

**CONFERENCE PAPER #9  
WORKING DRAFT, NOVEMBER 06**



# **CAPACITY DEVELOPMENT AND AID EFFECTIVENESS**

**A UNDP CAPACITY DEVELOPMENT RESOURCE**

**Capacity Development Group  
Bureau for Development Policy  
United Nations Development Programme**

**November 2006**

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## ACRONYMS AND ABBREVIATIONS

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|------------------|---|
| <b>ADB</b>       | <b>Asia Development Bank</b>  |
| <b>CAP2015</b>   | <b>Capacity 2015</b>  |
| <b>CDG</b>       | <b>Capacity Development Group</b>   |
| <b>DFID</b>      | <b>Department for International Development (UK)</b>  |
| <b>ECDPM</b>     | <b>European Centre for Development Policy Management</b>                                      |
| <b>FAO</b>       | <b>Food and Agriculture Organization</b>  |
| <b>GEF</b>       | <b>Global Environment Facility</b>  |
| <b>ILO</b>       | <b>International Labour Organization</b>  |
| <b>LENCD</b>     | <b>Learning Network on Capacity Development</b>   |
| <b>OECD /DAC</b> | <b>Organisation for Economic Cooperation and Development/Development Assistance Committee</b> |
| <b>PD</b>        | <b>Paris Declaration on Aid Effectiveness</b>   |
| <b>UNDG</b>      | <b>United Nations Development Group</b>   |
| <b>UNDP</b>      | <b>United Nations Development Programme</b>   |
| <b>UNESCO</b>    | <b>United Nations Educational, Scientific, and Cultural Organization</b>                      |
| <b>UNEVOC</b>    | <b>United Nations International Centre for TVET</b>   |
| <b>UNICEF</b>    | <b>United Nations Children Fund</b>   |
| <b>USAID</b>     | <b>United States Agency for International Development</b>                                     |
| <b>WBI</b>       | <b>World Bank Institute</b>   |

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### Acknowledgments

This note has been drafted by Dasa Silovic, (UNDP/CDG). The Researcher and technical contributor was Mala Liyanage, the Knowledge Manager was Artemy Izmetiev, and the Research Assistant was Atif Khurshid. The note draws upon UNDP policy and global practice on aid coordination and management. It profited from lessons learnt from global, regional and sub-regional workshops on the subject, organised by UNDP and in collaboration with other development partners (OECD DAC, WB, regional banks), namely: Burkina Faso (global) and Morocco for Arab States (2004); Uganda for Eastern and Southern Africa (2005); Western Balkans, Western and Central Africa, Asia Pacific and Latin America and the Caribbean (2006). Contributions by practitioners in UNDP COs and UNCTs have provided important insights on the challenges and lessons from the field and have guided the preparation of the note. Key contributors were the UNDP Global Community of Practitioners, with special thanks to Gabriel Accascina (UNDP/Regional Bureau for Arab States), Philippe Chichereau, Philip Courtnadge (UNDP/Regional Bureau for Asia & Pacific), Aidan Cox (Regional Bureau for Asia & Pacific), Abdul Hannan (UNDP/Operations Support Group), Yoko Konishi, Mari Matsumoto, Jorg Nadoll, Gianluca Rampolla, Yuko Suzuki, and Thomas Theisohn. Strategic guidance was provided by the Terence Jones and Kanni Wignaraja. Background information and documentation can be found at [www.devoid.org](http://www.devoid.org).

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## EXECUTIVE SUMMARY

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Development aid, in tandem with other sources of financing and targeted measures, has given tangible results in improving a certain number of social indicators, such as primary education. Unfortunately, the number of poor people globally living on a \$1 a day has not declined.

Discrepancies in development prospects and economic growth levels between continents and countries, as well as within countries, continue to persist. The global commitments made at the [Monterrey Consensus](#) on Financing for Development (2002) and the [2005 World Summit Outcome Document](#) have given new impetus to development efforts. One result of this renewed focus has been the recent commitment to scale up ODA even further to poor countries, particularly in Africa.

In the Paris Declaration on Aid Effectiveness [Paris Declaration on Aid Effectiveness \(PD\)](#) the international community committed itself to undertake far-reaching and monitorable actions to reform the ways aid is delivered and managed. It lays out specific commitments by donors (to provide better aid) and partner countries (to address weaknesses in national development strategies and to strengthen governance). It also reinforces the centrality of a country-based development model to deliver effective aid.

The challenge is to translate this increased focus and additional resources into sustainable development results. In spite of increased levels of ODA<sup>1</sup> the UN and the World Bank ("[Goals for Development: History, Prospects and Costs](#)") estimate that an additional \$40-\$70 billion in assistance per year would be needed in order to achieve the MDGs. The [UN Millennium Project](#) has made additional country projections for aid requirements

The spectrum of development assistance agents has also changed and expanded to non-DAC donors, non-governmental organisations, charities and the private sector. A new aid architecture is emerging, warranting new policies, tools and partnerships where different actors, bilateral and multilateral, are required to define their new roles. The UN system, itself, has an important role to play in this changing environment. UN system wide coherence manifests itself through comprehensive and more long-term development interventions bringing together environment and development concerns, humanitarian assistance, crisis management and post-crisis/conflict recovery. The UN reform process is not only geared at rationalisation and better management, but also at bringing together specialised parts of the system to provide holistic support to development and simplification, harmonisation and alignment of its policies and practices.

Through the UN RC system, the UNDP and UNCTs at country level have intensified efforts to support harmonisation and alignment, in Rwanda, Sudan, Tanzania, Malawi, Viet Nam, Cambodia and Nicaragua. Areas of intervention relate to: employing PRSPs as frameworks for planning, programming and financing the MDG targets at the country level in a more integrated and long term manner; supporting existing MDG costing initiatives and strengthening PFMs; aid coordination mechanisms and facilitation of donor/recipient country partnerships for resource alignment and results; development of specific aid management and monitoring tools; support to capacity development in DBS environments, SWAps and procurement. At the global level, close collaboration with the WB and the OECD/DAC, as well as other bilateral and multilateral organisations, complements this effort.

National capacity constraints, short and long term, can be significant stumbling blocks to achieving the MDGs. The Paris Declaration addresses the "weaknesses in partner countries' institutional capacities to develop and implement results-driven national development strategies".

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<sup>1</sup> Official development assistance to developing countries from member countries of the OECD's Development Assistance Committee rose 8.7 % not counting debt relief.

Working through the UN system to address capacity constraints, the UNDP objective is to enable countries to articulate and implement nationally defined MDG-based development strategies.

This practice note seeks to address key policy issues and instruments for aid to work for development effectiveness:

- i. international commitments to human development through scaling up of resources – the issue of volume and predictability;
- ii. new aid architecture and the role of the UN system and UNDP;
- iii. new aid modalities – a paradigm shift to the programme approach (PBA), joint assistance strategies and aid coordination mechanisms; new aid modalities – SWAPs, pooled and basket funds and (G)DBS;
- iv. aid management for transparency and accountability.

It focuses on the key drivers of change in the existing recipient donor partnership paradigm: national leadership and ownership, national capacity and partnerships.

Finally, this Practice Note relates to the MDG Support Strategy project (MDG-S) UNDP's corporate, scaled-up response to help countries meet the commitments they made at the 2005 World Summit to develop MDG-based strategies. The interface with the MDG-S implementation particularly focuses on supporting PD implementation in the pilot countries that are also DAC partner countries. The Practice Note complements, through the specific UNDP mandate, the [UNDG Action Plan for Implementing the Paris Declaration.pdf](#) focuses also on support to the RC mandate and UNCT capacity.

“ We further welcome recent efforts and initiatives to enhance the quality of aid and to increase its impact, including the Paris Declaration on Aid Effectiveness, and resolve to take concrete, effective and timely action in implementing all agreed commitments on aid effectiveness, with clear monitoring and deadlines, including through further aligning assistance with countries’ strategies, building institutional capacities, reducing transaction costs and eliminating bureaucratic procedures, making progress on untying aid, enhancing the absorptive capacity and financial management of recipient countries and strengthening the focus on development results...” 2005 World Summit Outcome Document, article 23 (c)

## I. Introduction

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*“In 2005, the development of a global partnership between rich and poor countries — which is itself the eighth (MDG) Goal...— needs to become a reality... Each developing country has primary responsibility for its own development — strengthening governance, combating corruption and putting in place the policies and investments to drive private-sector-led growth and maximize domestic resources available to fund national development strategies. Developed countries, on their side, undertake that developing countries which adopt transparent, credible and properly costed development strategies will receive the full support they need, in the form of increased development assistance, a more development-oriented trade system and wider and deeper debt relief.” (UN SG, “On a Larger Freedom: towards development, security and human rights for all”, 2006, <http://www.un.org/largerfreedom/contents.htm>)*

1. External aid is crucial for developing countries to move forward. But development is a dynamic process and so is development aid – amid successes in promoting the goals of social and economic development, it has demonstrated volatility, imposed various forms of pressures and conditionalities, and posed challenges arising from an increasingly globalised and changing world.

2. Scaling up in development assistance<sup>2</sup> and commitments to go beyond the quantity of aid, and undertake urgent steps to increase quality, transparency and accountability of ODA<sup>3</sup>, are critical for the MDGs to be achieved by the 2015 deadline. Additional and new sources of funding, like the French airline tax programme, now accepted by 19 countries, offer new opportunities to increase aid levels to support development.<sup>4</sup> This common agenda defined in the Monterrey Declaration and agreed upon in the Paris Declaration on Aid Effectiveness - PD (March 2005)<sup>5</sup>, demands concrete national, regional and global action plans and implementation strategies. It was reinforced at the 2005 UN World Summit. The DAC estimates that major new resource flows for development will occur after 2007. Such increases need to be sustained through 2015 to make a major impact on achieving the MDGs.

3. The development of a country’s capacity<sup>6</sup> to formulate, implement and review policies and programmes is critical for long-term economic and societal development. Against the background of the global commitment to fighting poverty, and pledges to increase the volume of aid, the capacities to negotiate, manage, oversee and effectively utilise development finance for human development ends has acquired

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<sup>2</sup> Official development assistance to developing countries from member countries of the OECD’s Development Assistance Committee rose 31.4% to USD 106.5 billion in 2005 – a record high. It represents 0.33% of the Committee members’ combined Gross National Income in 2005, up from 0.26% in 2004. Aid in the form of debt relief grants increased more than 400% between 2004 and 2005, while other aid increased 8.7% in the same period. Aid to Africa is expected to double to \$50B by 2010. These volumes reflect commitments made this year in various fora, most notably by the EU and the G8, and then affirmed in the 2005 World Summit last September.

<sup>3</sup> Communication from the Commission to the Council, the European Parliament and the Economic and Social committee, “Speeding up progress towards the Millennium Development Goals, The European Union’s contribution”, {SEC(2005) 452}, {SEC(2005) 456}, 12/04/2005.

<sup>4</sup> The initiative is expected to raise about €50 million in 2006 and €300 million in 2007. In 2006 it is envisaged that 250,000 children with HIV/AIDS and tuberculosis will be the beneficiaries. WHO is also involved in this project.

<sup>5</sup> [www.devoid.org](http://www.devoid.org)

<sup>6</sup> Capacity, as defined by UNDP, is the ability of individuals, institutions, and societies to perform functions, solve problems, and set and achieve objectives in a sustainable manner, while capacity development is the process through which the abilities to do so are obtained, strengthened, adapted and maintained over time.

even greater urgency. The [Millennium Summit Declaration](#), [Paris Declaration on Aid Effectiveness](#) and the [Outcome Document of the 2005 World Summit](#) reflect this prominence.

4. The development challenge today is to ensure that MDG-based strategies – whether they are PRSs or other pro-poor development strategies are operationalised and monitored in the short and medium term, and resourced on a continuous basis over the next decade. This requires aligning external aid allocations to the national policy and planning cycle, to the national budget process and ensuring that ODA and other external inputs contribute to development outputs and to development outcomes, in the longer term. Policy coherence on aid, trade and debt, as per MDG 8, is also important in this respect.

5. In scaling up UNDP and UNCT response, the following constraints<sup>7</sup> have been identified for aid to be effective:

- weak capacity of governments to manage foreign assistance;
- internal politicised nature of aid coordination between line ministries and frequent changes in mandates of government institutions;
- volatile political environment, including election periods, causing delays and setbacks both in terms of disbursement and institutional management;
- lack of donor coherence and competing interests, as well as frequent emphasis of major donors on the same issues or regions within countries;
- inconsistent donor interest to support national ownership of the aid management process;
- diverse databases used to track resources which render development finance management difficult;
- lack of mechanisms to track resources provided by non-governmental and charitable organisations for alignment and identification of gaps;
- need to avoid duplication of efforts with other agencies and organisations.

6. Key issues UN practitioners are confronted with at country level relate to practical ways for the UN system to participate in the changing aid environment and to maximise on its comparative advantages in support of developing countries. UNDP has identified its role to be facilitation of donor recipient country relationship and partnership and support to the development of country capacity to coordinate and manage aid.

