2010.

As one of its four key strategies for doubling its aid volume by 2010 and increasing development effectiveness, Australia has adopted a strategy of working in partnership with other donors in the recent White Paper on Australian aid (AusAID 2006a). Co-financing is expected, amongst other things, to reduce the administrative burden, harness the comparative advantage of other donors and increase leverage.

Co-financing is also an important issue for regional organisations such as ASEAN. The task of monitoring progress and assessing effectiveness of ASEAN's Vientiane Action Program (Martin 2004) is made more complicated by the range of funding agencies and procedures that the ASEAN Secretariat and its member countries need to collaborate with.

At a more micro level, studies such as that by AusAID indicate that there is work to be done in ensuring the quality of co-financed activities (AusAID, 2005). All four co-financed activities examined were given an unsatisfactory quality at entry rating. Efforts therefore need to be devoted to increasing the quality and enhancing risk management of co-financed activities.

An emerging practical problem on the ground is that whilst there are many similarities in approaches between development assistance agencies in terms of policies and processes as espoused by their headquarters, this does not necessarily translate into effective coordination and action at regional and country office level, reducing the potential effectiveness of the aid effort and placing greater burdens on partner governments.

In consequence, a four pronged approach is put forward for improving the development effectiveness of co-financed aid activities on the ground which covers:

- addressing organisational and institutional issues
- strengthening processes and guidance
- incorporating desired practices into the framework agreements between organisations
- increasing efforts in capacity building for institutions and individuals.

The focus in this paper on the above four issues does not minimise the importance of other issues creating a favourable enabling environment for success, including strong partner government ownership and donor commitment.

The harmonisation agenda

Enhancing the effectiveness of co-financed development activities by improving coordination between partnering aid donors forms part of the focus of the Paris Declaration on Aid Effectiveness. The five commitments of the declaration cover ownership, alignment, harmonisation, managing for results and mutual accountability (OECD *op cit*). Harmonisation (de Renzio *et al.* 2004) involves increasing coordination and streamlining of activities by

- developing common arrangements for planning, managing and delivering aid
- simplifying donor procedures and specific requirements in order to reduce the administrative burden on partner governments
- sharing information so as to promote transparency and improve coordination.

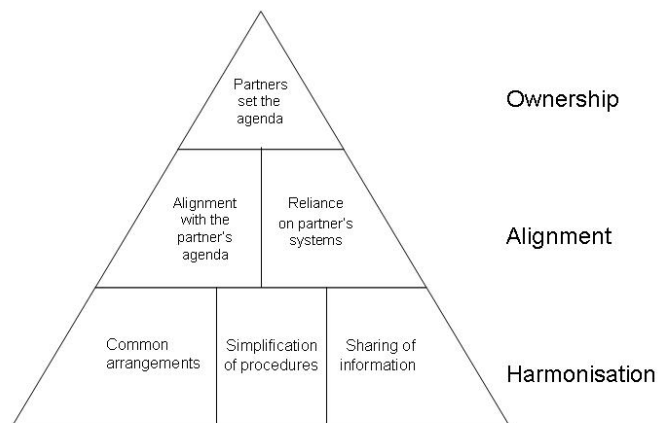
The issue of harmonisation is linked to that of alignment. Alignment involves aligning the donor's objectives to the partner government's agenda and priorities and making use of the partner government's systems rather than adopting specially introduced donor systems. Such harmonisation and alignment efforts are dependent on the partner government playing a leadership role. These three elements are summarised in Figure 1.

A number of initiatives are already well underway to better harmonising donor procedures and practices in order to improve development effectiveness. In terms of evaluation, in March this year, DAC adopted the set of standards for the evaluation of development assistance activities developed by the DAC Working Group on Evaluation. Among other things, these standards incorporate the DAC's five evaluation criteria (relevance, efficiency, effectiveness, impact and sustainability). DAC advocates that

these standards be used by all development agencies on a voluntary basis for the next three years (Development Cooperation Directorate 2006).