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<sup>7</sup> “Lessons Learn” Note, UNDP 2005 <http://content.undp.org/go/practices/poverty/aid-coordination/>

## II. Making Aid Work for the MDGs

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*“As the changes leading to the New Aid Environment become more established, so has the urgent need for the UN system to reform – or risk of becoming irrelevant. This is more apparent in some contexts than others – the role of the UN in humanitarian emergencies and transition is less challenged. However, there is a ‘danger of being left out in the cold’ if the UN system cannot equally adapt to the extent that donors and programme governments are attempting to redefine the aid processes’.” UNICEF RRs, Florence 2005*

1. The commitment to align and link ODA firmly to national development plans and MDG based poverty reduction strategies, opens a host of new opportunities. The PD is an instrument to promote the effectiveness of aid for MDG achievement through harmonisation, alignment, policy coherence, simplification of procedures – all intended to promote national ownership and capacity. In this sense, the harmonisation and alignment agenda needs to be placed in the context of better management of development resources, poverty reduction and the achievement of the MDGs.

2. To achieve the MDGs donors need to ensure more policy coherence for development effectiveness and provide additional support through untying aid, steeper debt relief, opening markets and transfer of technology, as outlined in MDG 8. They also need to assist developing countries to promote the rule of law, good governance to foster efficiency and long term growth, national savings, and a committed private sector to lead to development that is genuinely self-sustaining. Equally, recipient countries have the primary responsibility to coordinate, in a transparent and accountable fashion, external aid and align it with key national priorities. Dialogue between donors and recipients to include needs assessment to identify gaps, as well as respective competencies can determine the roadmap to development outcomes.

3. For ODA to lead to a real transfer of resources, both government spending and absorption of imports should occur. ODA’s impact on domestic investment is a crucial issue. Equally important is the impact of ODA on domestic resource mobilisation, namely, on the ability (and willingness) of the government to mobilise public revenue and the desire of the private sector (households and businesses) to save. In expanding the fiscal space for development to happen channelling aid into strengthening national capacities to mobilise public revenue and domestic savings is of crucial importance. Most governments in developing countries need more public revenue, not less. So ODA should not be allowed to substitute for more concerted efforts to improve the governments PFM systems to include taxation and the mobilisation of domestic private savings and its capacity to manage PFMs. Additional incentives and reforms are also needed to encourage financial institutions to lend for long-term private investment.

4. In sum, MDGs are political, accountability and advocacy instruments designed to promote development in the new Millennium. They strongly hinge on:

1. **Global partnership** – specifically set under MD Goal 8, demanding from developed countries

additional support and consistency for the achievement of MDGs through: increasing ODA (untying aid, harmonisation of donor practices); steeper debt relief ; opening; transfer of technology.

2. **Ownership** – demanding from:

- **developing countries** to identify their own priorities, design their own responses to poverty reduction and enforce their own accountability including instruments of good governance and appropriate public sector reforms;
- **developed countries** to respect and recognise these through effective, predictable and untied development aid and assistance;

- **UN system and World Bank** to support advocacy, setting national targets and priorities, MDG reporting, MDG-based PRSP's, national capacity development, partnership development, as well as the harmonisation of existing procedures and alignment.

5. UNDPs primary mandate in aid coordination and management is to support developing country capacity to manage external development assistance through strengthened national ownership of aid coordination and management processes for enhanced transparency and accountability, to foster aid effectiveness through the UN Resident Coordinator system and facilitate broad stakeholder partnerships and South/South, peer learning and cross-fertilisation. The policy advocacy role can also be used by the UN within the donor community, using the Paris Declaration as a vehicle at country level, to hold donors to their recent commitments.<sup>8</sup>

“The UNDP role of supporting governments in aid management should be adjusted to pursue the implementation of the extensive provisions of the Paris Declaration on Aid Effectiveness, including its adoption by more countries. The key areas of focus are: alignment with national policies and plans, greater harmonization within the UN and other development partners, coordinated support for national strategies for CD, enhancing the utilization of national systems of accountability and results management, and facilitating peer review mechanisms and mutual accountability”. UNDP GMTM in 2005

6. UNDP Country Office demand for HQ support has increased in the area of aid coordination<sup>9</sup> and aid management<sup>10</sup>. This agenda includes harmonising and aligning external support around country strategies, systems and processes, finding ways to make the aid relationship more equitable, transparent and participatory, and identifying roles, approaches and delivery systems for external partners that add value to local capacity development processes. However, capacity development strategies remain broken promises unless they are costed and financed.

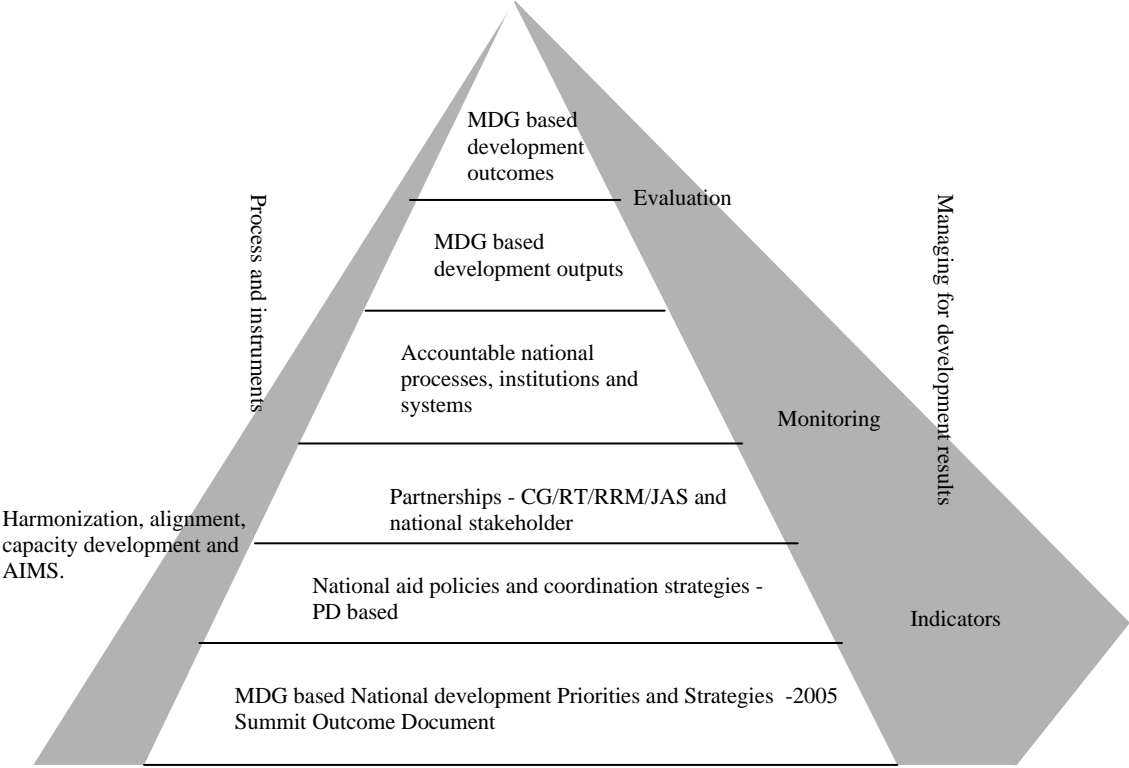
8. To support this work, UNDP has developed the following “Aid for Development Effectiveness” diagram:

<sup>8</sup> For instance, the EU commitment to increase ODA, Conclusions of the Council and the Representatives of the Governments of the Member States Meeting within the Council, Brussels, 24 May 2005,

<sup>9</sup> Aid coordination, as defined by UNDP, is the effective coordination of external aid in the form of grants, loans, projects, or budget support provided by external donors to national governments. It involves establishing partnerships with donors aimed at aligning aid with national priorities and harmonising donor's practices with government systems and budget cycles to avoid duplications.

<sup>10</sup> Aid management is defined by UNDP as the ways in which national stakeholders, use and track aid for financing national development activities. These systems should be aligned with recipient governments planning and budgeting systems and their development strategies.

**Figure 1: Aid for Development Effectiveness Pyramid**



UNDP, 2006

### III. New Aid Environment - Challenges for Capacity Development

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*“Capacity development must be taken into the core of development planning, policy, and financing if it is not to be an ineffective add-on or afterthought.” Kemal Derviş, UNDP Administrator<sup>11</sup>*

#### **1. Capacity development, being a means to an end in a long development process, should be integrated as fully as possible into national development policies, plans and strategies.**

According to the WB the development community is spending at least \$15 billion a year on CD, which raises two big questions: is it well spent and how can it be scaled up? Evidence is not compelling neither on the impact of the current level of resources spent on CD or on the means to boost efficiency as resources are scaled up.

Overall, the shift from the technical cooperation paradigm to the capacity development one is slow. After extensive discussion at the DAC, technical cooperation was used as a proxy for capacity development in the PD and its indicator 4<sup>12</sup>: “Donors have a responsibility in supporting partner countries efforts in ways that build rather than undermine partners’ sustainable capacity to strengthen capacity”<sup>13</sup>. The issue is recognised today as a priority both by donor and recipient governments but remains quite elusive in concrete implementation.

The frequently identified disconnect between donor HQ policies and field office practices impedes a more systematic focus on capacity development, TA often being the fastest and easiest solution while there seems to be no clear distinction in the definitions of TC and CD. On the other hand, recipient countries are not always clear on their capacity development needs and do not systematically articulate strategies to address them. The reason for this may be that these often entail substantive and politically sensitive reforms. The WB estimates that the typical CD cycle that can demonstrate sustainable results is 10-20 years and that shortcutting requires simplified designs, decision-making processes. The African Capacity Building Foundation (ACBF) capacity building studies<sup>14</sup>, for example, also demonstrated that donor-driven technical assistance programmes tend to be designed and implemented in isolation, without being guided by an explicit national policy framework or strategy.

Technical assistance should be the last delivery option. Instead, capacity development strategies at all levels should be accompanied by an incentive system to provide sustainability, avoid brain drain and promote capacity growth (see Annex 5 – TC support to FRY of Macedonia). Ad-hoc salary top-ups that distort local compensation schemes and make it more attractive to work for donor programmes than for local organisations, need to be avoided in favour of schemes harmonised with government leadership. Lessons from the UNDP innovative capacity development fund in Georgia showed that any salary supplements should be strategically applied and linked to the Government reform programme, salary scales that are agreed by donors and monitorable with an exit strategy defined. Coordination of TC is no guarantee for performance, development, impact and sustainability. About a quarter of DAC donors spend – or \$20 billion per year – is on TC, but the impact on CD outcomes is unclear.

A recent discussion on technical cooperation and capacity development demonstrated that in the case of Mozambique, in spite of good practice on TC like the TC programme for the customs administration, there are still problems. These relate to donor modalities for delivering TC services: limited ownership and involvement in financing decisions (government not really strategically involved in financing decisions); coordination and planning failures (government does not have the capacity and the tools to promote

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<sup>11</sup> UNDP/UNFPA Executive Board, September 2006

<sup>12</sup> This indicator focuses on technical cooperation as a narrow proxy for capacity development. It measures coordinated technical cooperation\* as a percentage of the total volume of technical cooperation provided at country level.

<sup>13</sup> OECD DAC PD Survey Methodology, 2006.

<sup>14</sup> <http://www.acbf-pact.org/>

coordination as individual donors make their own decisions); failure to appraise and assess TC with results based discipline and assessment; weak and dispersed accountability (lack of information on TC); lack of integration in core planning, budgeting and monitoring instruments; heavy transaction costs, imbalances in the level of TC; short term planning at the expense of long-term CD; limited capacity to appraise, manage and procure TC. "It's a mess and it is costing us a lot of money", declared a Mozambique Government Official<sup>15</sup>. While the bulk of TA is still not coordinated in Ghana, there is emerging good practice with programme based approaches e.g. in the health SWAp. As the OECD DAC Development Cooperation Report, 2005 states: "TC<sup>16</sup> programmes have come under repeated criticism for being too costly, inappropriate to recipients' needs, or fostering dependency. In the past, donors have broadly assumed that they will promote capacity development, but reality has proved much more complex." In this sense TC is an *input*, and CD is an *outcome*.

Emerging evidence coming out in the DAC Survey roll-out shows that using TC was not a good proxy for measuring capacity development and that more comprehensive measures of coordinated CD could yield better results, like the holistic CD approach in Ghana. Measuring the effects of capacity development interventions remains a challenge, since these demand time. In the interim the issue is to identify what types of TC can lead to the development of national capacities and what "coordinated" CD means and whether this can be a useful tool.

"[Technical Assistance: Two views](#)" by the [International Centre for Policy Analysis](#) (Ukrainian policy think-tank) compared the TA for local Government reform in Poland and in Ukraine, assessing them against the classic CDF criteria (long-term holistic vision, country ownership, partnership, management for results). It confirmed the lack of a "targeted national paradigm for technical assistance in Ukraine". The former Institute director [Vira Nanivska](#) (currently the head of the National Academy of Public Administration under the President of Ukraine) reckoned that the quality of technical assistance programmes in the countries aspiring for the EU accession and the countries left outside the process, has drastic differences. Well designed programmes in the candidate countries were the opposite of the "ad hoc and non-systemic" interventions in the rest of the region. Source: UNDP Ukraine

The understanding that the capacity of recipient countries to use development aid in an effective and strategic way is crucial<sup>17</sup> and has today focused attention on improving aid practices in ways that are more responsive to the capacity development challenge<sup>18</sup>. There is also recognition that capacity development is a long-term process requiring a systemic approach with financial implications. Partner countries are now becoming proactive in articulating their capacity needs to manage foreign aid, align it with national priorities, lead aid coordination processes and put in place transparent, accountable and country specific aid management systems. Capacity-building efforts are increasingly being re-oriented towards mainstream activities of the government<sup>i</sup>. This calls for broader attention to public policy and public expenditure issues rather than more routine project management and administration, with corresponding implications for enhanced policy-analytic skills in addition to the more traditional qualifications normally required of line government employees.

<sup>15</sup> LenCD Forum, Nairobi 2006.

<sup>16</sup> Definition: TC is the provision of know-how in the form of personnel, training, research and associated costs; TC comprises study assistance through scholarships and trainships...these categories overlap and the boundaries are not always clear.

<sup>17</sup> The recent DAC poll has rated capacity development as one of its top priorities in the ranking exercise for 2007-2008

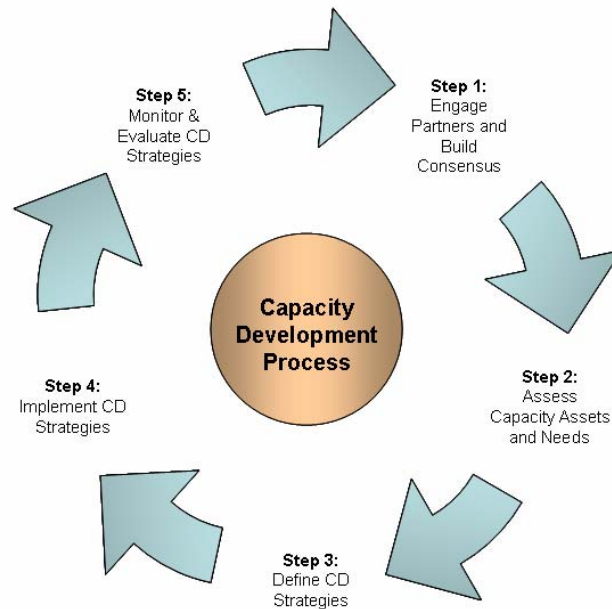
<sup>18</sup> "In the Bank's Africa Region, all recent country strategies identify public sector capacity building as a core objective, and they rely increasingly on sector-wide programs and budget support through Poverty Reduction Credits, whose broad strategic frameworks require identification of long-term capacity needs. All the strategies include at least one operation with major capacity building aims, and a few include multi-sector projects that address capacity building issues within and across ministries and levels of government. These new efforts may help authorities better prioritize capacity building activities and guide support from donors."

[http://lnweb18.worldbank.org/oed/oeddoelib.nsf/24cc3bb1f94ae11c85256808006a0046/5676a297fe57caf685256fdd00692e32/\\$FILE/africa\\_capacity\\_building.pdf](http://lnweb18.worldbank.org/oed/oeddoelib.nsf/24cc3bb1f94ae11c85256808006a0046/5676a297fe57caf685256fdd00692e32/$FILE/africa_capacity_building.pdf)

However, capacity development is also a political issue. It should be turned into a positive incentive through clarifying the objectives (short and long term) and the means to achieve it. CD is successful when the enabling governance conditions are right and ownership is strong. This demands that political perceptions and implementation steps are also addressed. Donors are often engulfed in the tension between the political economy thinking and analysis and technical field practices, without really listening to their country partners needs and demands for CD. In this sense, CD has to be demand led with the capacity needs identified, clearly articulated and met. Meeting these demands need commitment and ownership meaning that donors should turn over the articulation and design of CD programmes/strategies to national stakeholders.

At the UNDP sponsored Sarajevo workshop on aid effectiveness (2006)<sup>19</sup> for the Western Balkans, participants broadly agreed that the need for capacity development exists across the development cycle, from strategic planning to the political process to public financial management to monitoring, evaluating and reporting strategic information that in turn strengthens the planning process. (Annex 5) Parliaments should be empowered to play a more active decision-making and quality control role vis-à-vis the government in managing resources. Decentralized structures and municipalities also play key roles in the PFM. In the Western Balkans this is critical as countries prepare to meet the requirements of EU accession and further benefit from sub-national funding mechanisms. However, assessing capacity needs requires looking at an extensive range of issues each subject to the specific national and sub-national context. While information sharing and cross-border economies can be gained through regional networks, prioritisation of specific capacity challenges requires joint efforts at the country level. Bilateral and multilateral organisations can play complementary roles if undertaken within the framework of the Paris Declaration and focus on the division of labour<sup>20</sup>. To support this process, the UNDP has designed the following diagram:

#### Implementing Indicator 4 - Capacity Development Process Model



<sup>20</sup> [www.devoid.org](http://www.devoid.org)

There are many emerging opportunities for incremental change<sup>21</sup> that can shift the engagement towards more constructive donor/recipient dynamics. Such measures may pursue the following objectives:

- alignment and harmonisation with national priorities and systems
- levelling the playing field (e.g., South-South collaboration, agreed rules of the game)
- breaking undue links of influence (e.g. pooling arrangement)
- increasing transparency (e.g. Public-Expenditure Reviews)
- ensuring genuine dialogue (e.g. delegation of authority to where take place, flexibility)
- turning perverse incentives around into positive ones (e.g. collective salary schemes)
- bridging discontinuities<sup>ii</sup> (e.g. disengagement rules, societal alliances)”

**2. National ownership and leadership are crucial to the success and sustainability of the harmonisation and alignment process**, as the Tanzanian Joint Assistance Strategy (JAS) states: “It is widely recognised that national ownership of the development process in Tanzania is key to its (JAS) success. In order to achieve this, capacity building throughout Government at a national, regional and local level is needed, particularly with regards to financial management”. A study on donor-recipient relationship in China focusing on instruments to promote greater national ownership notes that the high rate of success of aid projects in China is probably attributable to the fact that China has taken an active stance vis-à-vis its donors by designing its own development strategy and requiring donors to help build its administrative capacity to implement its own development agenda.<sup>22</sup>

*Promoting local ownership and leadership – the Tanzania example: ‘This is a long process of organisational, individual and behavioural change. It is frustrating when donors ask for immediate results and gratification, since CD is a long term process. A lot of advocacy around changing the perception that this agenda is a donor driven agenda needs to happen across government institutions and the society. It is useful to have a champion and leader of the process. ..There is a need to convince donors that sustainability and ownership are more important and long-term and to create a challenging internal environment with exposure to knowledge and learning (internal and external). This should include an open discussion on results with transparency and openness as incentives. Technical and leadership competence, incentives (pay and work environment); the creation of a “fair” policy environment (introduction of meritocracy) are ingredients of success. Finally, all this needs to be backed up by legal measures passed by the Parliament.’ Source: Tanzania participant, LenCD Forum, Nairobi, 2006*

Fragmented individualised project, programme or specific interventions do not necessarily take into account those broader capacity needs. A core group is needed to propose ideas and manage dialogue, while supportive contributions are needed from a wider group. Equally, the manoeuvring “political space”, often preferred by donors for quite specific political reasons, hinders the possibility of a more defined division of labour and “tight” joint assistance strategies influencing outcomes. Although the JAS improves the harmonisation between donors, it also enables them to “gang up” reducing country’s negotiating power, a comment often heard from countries involved in the JAS format. Equally, “smaller” donors are weary of losing their identity. There was consensus at the UNDP organised Bangkok workshop on the PD that UNDP Country Offices as well as Government Ministries need to increase their capacity to assess the relative merits of the many modalities available for aid delivery. Practitioners need the capacity to make an informed choice about the most appropriate modalities and mechanisms against the specific country context.

<sup>21</sup> Thomas Theisohn and Philip Courtnadge, “Moving Beyond the “Münchhausen Approach””: Honest Brokering and Independent Monitoring in Development Partnerships, 2006, [www.devoid.org](http://www.devoid.org)

<sup>22</sup> Aid Promotes Greater Ownership: Insight into the Donor-recipient Relationship in China, Prof. Chen Zhaoying  
Executive Director, National Center for Science and Technology Evaluation (NCSTE), Beijing, China

There is a co-relation between Government ownership and the level of prevalence of joint interventions. The Tanzania example shows that actually a joint approach was driven by three factors:

- frustration with slow development results after years of ODA;
- stronger government leadership implying clearer development goals;
- international commitments that incited change (Rome/Paris), i.e. a growing donor consensus<sup>23</sup>.

The Kenyan example of JAS establishment, as in Annex 3, is telling of actions to be undertaken towards an institutionalised joint approach.

The issue that may significantly influence decisions on capacity needs and development is the timing – does the JAS timing correspond to that of the PRSP/NDS and are these short term/medium term of longer term development plans. As a rule the timing does not always coincide, creating additional constraints on the sequencing and prolonging the process. Capacity development is a long-term project and this needs to be factored in when deciding on joint approaches and strategies, which are for the time being having a shorter term focus.

A more pro-active approach in terms of joint donor effort to support the Government in the elaboration of the National Development Strategy (NDS), through a participatory approach, can not only lead to a better NDS but also to a donor “buy in”, increased understanding of development challenges and hence resource and capacity needs. But the pressure to deliver rapid results should not outweigh the need to maintain a long term and clear capacity development strategy.

One of the key Tanzania JAS principles is capacity development at all levels of GoT and across society for: increased capacity in external resource management and aid coordination ; GOT reforms in public sector and public financial management, supported by DP funding; Aid Coordination Section in Ministry of Finance since 2003/04; improved technical assistance to complement local capacity; partners agreed to use of core public sector reforms for capacity development in GOT and TA for capacity development (Joyce Mapunjo, Uganda workshop, November 2005)

Exercising leadership and following long consultative processes requires substantial government capacity. In order for the government to take the lead it needs not only to have a clear development strategy, but also internal capacity (skilled personnel) to advocate, lobby development partners and successfully negotiate to bring them to agree on a joint strategy. This needs to transcend the central Government level (e.g. Prime Minister’s Office or donor coordination mechanism) to the level of line ministries (e.g. Serbia). The need for capacity and trained staff for relations with donors and their more long-term and strategic engagement is marginalized unless a more holistic approach to capacity development is taken (Annex 2). “Since the JASZ is essentially a negotiation process, it is important for each of the stakeholders to understand the position of other stakeholders. A core group is needed to propose ideas and manage dialogue...”<sup>24</sup> In the UNDP organised Burkina Faso workshop (2004) participants stressed that: “Capacities should be developed for Government representatives to better participate and articulate national interests at international level in dialogue with donors.”

The shift in the aid effectiveness paradigm directly linking development assistance to development outcomes and the PRSPs (Indicator 1, 11 and 12) demands also a different type of

<sup>23</sup> “The practical reality in the countries shows that although all EU country representations in principle ought to support JAS processes, there is a difference between agreeing in principle at the Council level vis-à-vis proactively pushing the development agenda forward through active participation in the country-led reform processes.

<sup>24</sup> Joint Assistance Strategies in Tanzania, Zambia, Uganda, Danida/EC DG Development, 2005

staff capacity that has shifted from the project and programme management concept <sup>25</sup> as stressed at the PD workshop for Western Africa in Bamako. NDS and JAS preparations demand substantial capacity that should be ensured up-front to provide substantive and smooth negotiations on both the donor and the recipient side. In some cases the simultaneous preparation of the JAS and the NDS led to draining Government capacity and thus produced weaker results, as in Uganda.

A World Bank study conducted in 59 countries that have Poverty Reduction Strategies reveals that the capacity for strategy formulation has improved in “central PRS coordination units and line ministries such as finance, education and health at the central level while local government units that are essential for service delivery still lack adequate capacity for planning and implementation”. Over 40 % of the countries are taking action to develop strategy formulation capacity. The study also found that most line ministries still lack adequate staff and resources while Parliaments have insufficient skilled staff and sometimes lack basic resources like offices and computers to carry out their daily legislative work. Civil society and private sector organisations rarely have enough trained staff to consult with their members and make substantial contributions to strategy.<sup>26</sup>

In spite of the PD commitment to alignment donors still predominantly rely on their own systems:  
<sup>27</sup> “...the planning process often becomes a burden on the national authorities. There is a multitude of planning instruments – sector strategic plans, action plans, etc. ... There is as well a certain misunderstanding on the division of labour between the government and the donors – the primary responsibility for aid effectiveness lies with the latter (including the use of country systems and tools), while the primary responsibility for the development effectiveness lies with the national authorities (quality planning and policy making).”

Finally, programme based approaches in the form of aligned projects, delegated co-operation and budget support, are modalities that appear in principle well-suited options for delivering more aid within a more limited scope while keeping implementation costs low. Still only a few countries like Tanzania are advancing in this direction while in other countries this process is still slow, despite the availability of sector plans. Cases of delegated cooperation are not abundant (e.g. in Rwanda only 1 sector out of 10 had such an arrangement).

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<sup>25</sup> “Donors need to clarify, for example, their position internally (with their respective HQs), internal technical capacity/human resources, and together with development partners, the number of sectors to be present in, phasing in and out arrangement, use of joint modalities, definition of “lead donor”, silent partnerships, etc.”  
Ibid.