Figure 1

Ownership, Alignment & Harmonisation Strategies
for Development Cooperation



Source: de Renzio et al (2004)

Organisational and institutional issues

Some key considerations

To enhance the effectiveness of co-financing arrangements, a range of issues, mostly organisational and institutional, need to be considered. The following is a list of practical issues which may be useful when entering into co-financing arrangements, depending on the nature and scope of initiative being developed and the history of the experience of working with the co-financing partner(s) involved:

- establishing the rationale for engaging with particular co-financing partners such as:

- Identification of the comparative advantage of the respective partner and its interests in co-financing
- Assessing the potential for leverage (such as in policy dialogue or in facilitating donor harmonisation)
- assessing and enhancing the degree of trust between the co-financing partners. The degree of trust can be informed by analysis and experience, including via feedback mechanisms at headquarters and country offices of agencies involved and may be built up over time
- ensuring the adequacy of the scope and contents of the agreements (overarching and initiative-specific) negotiated between the co-financing partners
- confirming the adequacy of the institutional performance of the organisation, particularly at the country office level
- ensuring that the co-financing partners have productive working relationships in country with key stakeholders (such as partner government and other donors)
- ensuring that the quality of the design of the initiatives being considered is appropriate for the aid modality being adopted, including allowing for independent appraisal as necessary
- establishing appropriate M&E arrangements and processes prior to implementation, including for monitoring the health of the relationship (see below)
- establishing effective feed back and decision-making mechanisms for accountability, learning and program improvement. This will include establishing effective interactive communication channels between the headquarters and regional/country offices of the co-financing partners as well as with the partner governments
- clarifying roles, responsibilities and expectations as early as possible in the design process, including agreement on participation in the design process itself and the nature, scope and methodology to be adopted. Whilst a minimalist involvement by the “junior” partner can initially help reduce the input of time and resources and hence increase efficiency, quality may be compromised in terms of the “junior” partner’s own quality standards. Subsequently, conflicts may arise where arrangements, such as for monitoring and evaluation, have not been agreed. The degree to which arrangements need to be spelled out will depend on the aid modality being adopted
- assessing risks involved and putting in place appropriate risk management arrangements. This can include:
 - Agreement on the nature and scope of risk management strategies adopted
 - Provision for stop/go points and an exit strategy in the event that agency expectations are not realised
- ensuring funding arrangements include adequate provision for M&E

Incentives for harmonisation

One of the issues impacting on the degree of harmonisation that co-financing partners are willing to adopt relates to the underlying incentives of agencies involved. The DAC Working Party on Aid Effectiveness has undertaken research on the incentives for harmonisation and alignment in aid agencies (de Renzio *et al* 2004). The study

summarises past incentives and puts forward recommendations for further action based on the experiences of four bilateral aid agencies (United Kingdom, Switzerland, Sweden and Spain) and two multilateral organisations (World Bank and European Union). Among other things, the study concludes that there is a certain degree of “disconnect” between the high-level declarations and commitments of aid agencies in relation to harmonisation and the behaviour of lower levels of the organisation. It is a challenge for an agency to turn its high level commitments into effective signals which result in individual behaviour being aligned with harmonisation objectives.

Table 1: Incentives for harmonisation in development assistance agencies

Level	Past Initiatives	Further Actions
Political Level	<ul style="list-style-type: none"> • Statements from Senior Management • Introduction of new legislation 	<ul style="list-style-type: none"> • Public information campaigns • Support partner governments in aid harmonisation • Strengthen international mechanisms
Institutional Level	<ul style="list-style-type: none"> • Decentralisation • Creation of harmonisation Units • Adoption of Action Plans • Review of procedures • Introduction of more flexible aid modalities 	<ul style="list-style-type: none"> • Formulation of policies and guidelines • Improve M&E systems • Deal with resistance to change
Individual Level	<ul style="list-style-type: none"> • Recruitment policies • Training initiatives • Peer recognition 	<ul style="list-style-type: none"> • Improve formal and informal incentives