<sup>26</sup> Enabling country capacity to achieve results: Comprehensive development framework progress report, 2005. World Bank

<sup>27</sup> UNDP workshop for 7 African countries, Rwanda 2005.

**What capacities are required to develop a donor coordination framework?**

**Assert leadership through knowledge of the Paris Declaration Principles**

- Be able to articulate the national vision and present governments priorities and plans to realize ownership
- Have the human resources to engage in a drawn out series of negotiations.
- To describe government efforts and reform agenda and mutual benefits of harmonization and alignment
- Be able to select appropriate ad modalities to fit the capacities and the intervention

**Negotiate with internal and external partners**

- Have comprehensive knowledge of individual donors funding priorities and policies
- Articulate desired outcomes and benefits of collaboration to motivate diverse groups of stakeholders
- Negotiate with line ministries in discontinuing individual agreements with donors in favour of the central authority (Finance Ministry or equivalent) negotiations
- Obtain donors support for national capacity development initiatives

**Build and maintain strategic partnerships**

- Facilitate open communication by sharing information on aid flows, expenditure and results
- Build trust through establishing norms of collaboration and sustaining them

**3. Supporting national capacities to expand development financing** involves also the ability to effectively negotiate, coordinate<sup>28</sup> and manage the resources required to finance the MDGs, including fiscal reforms, domestic borrowing, market access, direct budget support, sustainable debt management and the effective use of remittances. Ensuring that finance coordination mechanisms are led and managed nationally is essential to this effort. Developing capacities for negotiation and coordination of development finance goes beyond foreign aid management. An integrated approach to external and internal financing should promote public finance reform, which would enable the government to implement its strategic objectives. This requires improving budget execution to deliver resources predictably and linking budget planning and implementation to the policy priorities. But it also raises the issue of capacity to implement.

The goal of CD should be to help partner countries design a strategic national framework on capacity development, aligned to the national development strategy, around which the donor community can work together. There are diversified schools of thought on whether Governments should develop a national capacity development plan or just define a national framework. The argument used against national CD plans is that they tend to be omnibus, ambitious and often costly and not results based, e.g. Ethiopia.

The predominant view, however, is that there should be targeted and sector specific CD strategies, as well as a strategy of “mainstreaming” CD across the national systems as a “cross-cutting” driver for development effectiveness. This is why learning from practice, especially through fostering South/South exchange, is so important. For instance, evidence shows that CD should be a long term project with short and medium term benchmarks, led by principles of national leadership and ownership, driven by local demand, building on existing capacities with a focus on functional capabilities, integrated with other development objectives and programmes and finally monitored by diverse stakeholders. Any shortcutting requires simplified designs and decision-making processes with operational implications.

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<sup>28</sup> In Viet Nam to enhance the coordination of development assistance with national development efforts, UNDP supported a government [Review of Public Expenditure](#) (PER) to improve the efficiency and allocation of government expenditures and enhance the coordination of national and international development efforts. The Government of Viet Nam has consequently asked UNDP to provide assistance to help build [capacity in the Ministry of Finance and in other relevant agencies](#) using a comprehensive package of measures, including the development of PER Guidelines and training of Government officials

For instance, UNDP, through its programmes such as Capacity 2015 - South African Capacity Initiative (SACI), National Capacity Assessments-Global Environment Facility (GEF) and Procurement and Aid Management Capacity projects, addresses the following CD components: policy formulation, engagement in multilateral, regional and bilateral negotiations, national aid policy and management, including through direct budget support, private sector investments, sustainable debt management, advocacy, accessing global policy and expertise, sharing knowledge in country and across countries, national research.

It is recognised that developing capacities requires time and resources and can affect direct delivery by national partners. In this context, discussion in the Sudan on PD implementation raised the issues of how to:

- maximise delivery and results to show peace dividends in spite of little absorption capacity and ownership from the country partner;
- build capacities of national partners while delivering outputs (maximising ownership from a weak basis or breaking the low ownership/trust trap or taking action not to);
- avoid undermining national ownership under the pressure to deliver on scaled up resources (is it better to delay than to waste);
- find ways to have results or delivery at lower costs (comparative cost-benefits and sustainability analysis of delivery modes);
- determine exit strategy coupled with a capacity development roadmap (people, processes, institutions).

Source: UNDP Sudan

Development partners are challenged to identify appropriate indicators for benchmarking capacity development and related process outcomes that can be used for tracking progress and for fiduciary control. But progress and results in capacity development are as much about management change, behaviour and mutual partnership. Indicators should be developed in an open and participatory way with the key question: “What kinds of indicators are appropriate for tracking progress in capacity development in this area, and what are the implications for results-based management? “

More rigorous and planned capacity development initiatives at country level are understandably related to public sector reform, PFM and DBS. For instance in Vietnam, capacity development in PFM through technical assistance is not being directly addressed through PGBS as the main work is being undertaken through the public administration reform and PFM reform programmes which have provided the TA to develop capacity at central and sub-national levels of government.<sup>29</sup>, more effort should be exerted to find better ways of managing TC to make it more compatible with CD and the national ownership principle.

Capacity sustainability, with or without a more rigorous focus on CD, remains a concern (Annex 1). Lack of capacity creates demand, creation of capacity also creates different pressures and people tend to go with better incentives. Ergo, capacity development should be a package to include incentives and sustainability latches.

Institutional capacity development to promote the effectiveness of aid for development should be seen in more holistic terms – it is not enough to develop the capacity of Ministries of Finance to deal with DBS, but also of other line ministries to be able to develop joint strategies and negotiate allocation. In Vietnam for instance, there are diverse initiatives in place to build capacity through TA at both provincial and central level and others such as the Comprehensive Capacity Building Programme are designed to strengthen the effectiveness of aid management. Despite this, there is still a significant variation in capacity at all levels between provinces as well as at line and core ministry level.

<sup>29</sup> Bartholomew et. Al - 2006 Source: Evaluation of GBS Vietnam-Country report 2006)

Challenges that practitioners confront with in implementing CD are how to: address its political dimensions; strengthen relationships and social capital; develop flexible management systems to allow in a CD effort for the unpredictability of all human systems (discarded the blueprint approach to CD); balance short term gains and long-term processes (increasingly under pressure for performance measure); equipping organisations to design CD frameworks and processes

To address this, some practitioners have articulated four elements of capacity to be addressed regarding the aid effectiveness agenda:

- i. ability to organise and act (leadership, ability to plan, resources mobilisation);
- ii. creating enabling space and relationships (legitimacy, integrity, vision, operating principles);
- iii. adaptation and renewal (creating new knowledge and adapting to change);
- iv. achieve development results.

**4. A new form of partnership needs to support national ownership and leadership. This is an opportunity to enhance existing and design new aid coordination mechanisms at country level - Resources and Results (R&R) meetings to rest upon a systematic in-country dialogue process** (as in Nicaragua and Lao PRD) between donors and country stakeholders that should not be restricted only to annual or semi-annual formal coordination meetings (CGs/RTs). The forms should be country specific and may vary, but the systematic dialogue should help build understanding and clarify open issues in a timely fashion, forge partnerships, strengthen mutual accountability and transparency and prepare for the formal donor pledging conferences (CGs/RTs and other) by providing information on progress, challenges, lessons and opportunities. (Annex 2)

Revamped CGs/RTs (Development Forums) and new aid coordination mechanisms at country level should be based upon well defined and time-bound results and resources joint assistance strategies/frameworks. The specific modalities of Results and Resources meetings should be country specific and build on existing processes. They should be cost-effective and not an additional burden to recipient countries also be: (i) part of a country's annual process of monitoring PRS implementation; (ii) in line with a country's budget cycle; and (iii) sensitive to the role they may have in supporting or undermining domestic accountability. They should rest upon three key building blocks:

- I. the country National Development Strategy (NDS) or Plan/ MDG based PRS developed by the Government in consultation with national stakeholders and assistance partners;
- II. Robust analytical work<sup>30</sup> to underpin the NDS and/o PRS and help in articulating alternative development scenarios for the strategic use of scaled up aid assistance;
- III. A country-specific Aid Effectiveness Action Plan based on the 12 PD indicators (that should be customised and country specific) and agreed upon by all partners.

Crucial elements for enhanced CGs/RTs and emerging donor coordination forums are:

- A results matrix that broadly encapsulates measurable growth and poverty reduction outcomes in the country and is based on the country's NDS/MDG based PRS (or Transitional Results Matrix in the case of fragile and post-conflict states) and contain a limited number of prioritized development outcomes and the actions needed to achieve them (as in Ghana);
- A resource matrix overlaid on the country results matrix that clearly identifies the activities and financial support that aid partners are committing to and disbursing against, in each of the monitored areas;

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<sup>30</sup> To include (i) detailed sectoral analysis of the relationship between inputs and outcomes, including an understanding of what can be achieved by public policy, absorptive constraints and other factors that affect efficiency of public expenditures; (ii) key sectoral interrelationships and growth dynamics, and; (iii) macroeconomic consistency and implications of significantly scaled up aid flows.

- A mutual accountability framework based on mutually agreed upon systematic country and donor performance assessments (benchmarks) with periodic assessments by independent observers (as in Mozambique);
- A joint strategy/framework implementation plan to include resource requirements as well as a capacity assessment and capacity development plan<sup>31</sup> with defined indicators of progress and backed by allocated resources for this purpose (as in Zambia);
- A monitoring instrument (aid management system/platform) to monitor aid flows and predictability, provide data for policy purposes, identify additional resources needed to scale up results, identify the sequencing of financial and non-financial support to address absorptive constraints and/or further strengthen strategy formulation and implementation, ensure transparency and accountability of resource management (as in Ethiopia);
- Linkage to country budgetary cycle and domestic accountability processes<sup>32</sup>, especially in DBS environments, to include active participation by representatives of the legislative branch, civil society and the media in the aid coordination meetings;
- An accompanying communication strategy to ensure a broad involvement of all national stakeholders in the process (as in Tanzania).

The challenge ahead is how to bring non-DAC and/or emerging donors more systematically into these coordination mechanisms at global, regional and country level. Current initiatives on this front have assessed non-DAC donor capacity needs for strengthening their domestic advocacy among national stakeholders for their scaling up of aid, as well as policy and implementation challenges.

**5. Although there is no consensus on any preferable aid modalities for implementing the Paris agenda the change from project-focused development assistance to programmatic approaches, like sector-wide approaches (SWAs) and budgetary aid** also meant a qualitative move towards emphasis on national ownership. SWAs are not a specific aid instrument, but rather an integrated sectoral framework in which different donor contributions and types of aid (including projects and technical cooperation) can be coordinated in support of a common sectoral strategy. They usually combine external assistance with national resources within an agreed medium-term expenditure framework, providing a means of balancing investments with recurrent expenditure. They often incorporate targeted capacity-building support linked to reform commitments. They have been credited with achieving a significant boost in the provision of social services in many countries, significant for MDG achievement. The rural infrastructure SWAp in Nepal has helped coordinate domestic and external aid to this sector, which would have been rife with donor-driven individual projects and overlapping line ministry initiatives otherwise. There is, however, significant diversity in the design and level of alignment of SWAs.

As CD is recognised as the key to strengthen ownership, upgrade country systems and achieve results, empirical evidence demonstrates that SWAs work best when managed through national mechanisms that have developed the necessary capacities for accountable management, transparent budgeting and open and participatory planning and monitoring processes that involve all stakeholders. However, the main concern remains - the huge burden placed on the few selected officials in partner countries assigned to manage the PD and results agenda, e.g. in Zambia. Sector approach also works best when national mechanisms have the necessary capacities for accountable management, transparent budgeting and open and participatory planning and monitoring processes that involve the national constituency.

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<sup>31</sup> Despite decades of investment by aid donors in capacity development – possibly as much as 25 percent of global ODA in recent years, or more than US\$15 billion a year – there has been very little results to show.

<sup>32</sup> In highly aid-dependant countries, where aid assistance could account for 25-40 percent of total budgetary expenditures and an even higher percentage of public investments, it is self-evident that aligning donor assistance with the country's budgetary process is the "acid-test" for ceding ownership of the development process to the recipient country.

Sectoral and general budget support (GBS) represent potentially the high point of both policy and systems alignment. The recent Joint Evaluation of Budget Support<sup>33</sup> found that, by increasing the amount of discretionary funding available, GBS increases the significance of the budget as a policy instrument, helping to increase the coherence of national development efforts. It creates positive incentives for improvements to budget processes and public-financial management.

In environments where Governments have assumed ownership and leadership, as well as where DBS is prevalent (e.g. Tanzania) joint approaches are less significant, while the Government capacity to manage resources (DBS) becomes more important. The Tanzania evaluation's analysis of CD for DBS noted that while the role of technical assistance has been important, it was secondary to an internally driven process of organisational renewal, linked very directly to a number of strategic personnel appointments made by the President<sup>iii</sup>.

In DBS environments capacity development is often narrowly understood as PFM capacity, excluding non-PFM aspects of aid effectiveness. For example, in Ghana, the disbursement of the DBS funds are subject to "triggers" – conditions jointly agreed by the donors and the Government/recipient. They include such conditions as, for example, introduction of computerised system of financial management where the Government has to demonstrate proficiency, while many non-PFM aspects are left without any support (such as the coordinating function in the Ministry of Finance). And yet, capacity assessment for DBS should be a participatory and country-led process scrutinising capacity needs in, for example:

- i. national policy, legal, regulatory, financial and accounting frameworks;
- ii. institutional mandates, coordination, and processes for interaction and cooperation between all stakeholders;
- iii. institutional/individual awareness and knowledge;
- iv. information management, monitoring and observation;
- v. mobilisation of research, data, and objective analysis in support of decision making;
- vi. financial resources and technology transfer;
- vii. incentive systems (compensatory, 'perks' and career progression);
- viii. market instruments (e.g. contracting, bid decisions) ;
- ix. negotiation skills;
- x. cooperation and networking within regions;
- xi. institutional management and performance;
- xii. individual skills and motivation in key institutions.

In DBS situations the negotiation skills go beyond the Government/donor relationship and impact the necessity for similar skills within the Government, especially when negotiations on budget allocation need to be made between and among line ministries. In a number of countries, line ministries have expressed apprehension that DBS will curtail their direct interaction with the donors, i.e. fundraising potential. Often competing interests among line-ministries create bottlenecks in the allocation of resources along key national priorities and render aid management more difficult. This also relates to the absorptive capacity of the country, the issue of unspent resources and the potential for corruption in the absence of transparent and accountable aid monitoring systems.<sup>34</sup> Lines of authority within government are often unclear and responsibilities are overlapping within institutions and between ministries. This allows blame to be placed on other institutions for mistakes or non-performance as this ambiguity results in a lack of institutional accountability (Gallagher 2004 on Vietnam). Furthermore, strategic policy-making can be weak, as well as capacity in legal drafting (Armytage and Cao Xuan 2005 on Vietnam).

Increased levels of budget support can leave partner countries exposed to volatility in aid flows. In recognition of this risk, the move towards budget support is also encouraging donors to make

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<sup>33</sup> Evaluation of General Budget Support Synthesis Report IDD and Associates May 2006

<sup>34</sup> Burkina Faso workshop (2004); Sarajevo workshop (2006).

multi-annual commitments, improve their disbursement performance and align their commitment and disbursement cycles to the national budget calendar. Donors have made efforts in a number of countries to derive their conditionality from national development strategies, using agreed performance assessment frameworks and review mechanisms. On principle, budget support ought to result in significant decreases in transaction costs. However, evidence on this for the time being remains equivocal, with both country partners and donors experiencing high set-up costs at the outset. A number of donors are looking to GBS as a promising vehicle for scaling up international assistance.

An important consideration in DBS application and its related planning mechanisms is that its long-term reliability and sustainability is unclear. The methodology is unproven, though theoretically sound, and it is also clear from recent events in Uganda and Ethiopia that establishing DBS (in this case GBS) is not an irreversible decision. Implications for this in the UN's work include the fact that when DBS rolls-back for whatever reason, suddenly, the UN is often called upon to be the implementer.<sup>35</sup>

Kenya: Conditional Cash Transfers are an interesting experience built well as an experiment (including \$½ million evaluation budget). These are sometimes contrasted with DBS (as "avoiding passing money through government") though inevitably all cash transfers will pass through government in the end.

In the changing aid environment, that includes DBS, SWAPs and pooled funds, as well as emphasis on resources and results, UNDP is supporting developing country Governments in capacity development, policy advisory services, human development advocacy and support to development programme implementation, founded on evidence based analysis and practice.

In sum, three key typologies of engagement for UNDP in a DBS environment<sup>36</sup> are identified: (1) support to capacity development for national management and implementation of DBS; (2) managing a DBS basket fund on behalf of government and donors (as fund manager or select service provider); and (3) providing resources into non UNDP managed basket funds. For instance, in the Tanzania experience, where UNDP has been engaged in the poverty reduction budget support (PRBS) framework, and where the country has undertaken a formal DBS evaluation, UN-system support to the second iteration of the PRSP is focused on how to support the government in its efforts to address critical capacity challenges in managing and monitoring DBS for the PRSP. The question is raised as to whether there is a complementary role for other modalities and partners in this environment, to make use of value-added competencies of all, including how to ensure more effective technical cooperation.

For instance, in the Tanzania experience, where UNDP has been engaged in the poverty reduction budget support (PRBS) framework, and where the country has undertaken a formal DBS evaluation, UN-system support to the second iteration of the PRSP is focused on how to support the government in its efforts to address critical capacity challenges in managing and monitoring DBS for the PRSP. The question is raised as to whether there is a complementary role for other modalities and partners in this environment, to make use of value-added competencies of all, including how to ensure more effective technical cooperation.

<sup>35</sup> UNICEF workshop on Aid Effectiveness, Florence, February 2005

<sup>36</sup> UNDP DBS PN and Guidelines 2005 <http://content.undp.org/go/practices/poverty/aid-coordination/>

**Table 1: MYFF 2005 reported involvement in basket funds, SWAps and DBS**

| Basket Funds |             | SWAps    |           | DBS          |            |
|--------------|-------------|----------|-----------|--------------|------------|
| 2005         | 2004        | 2005     | 2004      | 2005         | 2004       |
| Rwanda       | Rwanda      | Bolivia  | Cambodia  | Rwanda       | Mozambique |
| Bolivia      | Cambodia    | Lesotho  | Nicaragua | Sierra Leone | Rwanda     |
| Cameroon     | Kyrgyzstan  | Suriname | Egypt     | Moldova      | Tanzania   |
| Mali         | Algeria     | Rwanda   | Macedonia | Viet Nam     | Nicaragua  |
| Tanzania     | Moldova     | Nepal    | Paraguay  | Lao          |            |
| Ethiopia     | Lao         | Uganda   | Lao       | Fiji         |            |
| Nicaragua    | Egypt       | Ghana    |           | Yemen        |            |
| Eritrea      | Nicaragua   | Tanzania |           | Cape Verde   |            |
| Nigeria      | Paraguay    |          |           | Mozambique   |            |
| Nepal        | Tanzania    |          |           | Tanzania     |            |
| Cambodia     | Philippines |          |           | Kyrgyzstan   |            |
| Sierra Leone | Fiji        |          |           | Nicaragua    |            |
| Ghana        |             |          |           |              |            |
| Burkina Faso |             |          |           |              |            |
| Kenya        |             |          |           |              |            |
| Malawi       |             |          |           |              |            |

**6. Procurement** of goods/services accounts for a significant amount of national expenditures (both domestically generated as well we received from ODA). In addition, good practices in procurement can result in significant cost savings that frees up resources for other development purposes, and foster local economic development and growth and foster trade by improving the capacity of business to compete locally and internationally. Also, good procurement increases transparency, and reduces corruption.<sup>37</sup>

Current good practice in procurement capacity development emphasises three main areas of support, namely: 1) mainstreaming and highlighting the importance of procurement reform within the context of public administration reform; 2) assessing and diagnosing procurement capacity and addressing needs; and 3) monitoring and evaluating the impact of procurement reform. Good procurement is all about aid effectiveness and financial management is the thinking in Ghana. Capacity development in procurement is a win-win situation. It provides positive motivation structure, promotes aid effectiveness. Procurement in Ghana is a case of ensuring government ownership, but also to promote scaling up of funds.

Absent in the procurement capacity development debate is an approach to ensure that the most vulnerable are provided equal access to opportunities presented through procurement. For example, there are few references to promoting women owned businesses or developing capacities for vulnerable sections of the population. In addition, little attention is paid to how strengthening procurement capacities can increase private sector participation in trade and the global marketplace, nor attention to use of South-South cooperation and knowledge management. These are areas that UNDP is well placed to support. (Annex 5)

<sup>37</sup> To better guide how procurement capacities can be strengthened to ensure economy and efficiency while upholding principles of equal treatment, transparency and zero tolerance towards corruption, the OECD/DAC issued a Good Practice Paper which provides a consolidated set of specific guidance on how to design and implement procurement system reforms. The good practices fall into three categories: 1) mainstreaming and highlighting the importance of procurement reform within the context of public administration reform; 2) assessing and diagnosing procurement capacity and addressing needs; and 3) monitoring and evaluating the impact of procurement reform. Little has been done to implement them.

#### **Procurement Capacity Development - The case: Sierra Leone**

The Sierra Leone President led the drive to develop procurement capacity recognising that corruption was rife and that sorting out procurement was vital to gain donor confidence and attract urgently needed aid. Hence, with UNDP support the Government (at a high level) led a comprehensive programme to reform procurement and develop the procurement capacity. The programme was developed and endorsed in a series of workshops with an even wider stakeholder group – including the private sector. The programme focused both on quick wins and long-term capacity development: interim regulations were put in place immediately while work started on developing and passing the new law; training and sensitisation workshops were held with procurement staff at all levels and with the private sector, while a strategy to develop a long-term capacity was developed; champions in procurement were identified to support the new practices, until a reform of civil service conditions for procurement staff could be put in place. Lessons learned:

- High level political commitment
- National ownership
- Wide stakeholder engagement including private sector
- Systematic and comprehensive approach to capacity development tackling all entry points
- Quick impact initiatives AND long-term capacity development strategies

**7. Capacity to manage ODA flows through transparent, web based aid management information systems**<sup>38</sup> can ensure mutual accountability, promote more predictability and create a comfort zone for the donors. At the same time it can also raise the responsibility bar for the recipients in terms of accountability in the management of resources and anti-corruption.

Aid management is the way in which developing countries allocate resources to development interventions, manage resources effectively to implement development initiatives, procure goods, services and works and track how aid contributes to achieving development results. It includes utilizing these resources through effective national systems and processes across sectors and decentralized institutional structures and the use of reporting data to inform management decisions and stakeholders, including the Parliament and civil society.

Aid information management systems (AIMS), by providing sound information for decision-makers, can restore control of development processes to the government and are central to changing the way donors do business. They can help governments take charge by consolidating aid information from different donors and aligning donor procedures to government systems. By aligning with public finance management processes they can enable the government to effectively manage both external and internal resources for development.

In particular, web based aid information management systems can support public access to information. While strong accountable Public Finance Management System supported by internal checks and balances and legislative oversight mechanisms are critical for the effective management of all resources, AIMS can contribute to building transparency and accountability for external resources among both internal and external stakeholders.

**8. Lessons learnt from UNDP practice shows that PIUs**<sup>39</sup> raise fundamental issues related to national ownerships and capacity development (Annex 3). Even when they enhance service delivery, PIUs are parallel organisations with vested interests and competing incentives, making their absorption into the public sector often problematic. PIUs can thus embody a fundamental disconnect between two development principles: short-term efficiency and longer-term capacity. Hence, the call in the Paris Declaration to substantially decrease the number of PIUs, as per Indicator 6 that targets the reduction of parallel PIUs by two-thirds. This directly addresses the need for measures to boost national capacities.

<sup>38</sup> UNDP Technical Note on AIMS 2005 <http://content.undp.org/go/practices/poverty/aid-coordination/>

<sup>39</sup> UNDP PN on PIUs, 2003, 2005 <http://content.undp.org/go/practices/poverty/aid-coordination/>

Some practical steps to address this issue include: (i) spend more pre-project time on understanding and preparing for project implementation; (ii) link the PIU to the host agency, not to the donor agency; (iii) identify explicitly an exit strategy; (iv) avoid hiring from other PIUs; (v) harmonise the PIU with the administrative processes and procedures of the host agency; and (vi) help mobilise national capacity through mechanisms such as TOKTEN (UNDP/UNOPS expatriate programme).

PIUs usually work well in the short-term; compensate for host-country institutional weaknesses; allow greater flexibility in hiring and staff incentives; ensure direct monitoring and accountability to funding agencies; ease language barriers between donors and host-country staff; and help minimise mismanagement and corruption in procurement. PIUs should be discouraged, but an improvement of capacity, e.g. in line ministries. They can drain the government staff pool by “recycling” civil servants and consultants without a clear exit strategy for the PIU.

The future is likely to see hybrid arrangements, like in Rwanda, that protect against the worst aspects of the PIU dilemma, but that gradually strengthen public sector capacities and fosters national ownership. A major assumption is that PIUs get absorbed when the project closes, but the reality is sometimes quite different. PIU absorption into government is often problematic, unless it is planned and achieved through the creation of necessary capacities. In most cases, much of the skills and experience accruing to PIU staff are lost to the host government agency<sup>40</sup>. One of the challenges, as evidenced by the Tanzania experience, is how to change the perception of donors on the existence of PIUs through arguments that a more long-term approach on capacity development is the way to go.

**9. Capacity assessments** are essential for long-term planning development, resource allocation and sustainable results. In recent years, technical and financial assistance has focused on planning for development results within the context of short-term macro-economic stability. This short-term focus often disregards how constraints (such as absorptive capacity and resource availability) could negatively affect the sustainability of the desired results in the longer term. Capacity assessments provide the long-term perspective on capacities critical to the achievement of the MDGs, for example, country-level policy-making, planning and resource management capacities, as well as leadership, human resources management and public engagement. That is why they are critical for aid coordination and management.