Source: de Renzio *et al* (2004)

At the institutional level, decentralisation was generally found to have had a positive impact, as decentralisation of staff, resources and responsibilities to the field is thought to have better enabled agencies to respond to local circumstances and collaborate more effectively with other agencies. However, it was also found that further actions are necessary to offset problems encountered between headquarters and field offices. Such actions can include the formulation of policies and guidelines, improved M&E systems and mechanisms to deal with resistance to change:

“ as with any decentralisation process, effectiveness depends crucially on the recognition of the different role that headquarters need to play in a decentralised structure: production of coherent guidelines, ongoing technical support and backstopping, monitoring and evaluation, dissemination of best practice, etc. In many cases this still seems to be lacking, as respondents from field offices often complained about lack of clear guidance from headquarters on harmonisation practices, and headquarters often seemed not to be aware of the full scale of harmonisation activities going on at country level. Moreover, decentralisation can be undermined if officers at headquarters have an interest in maintaining the status quo” (de Renzio ibid p.14).

Strengthening processes and guidance

Three suggested areas where improved processes and guidance might be expected to enhance the development effectiveness of co-financed activities on the ground are the quality of the logical framework analysis, monitoring and evaluation and risk management.

Logical framework analysis

Many development agencies adopt some form of logical framework as a basis for the design, monitoring and evaluation of their development assistance activities. There are acknowledged limitations in the use of this tool, the quality of the analysis undertaken and the quality and usefulness of the logical frameworks developed (see, for example, Rick Davies (ed.) at www.mande.uk for critiques, refinements and alternatives).

The value of logical framework analysis, lies, among other things, in the underlying issues and concepts which it addresses. It provides a basis for systematically posing some key design and M&E questions. These questions also relate to some of the key responsibilities of co-financing agency personnel in the field and those of the partner government agency:

1. *What are we trying to achieve with the resources available?* This question aims to ensure there is a clear exposition of the objectives and the underlying logic of the initiative being undertaken, including providing transparency, and potential justification, for the inputs employed, activities undertaken, products and services produced, outcomes achieved and impact attained.
2. *How will we know if we are successful?* This question addresses expected performance to be achieved including the processes involved, the products and services produced and outcomes and impact to be achieved.
3. *Where will we get the performance information from?* This question addresses the sources and methods to be adopted in actually collecting the performance information, whether at the input level (resources used), activities undertaken, goods and services produced, outcomes achieved or impact attained.

4. *What else has to happen to be successful?* This question addresses the assumptions and risks involved and hence the factors outside the scope of the development initiative that are needed for success. As logical framework analysis is an interactive process, the scope of the development initiative will change over time as some of these external factors become internalised into the design and vice versa. Personnel on the ground monitoring and assessing performance need to be across the issues involved and sensitive to changes.

The logical framework can be linked (for better or worse) to the implementation schedule, budget, and implementation contracts, can form the basis for assigning responsibilities, be the foundation of the monitoring and evaluation and risk management arrangements and be used as a key communication tool for engaging stakeholders involved. A well developed logical framework is also valuable as a starting point for undertaking evaluations by providing a framework enabling questions of relevance/appropriateness, efficiency, effectiveness and impact to be addressed. It can also be used to address questions of the cost-effectiveness and cost-benefit of the development intervention.

A common problem encountered in the design of development initiatives is that inadequate attention and expertise is devoted to addressing these questions well. In co-financed activities, there is the additional problem that there are often differences in the requirements, approaches, terminology and reporting used to address these questions. Unfortunately, whilst the logical framework questions can be framed in a clear and simple manner, the answers still often remain complex and difficult, change over time and are dependent on who provides the answers and the processes used to attain them.

In terms of harmonisation, a mutually agreed approach to addressing the questions raised would be a big step forward, particularly for co-financed activities.

Monitoring and evaluation issues

Experience indicates that the design of the M&E arrangements needs to be considered as an integral part of the overall design of the development initiative itself and progress made prior to implementation. Designing an effective M&E framework is as much an art as a science, involving skill and sound judgement, as well as recognising that the costs and effort involved in M&E need to be commensurate with the level of benefits likely to be gained.

AusAID (2006b) has recently formulated a set of six generic responsibilities to be addressed when developing appropriate M&E arrangements. The items covered can also be framed as questions to be posed when assessing the quality of the M&E arrangements developed:

1. Actively engaging stakeholders in developing the M&E arrangements
2. Verify partner M&E capacity and intent

3. Ensure M&E arrangements are comprehensive, coherent & efficient
4. Explicitly define the information requirements
5. Define M&E responsibilities of stakeholders in undertaking M&E and provide for the necessary resources
6. Ensure M&E arrangements accommodate the need for lesson learning (and consequent program improvement) as well as for accountability.

This formulation is sufficiently generic to be tailored to specific monitoring and evaluation tasks and avoid the M&E “package deal” problem (Funnell 2005) which she considers can overemphasise monitoring at the expense of more rigorous evaluative activity. The underlying issue is well summarized by Booth and Evans (2006) “In short, monitoring is expected to record how implementation is progressing, whereas evaluations are about whether the programme is working, how it is working or why it is not working.”

Monitoring the health of the co-financing arrangements is an important task that can usefully be done, such as by periodic surveys, covering:

- the continuing suitability of the co-financing partner
- the health of the partnership/relationship between the co-financing partners, such as how well agreed processes are actually being implemented)
- The overall performance of the organisation in terms of how well it is achieving its own objectives (delivery of services and other outputs, achievement of intermediate outcome and final outcomes and its overall impact) based on assessments made against its own results framework This approach recognises that
 - development effectiveness depends on the organisation’s ability to fulfil its own mandate
 - many aid organisations, such as those of the United Nations, already have a results based management framework in place and therefore potentially have access to relevant performance information
 - such information can be the basis for forming judgements about the achievements of the initiative being implemented.

Risk management

As development initiatives are typically rather complex, the more effort and expertise devoted to the design and preparation of the initiative should result in higher quality and potentially increased development effectiveness. However, it can happen that once decision makers agree that such a development initiative should be undertaken, there is pressure to get underway as soon as possible and also to keep the costs of preparation down. They may also recognise that the design process needs to be flexible and able to adapt to the learning which takes place when teams are actually on the ground.

Two of the potential casualties of this more flexible, phased approach are the appraisal process and the monitoring and evaluation strategy. When a phased

preparation/implementation process is adopted, the opportunity and willingness to submit the initiative to an independent appraisal can be compromised, potentially increasing the risk of desired development objectives not being realised. Similarly, preparation of the monitoring and evaluation strategy may be left until implementation, raising the risk of it not being done well – such as establishment of the baseline and counterfactual situation, and potential conflict over the nature, scope, cost and reporting of results,. It is also possible that there will be subsequent pressure to “retrofit” the M&E framework to the activity being implemented, only to find that there are gaps in information and resources available.

To some degree, a strong focus on risk assessment and risk management upon implementation can help compensate for such deficiencies in the design process. So risk assessment and risk management may become even more crucial for some development initiatives.