The capacity assessment serves as input to defining capacity development strategy options that address those areas where national or local capacities could be strengthened and that optimise existing capacities that are strong and well placed. Once a capacity development strategy is determined, a costing plan can be developed. This would include, for instance, the costing of public services and capacity upgrades to ensure more effective coverage of marginalized populations in basic education, health, energy and water and sanitation services.

Needs assessments focus on “interventions,” i.e., what needs to improve, and the financial requirements to fund the interventions. Conducting capacity assessments, in parallel to needs assessments, can provide for a more rigorous and sustainable approach. Capacity assessments focus on the current and desired levels of capacity in a given enabling environment or organisation, the gap between them, and most important, the resulting capacity development strategies – how the improvements will occur and how much such will cost to undertake.

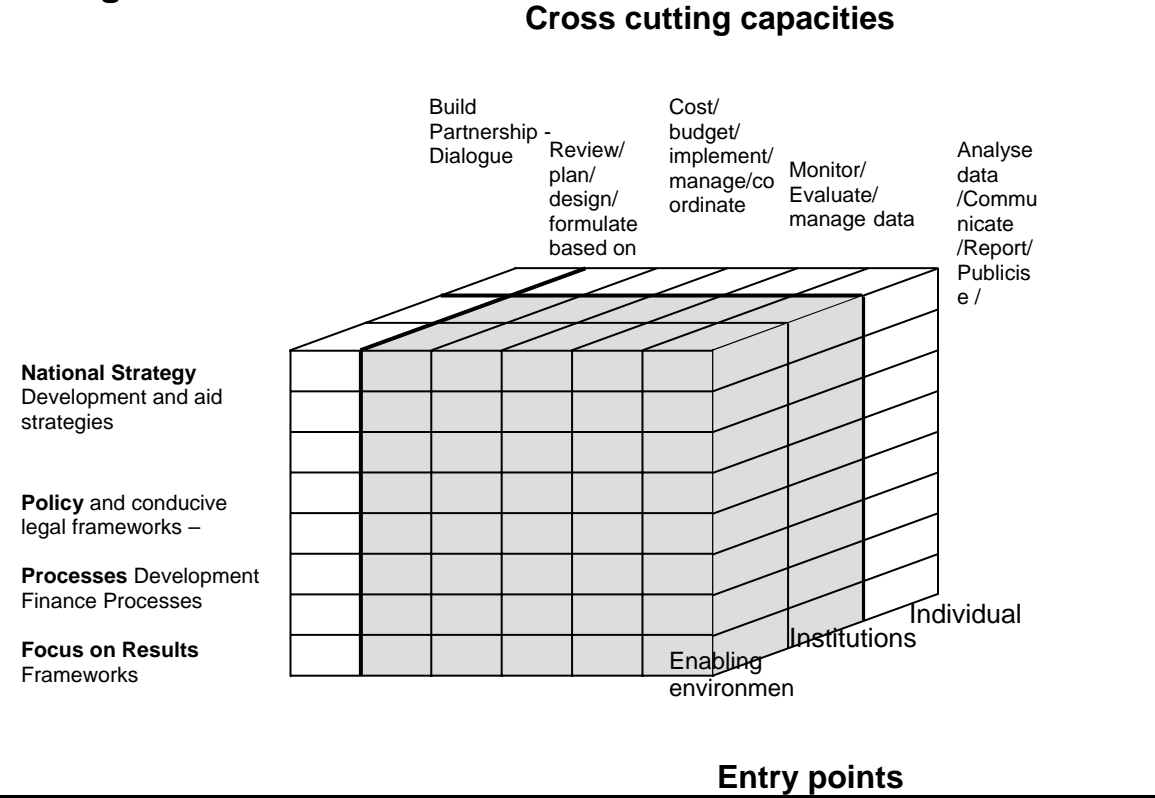
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<sup>40</sup> ‘capacity building should not be allowed to morph into capacity substitution’ – from a UNDP workshop.

Capacity assessments of government systems are essential to guide decision-making on which aid instruments are most appropriate in each context, recognizing also the importance of a full risk analysis responding to such opportunities. UN should support programme based approach as a default system, and provide direct support through implementation through NEX with CD in a long term strategy to enhance national absorptive capacity. UNDP Global Management Team Meeting, Netherlands, 2005.

UNDP has developed a capacity assessment methodology, adapted to the aid effectiveness agenda in Figure 2, to identify the demand and need to inform capacity development strategy/programme formulation.

**Figure 2: Capacity Assessment for Aid coordination and management Cube:**



#### **IV. Mutual Accountability - Managing for Development Results**

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*“We commit to integrating national plans and budget processes with effective mechanisms for monitoring and evaluation, and accountability for results. National parliaments should establish processes for greater involvement in the development of these budgets. We will fulfil our existing international and regional commitments to allocate additional budgetary resources to achieving the MDGs. We will also use appropriate consultative frameworks as a mechanism for allocating resources at the country level and ensuring mutual accountability.”* Financing for Development, The Abuja Commitment to Action, adopted at the Abuja Conference, Abuja, Nigeria, 22 May 2006, point 6.

Evidence shows that joint analytical work under the leadership of national institutions provides a solid basis for ensuring national ownership of the implementation and monitoring to follow. **Monitoring and evaluation systems** in the managing for development results framework requires also capacity to develop transparent and open monitoring and evaluation systems within a single reporting framework that satisfies both host country and donor requirements, as well as the principles of mutual accountability and transparency in the aid relationship. Common reporting systems should be promoted as a way to build a balanced partnership and promote mutual accountability, to provide coherent lessons learnt, avoid duplication and project a consolidate picture of assistance. In some cases, like Nepal, current weak levels of data management capacity in government departments can be seen as an inhibitor to transparency, with a correspondingly high need for capacity development in these skills/competencies.

Independent monitoring of the development partnership could be considered as an innovative way to level the playing field between donor and recipient and hold both sides accountable in terms of processes and results. The example of Tanzania shows that significant added value can be derived from regular, independent monitoring of existing commitments. This also relates to the global level, with reports such as those of the Center for Global Development, Transparency International and Action Aid<sup>41</sup>. But is there a possibility to link this efforts in a more systematic way both vertically (global/regional/national/local) and horizontally (South/South, East/East, peer learning, within institutions and Government line ministries)?

The principle of independent monitoring, which has an established 10-year track record in Tanzania, is premised on the need to establish balance in development partnerships through the engagement of an ‘honest broker’ to facilitate an open and constructive dialogue. This dialogue is, in turn, intended to provide the basis for a more objective perspective on partnership issues of concern to both sides. Recognising that in many cases the nature of aid relations and their associated power differentials will limit the extent to which partner governments can openly and confidently articulate their own views, independent monitoring can change the ‘rules of the game’ and provide an opportunity to establish some degree of mutual accountability. (Theisohn & Courtnadge, 2006)

But it also raises the issue of who does the monitoring (civil society) and what their capacity is. Participants at the UNDP organised Burkina Faso workshop stressed that “Open and functioning communication and information networks at country level among donors, government counterparts and other national stakeholders, primarily the civil society are a requirement for aid to work”. In Papua New Guinea, institutional capacity building has engaged the national and provincial authorities. Technical assistance covered management and accounting systems defining health worker job descriptions and performance evaluation criteria, establishing and implementing a national health monitoring system, and assistance to improve the budgeting process, expenditure monitoring, and cost containment as well as re-establishing user fees in public hospitals.

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<sup>41</sup> [Where to Now?](#) Implications of Changing Relations Between DFID, Recipient Governments and NGOs in Malawi, Tanzania and Uganda Action Aid International

Where regular monitoring is employed, it offers the potential to serve as a 'safety valve' through which emerging issues can be identified and resolved, perhaps recognising that, at least in the short term a complete 'levelling of the playing field' is somewhat unrealistic. The 'safety valve' feature also recognises that an evolving partnership, especially in a country mid-way through an ambitious reform programme, will benefit from an impartial perspective on complex issues including: choice of aid modalities and scaling-up for the MDGs; sustainable capacity development; and the nature of aid relations that promote domestic accountability. Finally, we should once again note that the 2005 Paris Declaration acknowledges the merit of independent monitoring and also provides a set of indicators by which progress in developing improved aid relations, and more effective aid, can be monitored. Indeed, the conduct of an exercise to promote mutual accountability is itself an indicator of progress toward more effective aid (OECD 2005, p.9 Indicator 12).<sup>42</sup>

Previously, Public Expenditure Reviews (PER) in Rwanda are externally financed and mainly executed by international consultants with limited knowledge transfer. The timing does often not allow systematic integration of conclusions in the budget cycle and even if they have been integrated, the findings did hardly lead to policy adjustments. In 2006, the objective is to increase local capacity to perform PER, in order to allow Rwandans to carry out PERs by themselves in 2008 (Gianluca Rampolla 2006)<sup>1</sup>

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<sup>42</sup> Theisoehn & Courtnadge *ibid.*

## V. Conclusions

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*“Money can be spent honestly but incompetently; and even when money is well spent, unless there are appropriate institutions and policies in place, success will be limited.” Joseph Stiglitz, IHT, October 2006*

1. There is no one way to promote the effectiveness of aid at country level. Strategies, programmes and support should be country and context specific. However, the progress made up to date is that there are commitments, standards, criteria, indicators on harmonisation and alignment as per the Monterrey Consensus, Paris Declaration and the 2005 Summit Outcome Document, as well as empirical evidence on what can work and what has not worked at country level. The process has been launched to test political commitment to partnership and principles, as well as the development of relevant instruments and tools. The Paris Declaration can only turn into a panacea through joint action and mutual accountability sustained by predictable aid flows, untied aid and decrease in conditionalities. Like with capacity development this process has its short, medium and long term benchmarks. Aid effectiveness is as much about behaviour change and the way development business is conducted, as it is a technical exercise.

2. The UN system and particularly the UNDP with its broad development mandate, has a role to play in the changing aid architecture and the implementation of the Monterrey Declaration on Financing for Development<sup>43</sup> and the Paris Declaration on Aid Effectiveness<sup>44</sup>. The “network effect” promoted by the Paris Declaration, in which donor and partner countries now work within a common framework for defining and measuring aid effectiveness, provides a concrete niche for the UN system and the UNDP to support partner country ownership and leadership of the process through capacity development and facilitation.

3. At country level this means strengthening the convening role of the UN through a more robust RC system to ensure better performance, development outcomes and that the scaling up of aid, as well as new sources of financing, work for the poor. A growing number of bilateral donors are linking the UN reform to the new emerging aid architecture (including through promoting linkages between the Paris Declaration on Aid Effectiveness and the FfD/ECOSOC process). In a global sense, the UN reform, seeks to bring the OECD DAC results oriented aid effectiveness agenda into the global dialogue on financing for development through strengthening policy coherence and strategic resource allocation for reaching the MDGs.

4. UNDP has considerable experience at country level in advising governments on effective aid management and coordination. In addition it is a trusted partner of government and performs a coordination role among UN system agencies at the country level. It has helped establish AIMS in about twenty countries so far and is actively engaged in strengthening national capacities for formulating development strategies, creating a strong public sector and supporting procurement reform. Its strength as a facilitator makes it well placed to support government’s lead role in harmonising donor procedures. Finally, as an advocate for the MDGs the United Nations has an important role to play in bringing the harmonisation and alignment debate from central ministries such as Finance and Planning to a wider audience including civil society, local authorities and the private sector.

5. The UNDP/UN strategic positioning in the new aid environment, through the reform process, rests on:

- i. role of honest broker of RC between government and donors which allows for engagement in monitoring, evaluation and assessment;
- ii. CD role of the UN system which provides a platform for capacity and policy support across and within sector programmes;
- iii. oversight of budget, planning, national aid management structure;

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<sup>43</sup> <http://www.un.org/esa/devagenda/financial.html>

<sup>44</sup> Action Plan of the UNDG, July 2005

- iv. support to programme based approach as a default system;
- v. where appropriate support through NEX

6. In terms of UNDP, its primary mandate in aid coordination and management is to support developing country capacity to manage external development assistance through strengthened national ownership of aid coordination and management processes for enhanced transparency and accountability, to foster aid effectiveness through the UN Resident Coordinator system<sup>45</sup> and facilitate broad stakeholder partnerships and South/South, peer learning and cross-fertilisation.

7. A recent analysis, through the ongoing knowledge network and country discussions across regions, highlighted ten areas of UNDP engagement in managing the new aid environment:

- Analysis and policy support for national and local development strategies
- Mapping of development finance needs and sources of funds
- Negotiating DBS, SWAps and pooled funds
- Inter ministry coordination mechanisms for policy and budget planning
- Public Finance Management
- Public administration reform and decentralization
- Democratic governance with focus on legislative oversight and anti corruption
- National mechanisms for aid management and harmonisation
- Management support to basket funds (overall fund manager or service provider)
- National (independent) monitoring and evaluation systems

8. As a result, UNDP has specifically defined its focus on supporting developing (DAC partner) countries to strengthen national ownership and leadership through:

- **Capacity Development:** (institutional and expert capacity for aid alignment with national MDG and poverty reduction strategies; aid management to enhance transparency and accountability and corresponding country specific aid management tools; strengthened public finance management systems and an integrated and multi-disciplinary approach to financing for development to maximise internal and external resources, i.e. allocation, alignment and management; enhanced monitoring mechanisms to include developing country specific (independent systems) and support to the OECD DAC WP EFF monitoring process.
- **Facilitation:** Strengthening government/civil society dialogue; South/South and peer learning and knowledge sharing processes; partner country participation in the Paris follow-up and international fora; UNDP/UNCT capacity through learning and the creation of a community of practitioners; support to the OECD DAC WP EFF and the monitoring process.

9. In the UN system the joint programming instrument, by allowing agencies to mobilise resources together –has helped to diffuse agency specific dynamics in resource mobilization and programming and to shift the locus of interaction to the discussion around shared objectives and strategies and the resource requirements of programmes over agencies. In the medium term, a move toward a common UNDAF fund might advance this further. The common humanitarian fund in Sudan is a recent example of pushing the edge forward in this regard. UNDP has identified that the CD initiatives must:

- seek to build on existing capacities; there are always considerable strengths present in terms of human resourcefulness in all organizations, often these can be uncovered and given new life by enlightened management and improved incentives;
- clearly identify priorities for TA; resources are limited and must be well targeted;
- ensure national engagement/ownership; CD processes must not be, or even perceived to be donor driven;
- be able to adjust to country needs as they change across time, and

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<sup>45</sup> UNDP MYFF 2004-2007, <http://www.undp.org/execbrd/pdf/dp03-32e.pdf>

- coordinate and integrate linkages with other ongoing CD efforts and institutions; as donors collaborate more, pool their resources, and work in the context of 'silent' partnerships for SWAps and DBS, opportunities for coordination of efforts will increase

10. This complements the [UNDG Action Plan for Implementing the Paris Declaration. PDF](#)

It envisages actions in the following areas:

- a. putting national development plans at the center of UN country programming;
- b. strengthening national capacities;
- c. increasingly using and strengthening national systems

11. At the global level, South/South cooperation, East/East cooperation, as a sharing mechanism of expertise between developing countries in the context of development cooperation and with the potential to expand peer learning and independent monitoring of progress, offer the potential for even greater transfers of knowledge, skills and lessons of development practice. This is evident in the increasing quality and quantity of exchanges between developing countries, within and across regions. Understanding and supporting the capacity needs of these emerging South-South and East-East alignments and partnerships in international development and trade are a key part of the new challenge. The success of capacity development for aid effectiveness also lies in the response to partner countries preferences for more South-South and East-East learning and the strengthening of South based institutions to help with capacity development.

## ANNEXES

### Annex 1: Indicative capacity development issues (UNDP Community of Practitioners):

#### I. Institutional Capacity Issues

- **Holistic Perspectives on Institutional Capacity Requirements** (overarching national aid coordination frameworks; legal / regulatory frameworks; policy frameworks; leadership and champions for accountable aid management; institutions, systems and processes; human resources; infrastructure and IT)
- **An Overarching National Aid Coordination Framework** (policy and vision; linking external finance with the national strategy/MDGs; identification of main stakeholders and designation of roles - Government, civil society, development partners, Parliament; establishes principles of dialogue, transparency and mutual accountability). The Framework should be informed by the following six issues:
  - i. **Legal / Regulatory Framework** (to establish legal procedures on: financial management procedures throughout the fiduciary cycle (mobilisation, appraisal, disbursement, accounting, audit etc); institutional roles and responsibilities (clearly delineated division of labour).
  1. **Policy Framework** (to operationalise the legal framework ; define procedures and preferred modalities; link inputs to impact and MDGs; develop guidelines on aid management - mobilisation, dialogue, budgeting, alignment, reporting, monitoring; address issues of capacity, transparency).
  - ii. **Leadership and Champions** (mandated by legal and policy frameworks; strengthened by assertive and forthright approach to aid management; context of change management also to be considered in designing new aid architecture).
  - iii. **Institutions, Systems and Processes** (placing the Government at center of the system; establishing clear roles and responsibilities - Government, Parliament, donors, civil society; establishing a central aid management unit as a 'clearing house' - use of database and tools; linking aid management to national budget and sector processes; fostering dialogue and partnership to enhance monitoring processes and enforce mutual accountability).
  - iv. **Human Resources/Capacities** (technical skills necessary enhanced by organisation, management and communication skills to ensure a functioning system; strategic/sustainable use of external TA; incentives as complement to capacity; capacity to meet public service reform - recruitment, retention, remuneration; complementary IT required to optimize human resource use; donors own 're-tooling' to take account of national development framework/MDGs).
  - v. **Infrastructure and IT** (database and data collection as integrated and aligned component of national budgeting process; IT promote to promote transparency; communications strategy for effective/ efficient exchange and management of information; cost effective solutions)

## **Annex 2: Capacity Development when setting up an Aid Coordination and Management Unit**

### **What is Capacity Development?<sup>46</sup>**

National capacity constraints, short and long term can be significant stumbling blocks to achieving the MDGs. UNDP defines **capacity** as the ability of individuals, institutions and societies to perform functions solve problems and set and achieve objectives in a sustainable manner.

Capacity Development is the process through which the abilities to so are obtained, strengthened, adapted and maintained over time.

Capacities reside within individuals and organizations; the skills and knowledge of individuals working within the supportive institutional and policy frameworks can be aligned to realize the goals, which the institutions have been created to accomplish.

### **Capacities for What?**

When developing capacities to perform functions related to aid effectiveness, planners must consider a range of factors that impact on aid management and coordination at the institutional level, the environment level and the individual level.

At the Institutional level this means looking at the following aspects of the **aid coordination unit or equivalent**

- **Mission and Strategy-** Role, mandate of aid coordination unit within the Ministry of Planning and/ or Finance
- **Culture, Structure and Competencies-** Organisational and management style and standards, organisational structure, salaries, core competencies
- **Processes-** (internal and external to the organisation- supporting such functions as planning and relationships with other government departments and donors, financial and human resource management
- **Human Resources-** the most valuable of the organisations resources, upon which capacity development primarily depends
- **Financial Resources-** operating and capital resources needed by the organisation to be effective
- **Information Resources-** electronic and other tools used to manage resources and tasks
- **Infra- structure-** Physical assets, computers, telecommunication systems

### **The environment**

Planners need to then consider the environment within which the unit functions. The factors include:

- **Policy Dimension-**What are the fiscal and aid policies that determine the functions
- **Legal /regulatory dimension-** what is the legal and regulatory framework with which the unit operates
- **Management accountability dimension-** Is the unit accountable to Parliament? How much legal authority has been vested within the unit to enable it to function effectively?
- **Resource Dimension-** Does the unit have adequate resources and information to function effectively
- **Process Dimension-** What are the inter relationships, dependencies and interactions among line ministries and the aid management unit? What are the relationships with donors and programme planners?

At the **individual level** capacities are developed and conditions created to maintain and retain competent staff Individual Capacities can be built through:

- **Training-** Opportunities to learn should be built into the job
- **Career Progression, job security-**opportunities for learning should lead to merit based promotions.
- **Access to information-** information relating to the effective performance of immediate tasks as well as skill enhancement to promote continuous learning. The exchange of experiences through networks has great potential for learning.

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<sup>46</sup> UNDP [Capacity Development Practice Note](#)

- **Performance measurement-** performance indicators should be in place so that effectiveness can be measured and rewarded
- **Values attitudes, motivation-**the values that prevail within the organizational unit influence the behavior and performance of the individuals and their attitude to work.
- **Inter-relationships, teamwork-** Inter-relationships among staff and their ability to work together contribute to the satisfaction level and performance
- **Job-satisfaction-**If job satisfaction is absent, there is likely to be a high turnover of staff. A culture of professionalism merit based promotions and adequate compensation will ensure that trained competent staff are retained.

In addition to the technical tasks relating to aid coordination and management there are several key functions that are relevant to the functions of the aid coordination and management unit. These functional capacities include:

**To Engage in Multi-Stakeholder Dialogue**

- To build and manage partnerships with donors and internal stakeholders
- To engage in negotiations
  1. **To Analyze a Situation and Create a Vision**
    - To gather information and conduct diagnostic analysis
    - To adapt global knowledge to local context
    - To translate into vision for the future
  1. **To Formulate Policy and Strategy**
    - To set objectives and targets

To develop appropriate policies and review existing ones based on evidence obtained from monitoring aid disbursements

- To develop strategies and draw up action plans
- 1. **To Budget, Manage and Implement**
  - To monitor and measure results of
  - To implement strategies, action plans and policies
  - To mobilize and manage resources
- 2. **To Monitor and Evaluate**
  - To monitor and measure progress of
  - To evaluate planning, implementation and results

## **Annex 3: Lessons Learnt - Joint Approaches – Tanzania, Cambodia, Kenya**

### **Tanzania:**

#### *Division of labour:*

There is widespread consensus among donors and the Ministry of Finance that a more rational division of labour is needed. This will typically involve fewer donors in each sector and better ways of coordinating between donors and between donors and government.

#### *Maintaining trust:*

Due to the sensitivity and the importance of the process, the JAS core group and MoF have a special challenge when it comes to maintaining the trust of other stakeholders. There are already initial signs of looming fragmentation. Playing with very open cards and making sure that the process is fully transparent would be the best way to ensure that nobody feels that hidden agendas or "behind the curtain" deal-making dominate the process.

#### *Getting headquarters on board:*

Without support and buy-in from donor headquarters (HQs) it will be impossible to agree on and implement a meaningful JAS. A key problem is that donor HQs are much closer to the domestic policy concerns and further away from the realities on the ground in Tanzania. A HQ high level donor meeting held earlier in Dar was constructive in promoting a shared vision.

#### *Getting line ministries on board:*

The Ministry of Finance ambition of relying more on GBS and less on other modalities including projects and SWAps will lead to the line ministries getting a larger share of their funding through MoF and being held accountable for results and policies by the MoF rather than donors. The long-term necessity of this may be cautiously understood and agreed to by line ministries, as a tool to building accountability between the line ministries and the Ministry of Finance, and ultimately domestic accountability to parliament and citizens rather than donors.

However, the line ministries may at the same time fear that in the short to medium term this will lead to a less qualified dialogue and more unpredictable funding.

#### *Other funds:*

A big challenge remains of what to do with the large amounts of money in Global Funds and presidential initiatives which are earmarked for purposes and modalities that do not fit into the policy or planning framework. GoT has strong views on this and sees it as a problem that these initiatives are not geared towards the specific country and country systems. The funds do not take much account of developing country governments' demand, sector strategies, or modes of government/donor dialogue as they are highlighted in the JAST.

### **Cambodia:**

#### Selectivity

The process went some way (but not all the way) to reducing the prevalence of overlaps and gaps in sectoral and thematic coverage. During the process, the donors involved (particularly the ADB and WB), moved to a greater focusing of their resources and a willingness to pull out of sectors where others are working well. For example, the ADB opted to move out of the health sector altogether, and the World Bank agreed to play a supporting role (to the ADB) in education. DFID practised less selectivity as being a smaller donor was already only working in a few sectors. DFID continues to operate in its chosen sectors but with increased collaboration with the large multilateral banks (such as significant changes to the ways it works in health) – a necessary direction for DFID now that it has announced its plans to exit from the region.

#### Reduced transaction costs

Although resource-intensive a process for the agencies involved the process has significantly reduced costs for the Government, who were consulted in quadripartite, and for other donors, who have benefited from the shared analysis and felt able to forego conducting their own analysis. See the CIDA example noted above, plus from the USAID website:

The World Bank, Asian Development Bank, United Nations, and United Kingdom's Department for International Development are collaborating on a joint assistance strategy for Cambodia. Although USAID does not participate directly in this process, it intends to enhance donor coordination by using some of the preparatory work done by these organizations in the development of its own new country strategy.

#### *Support to Government:*

As well as serving as good preparation for the Consultative Group in December 2004, the process also provided the Government with strong evidence of action being taken on harmonisation to produce at the High Level Forum on Aid Effectiveness in Paris in March 2005 (Cambodia is one of the DAC's 14 pilot countries so is subject to extra scrutiny on progress on aid effectiveness).

#### *What was the cost to achieve the outcomes?*

##### Time and money

Securing agreements from three agencies was necessarily time-consuming – it is estimated that conducting the process jointly took twice as long as to do it unilaterally. It was clear that the process could not be rushed. Flexible resources were needed to fund retreats and facilitators.

##### Wrong turnings

Because this was a new experience, the core team had to feel their way through the process tentatively and there were times when staff spent time on things that were subsequently dropped (for example, an exercise around devising monitoring and evaluation indicators). The flipside of this is that choices had to be made as to which direction to go in and some potentially fruitful ideas did not have the chance to be developed.

##### Creativity vs. pragmatism

In the constant quest for joint agreement some compromises had to be reached on the tone and messaging, particularly around governance issues. The question of whether these differences of opinion were only superficially resolved and likely to re-emerge further down the line has not yet been answered.

##### Lulls and sticking points

Although there was generally a lot of enthusiasm and excitement about the process, there were times when morale dipped for various reasons. Sometimes changes of personnel slowed the process down (and at times even destabilised the partnership). In other cases it was simply the protracted drafting, amending and redrafting that sapped energy and good will. These difficult phases were worked through and it is important for others on a similar course to accept that resolve may falter and lines of communications cross but that these impediments are by no means impassable.