Some suggestions for issues to be covered in framework agreements

Whilst every development initiative undertaken is unique, and requires individual attention, framework agreements between co-financing partners (such as bilateral and multilateral agencies) can provide common ground and reduce potential for subsequent conflicts, such as M&E arrangements and reporting. Such agreements may contain standard sets of information and standard processes which can be applied across the board and be a practical way to increase harmonization and reduce areas for conflict. Some suggestions on issues that can be included in such agreements, including issues already covered in this paper, are set out below:

- agency and partner government participation in the preparation/design process
- the scope and content of M&E frameworks and processes
- resourcing of the M&E arrangements
- consultation and feedback mechanisms
- the role and responsibilities of key stakeholders
- the establishment of milestones and stop/go mechanisms
- joint management processes
- the use of technical advisory groups
- the nature, frequency and audience for reporting
- capacity building for partner government and co-financing personnel
- auditing arrangements
- public disclosure arrangements

Increasing efforts at joint capacity building for institutions and individuals

The issue of capacity building for individuals and institutions is a critical one. Personal experience from delivering a range of training courses and workshops across regions and countries and for different agencies demonstrates the value of building up the capacity of

individuals. These enable a common understanding on aid management issues to be developed, including quality at entry, monitoring, review and evaluation and the similarities and differences of different agencies. Approaches found effective include:

- short courses for partner government officials on aid management, covering approaches used by different agencies, held in one of the co-financing partner countries. This also enables partner government personnel to compare notes with personnel of other countries whilst also being exposed to the personnel and environment within which the donor agency operates
- running workshops at regional/country level that may involve both headquarters and in-country staff of the aid agency, and a chosen range of key stakeholders, enabling better harmonization within the aid agency as well as with its various partners.

Conclusion

The expected expansion in aid budgets in future years and the nature of the aid market point to increased use of partnering arrangements between aid donors. The main point raised here for improving development effectiveness relates to organisational and institutional issues which can enhance harmonisation and collaboration between co-financing partners including at the headquarters level and field level of agencies involved. Strategies proposed here cover strengthening institutional and organisational arrangements, development of framework agreements, strengthening of incentives, refining procedures and processes and building capacity of agency personnel.

References

AusAID 2005, Rapid review of quality-at-entry (QAE) 2004: innovative activity design, AusAID, Commonwealth of Australia, Canberra.

AusAID 2006a, Australian Aid: Promoting Growth and Stability: A White Paper on the Australian Government's Overseas Aid Program, Australian Government, Canberra.

AusAID 2006b, "M&E Better Practice Guide – Exposure Draft", AusAID, Canberra.

Booth, D & Evans, A 2006, "DAC Evaluation Network: Follow-up to the Paris declaration on aid effectiveness: an options paper", DAC Network on Development Evaluation, Revised draft, London.

DAC, Working Party on Aid Effectiveness and Donor Practices 2004, "Draft Report on Aid Effectiveness for the Second High-Level Forum", Paper for Senior Level Meeting, Dec 8-9, OECD, Paris.

Davies, R (ed.) 2006, MandE News, "Working with the logical framework (under duress or by desire)" www.mande.co.uk/logframes.htm.

Development Cooperation Directorate 2006, “DAC evaluation quality standards”, Network on Development Evaluation DAC/DCD/DAC/EV (2006), OECD, Paris.

De Renzio, P Booth, D Rogerson, A & Curran, Z 2004, “Incentives for harmonisation and alignment in aid agencies”, A report to the DAC Working Party on Aid Effectiveness, Overseas Development Institute, London.

Funnell, S 2005, “Reflections on evaluation practice and on the 2005 conference - some observations from a grumpy old evaluator”, Keynote address to the Australasian Evaluation Society 2005 Conference, 10-12 October, Brisbane.

Martin, J 2004, “Monitoring and impact assessment mechanism for the Vientiane Action Programme (VAP) A Background Paper”, REPSF Project Number 03/006d, AADCP Program, ASEAN Secretariat, Jakarta.

Menocal, A.R, Maxwell, S & Rogerson, R 2006, “Background Paper: The Future of Aid: User Perspectives on Reform of the International Aid System”, Commonwealth Secretariat and La Francophonie Workshop, Dhaka, 20-21 March 2006.

OECD 2005, “Paris Declaration on Aid Effectiveness, High Level Forum, 28 Feb – 2 March 2005.” <http://www.oecd.org/dataoecd/11/41/34428351.pdf>.