#### ***Lessons learnt***

##### Coordination of planning cycles:

This process in Cambodia came about almost by chance when the three original agencies discovered they were all due to produce new strategies. This could have just as easily not happened. The Government-Donor Coordination Committee (GDCC) or equivalent could be developed and oversee a time-line of donor activities, including major events such as new strategy formulation, so that synergies can be capitalised on and alignment improved.

### Objectives:

Each agency must be clear about its own rationale for entering the process, **but a single shared objective between all partners is not necessary**. Shared commitment and criteria (i.e. a common planning cycle and a common focus on governance for example) are sufficient to making the process work. In this case objectives were not spelled out at the outset, but upon reflection, the reasons for each agency to join the process differed, with some common themes (especially a keenness to see relations improve between the ADB and WB).

### Relationships with those outside the group:

Strive to be open and inclusive with other donors. Make clear that this is not a clique but also that potential newcomers should meet certain criteria:

- Potential to make progress
- Common programme cycles
- Commonality on fundamental issues
- Partners joining late cannot expect to make substantial changes.
- Taking on too many partners will be counterproductive – the more partners, the less can be achieved.

### Leadership

In-country<sup>47</sup> leadership commitment is the key to making this process a success – there needs to be strong faith at that level that the partnership will ultimately lead to enhanced outcomes. When the leadership falters the whole process becomes vulnerable.

### Headquarters/country level

Striking the balance between maintaining the momentum at country level and keeping HQ up to date with latest developments is a fine art. Nurturing both factions is critical to keeping the process on track. Messages need to continue to flow up and down each agency reiterating the value of the process as well as sideways between agencies (see below).

### **Kenya** - Update on programme towards a Joint Assistance Strategy in Kenya.

The harmonization, alignment, and coordination (HAC) donor group was established in response to a request of the Government of Kenya during the Consultative Group Meeting of November 2003. It now consists of 17 development partners, including the Governments of Kenya. The UN is represented on this forum. The group has a secretariat, which is funded through a pooled financing arrangement, which UNDP manages. Meetings are currently chaired by SIDA, although the External Resources Department also chair meetings with a subgroup of HAC members. These meetings alternate and are fortnightly.

A concept note (pre first draft) JAS has been developed by the HAC group with the support of the Secretariat. Consultation has taken place within development partners and the Government. The Government comments are now being reflected in the document before it is taken out to external consultation with civil society. The first draft should be ready by end of October and the paper is due to be launched in April 2007.

The KJAS avoids a direct link to the Economic Recovery Strategy since that is only due to run up to the end of 2007 at which point there will be a General Election. However, a radical change of policy is not expected and much of the detail of the KJAS is based on sectoral strategies which work on a different timeframe. The Ministry of Planning and National Development have joined the Government HAC group to improve the links to Vision 2030 and the Medium-Term Framework, which are proposed to replace the ERS. Many donor strategies also only run up to the end of 2007, so if the KJAS will replace individual country strategies, who will merely issue an annex, there is an urgent need to progress with the KJAS. However, this has produced a disconnect with the Government's timetable and process for a replacement of the ERS.

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<sup>47</sup> In this case, one of the leaders of the process was based in Bangkok but travelled to all meetings and is therefore included in references to "in-country leadership."

The other key underpinning document from the Government's side for the KJAS will be the External Aid Policy, HAC have provided comments on early drafts, whilst UNDP are represented on the technical team involved in the drafting and are funding the activity. UNDP have previously supported capacity building endeavours within the External Resources Department, and are currently developing and seeking wider support on a workplan that will build the capacity of Government to lead on harmonization issues.

The Government and HAC are also developing partnership principles, which all development partners will be encouraged to sign. The HAC has also led a comparative advantage self-assessment exercise challenging agencies to say, over the period 2007-2011, which sectors they are a) willing to lead on; b) willing to have delegated cooperation arrangements; and c) willing to withdraw from. Peer review and Government of Kenya leadership are needed to move this process forward. Kenya has just submitted the OECD survey on aid effectiveness. This process was led by the External Resources Department, who were the national co-ordinators for this survey, with the support of the HAC group. A lessons learned report and comparison with a survey undertaken in 2005 will be made to assess progress on harmonization.

Several sessions have taken place within the UN system on the KJAS. The UN is contributing to the KJAS through its presence on the HAC and sector working groups, and the KJAS and harmonization issues will be discussed as part of agency's Country Programme mid-term reviews and the UNDAF review (approximately Nov/Dec). These should provide opportunities to discuss entry points for the UN and the challenges that exist. Additionally, a few UN agencies have provided comments on the KJAS concept note, but the UN has decided to wait until the first draft is issued to provide a consolidated response. There is concern that the concept note needs substantial work and that increased ownership and involvement of wider Government is needed. Other issues for the UN include providing an appropriate and timely input into the process, and like my colleague highlighted a threat of marginalization and uneven state of readiness to comprehend and respond to changes.

## Annex 4: Procurement Capacity Development

| <b>Do's and Don'ts for procurement capacity development</b>  |   |
|--|---|
| <b>DO</b>  | <b>DON'T</b>  |
| <ul style="list-style-type: none"> <li>✓ Give first preference to using national procurement systems</li> <li>✓ Assess procurement capacity together with partners</li> <li>✓ Focus on long term development and capacity development objectives—link procurement activities with national development and procurement strategies</li> <li>✓ Support government ownership and leadership in the process</li> <li>✓ Encourage procurement reform at national/societal; institutional; and individual levels</li> <li>✓ Identify areas where UNDP has a comparative advantage in procurement capacity development</li> <li>✓ Integrate capacity development support when UNDP provides procurement services</li> <li>✓ Encourage South-South learning</li> <li>✓ When provides procurement services, consider exit strategies</li> </ul> | <ul style="list-style-type: none"> <li>✓ Automatically limit UNDP niche as a provider of procurement services</li> <li>✓ Jump into procurement activity without considering a holistic approach to capacity development</li> <li>✓ Go it alone! Work together with partners</li> <li>✓ Restrict procurement issues to operational functions</li> <li>✓ Work without benchmarks and targets</li> </ul> |

### Considerations for public sector reform to support procurement capacities

- ✓ Viewing the public sector as a living, dynamic system. Assessing the strengths and weaknesses of all major components and organizations and watching how they interact
- ✓ Not ignoring the enabling environment. Involving control organizations that monitor ongoing procurement performance, parliament and other centers of power that can support or block reform
- ✓ Involving the largest possible number of other stakeholders, including the business community, NGOs and civil society
- ✓ Remembering that procurement is an integral part of the broader public financial management system of the government. Pushing for parallel reforms to eliminate weaknesses in both systems.
- ✓ Phasing reform program components carefully. A flawed disbursement process can drag down the quality of procurement, failure to consider procurement issues during budget formulation is also damaging
- ✓ Addressing the need for basic civil service reforms. Procurement can't be professionalized without looking at entry requirements for procurement staff, their career development path, salary levels, opportunities for advanced training etc.

UNDP, 2005

## **Annex 5: UNDP TC Project and support to the Government of FYR of Macedonia**

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The Government of the Republic of Macedonia has been cooperating with bilateral and multi-lateral donors and benefiting from foreign assistance since its independence in 1991. In this period, and with the aim of harmonization of priorities, coordination and best utilization of donor resources, the Government established the National System for Coordination of Foreign Assistance headed by a Deputy Prime Minister in the capacity of a National Aid Coordinator. The structure of the system incorporates a Committee of Ministers for Coordination of Foreign Assistance, Coordinative Technical Group and Aid Coordination Unit within the Secretariat for European Affairs.

To support the national efforts for coordination of donor assistance, UNDP embarked upon provision of technical assistance, policy advice and direct support to the Government of Macedonia and its National System for Coordination of Foreign Assistance. Within those activities, UNDP established very successful cooperation with the Sector for European Integration (which transformed into Secretariat for European Affairs in 2005), by providing support to its Aid Coordination Unit which consisted of provision of hardware, software and technical assistance for establishing the Central Donor Assistance Database (CDAD). This assistance was translated into the first phase of the UNDP project "Capacity Building for Aid Coordination".

Based on the experiences gained through this intervention, UNDP designed the second phase of the project to consolidate the results of the previous phase and further support the Government in its donor coordination efforts. The second phase financed both by the UNDP and the Norwegian Government, commenced in 2003 and is due to be completed by the end of 2006. The main objective of the project is *to strengthen the coordinated planning among line ministries and between the Government and donors for more efficient coordination of donor assistance*. More specifically, the project aims to address the following challenges:

- Lack of clearly defined sector strategies and priorities; lack of unified national strategy and national priorities; non-synchronised building of sector strategies;
- Absence of a unified approach towards the donors which allows for their independent actions;
- Insufficient information about priorities in ministries themselves which results in dissonant presentations before the donors;
- Inexperience in using the benefits of the coordination;
- Human resources constraints;
- Communication constraints both horizontally and vertically, between the ministries.

The project is implemented under the NEX modality by the Secretariat for European Affairs (SEA) in cooperation with seven line ministries, with four specific components:

- **Improving the content and usage of the Central Donor Assistance Database (CDAD)**, through its complete software redesign, as well as continuous update of contents. The establishment, maintenance and update of the [SEA web-site](#) is also part of this component. In addition to the CDAD and the foreign assistance information, comprehensive and useful information on the overall European Integration process of the Republic of Macedonia can be found on this web-site.
- **Strengthening the capacities for monitoring, analyses and policy support (MAPS)**, through engagement of national professionals in the SEA and the line ministries who are fully dedicated to collecting and analyzing foreign assistance data for the purposes of CDAD up-dating, as well as to preparing various thematic reports and brochures on the foreign assistance available in the country.
- **Strengthening the coordination activities**, through preparing documentation and organizing central and sectoral donor coordination meetings.

- **Training of national professionals on monitoring, analyses, policy support and coordination skills**, according to training needs analysis and training plan prepared.

**Useful Links:**

1. [National System for Coordination of Foreign Assistance](#)
2. [Central Donor Assistance Data-base \(CDAD\)](#)

## Annex 5: Bibliography

UNDP/UN reference material can be found at:

[www.devoid.org](http://www.devoid.org) – UNDP managed open web site on aid for development effectiveness

<http://content.undp.org/go/practices/poverty/aid-coordination/> - internal UNDP web site on aid for development effectiveness open to UNDG

### Paris Declaration on Aid Effectiveness

[Aid Effectiveness Review 2006](#) The World Bank is now conducting an **Aid Effectiveness Review 2006** that will build on the methodology developed for the CDF Progress Report to contribute to the monitoring of the Paris Declaration on Aid Effectiveness. This review informs the baseline and methodology for monitoring indicators 1 and 11. In addition, it broadens the monitoring framework to treat more fully the 56 Partnership Commitments included in the Paris Declaration, by providing a qualitative assessment of progress organized around the other 10 indicators. The Aid Effectiveness Review complements the [OECD/DAC 2006 Survey on Monitoring the Paris Declaration on Aid Effectiveness](#), which will inform the 2005 baseline for 9 of the 12 Paris Indicators.

Managing for Development Results <http://www.mfdr.org/> Website

### Monterrey Consensus

**Harmonisation, Alignment, Results, Progress Report on Aid Effectiveness:** This report takes stock of progress made to align donor support with developing country poverty reduction strategies, harmonise donor policies and practices to reduce transaction costs, and manage aid resources with a focus on development results.  
[http://www.oecd.org/document/26/0,2340,en\\_2649\\_3236398\\_36141402\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/26/0,2340,en_2649_3236398_36141402_1_1_1_1,00.html)

Principles of Good International Engagement in Fragile States  
<http://www.oecd.org/dataoecd/59/55/34700989.pdf>

Using the Country- Based Development Model to Scale Up for Results: An Agenda for Action  
OECD/ DAC. World Bank Third Meeting on Scaling Up for Results

<http://www.devoid.org/indexAction.cfm?module=Library&action=GetFile&DocumentAttachmentID=1813>

[UNDG Action Plan](#) Harmonisation and Alignment to help achieve the MDGs.

[Challenges of Capacity Development](#) OCED document provides advice to donors on how to approach capacity development and presents good examples of capacity development efforts

Emerging Good Practices in Managing for Development Results This source book is intended to increase understanding of the ideas behind Managing for Development Results and to show how it is being used in partner countries and international development agencies. (OECD -DAC Guidance and Reference Series)

[http://www.oecd.org/document/9/0,2340,en\\_2649\\_15587075\\_36853833\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/9/0,2340,en_2649_15587075_36853833_1_1_1_1,00.html)

Enabling Country Capacity to Achieve Results “The Comprehensive Development Framework” analyses national capacities in four critical areas, for achieving development results. <http://siteresources.worldbank.org/CDFINTRANET/Resources/EnablingCountryCapacity-Vol.I.pdf>

[Aligning Assistance for Development Effectiveness, Promising Country Experience, UNDG Action Plan Implementing the Paris Declaration. PDF](#)

[The Role of the UN System in a Changing Aid Environment UNDG position on sector support. pdf](#)

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<sup>i</sup> Lawson and Booth 2004.

<sup>ii</sup> The establishment of a societal alliance, the Democracy Trust, in Honduras is an example of how a partnership can survive in face of political volatility. (UNDP 2003, p. 229)

<sup>iii</sup> Overseas Development Institute 2004

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